



## Getting to YE\$ Understanding the Private Equity Process

By MILTON REEDER

*At Wake Forest University, competitors in the annual venture capital competition get two minutes to pitch their business idea, the classic “elevator speech.” The twist: they and the judges are literally in an elevator.*

Compared to the high pressure venture capital pitch sessions immortalized in television competitions, the private equity process is a methodical and sane business. Yet because it is scarcely publicized, many companies seeking private equity (PE) funds find it a mystifying process. Here’s an insight into what to expect.

The process begins with two simultaneous steps: identifying PE investors and refining your business plan. Often investment bankers or advisors are involved in helping your firm choose the right partner (see part 3 in this series) and navigate the process. Updating and refining the business plan is critical, and often useful in its own right. Unlike a start up company seeking venture capital that uses a business plan to sell the Big Idea, you are convincing the potential investor of three things:

1. You have a great existing business;
2. There is substantial upside potential; and,
3. You have a strong, committed management team.

Because of the depth and longevity of a relationship between a PE firm and the portfolio companies it invests in, the process of getting PE funding is relatively drawn out: a good match is critical and it takes time to ensure that the right fit is there. During the first stage with a PE firm, the investor will be setting expectations and talking in general terms about the potential for funding, as well as discussing your business plan. A second stage will begin to drill down into the details of how the firm would work with your company and the potential financing and management arrangements that might be appropriate. During all of the meetings, both parties should also be screening for a good working chemistry.

If both the investor and the company seeking funding are still interested, a term sheet is drafted by the PE firm, based on its calculation of the company’s value. Valuation is not an exact science, and often business owners will focus on the calculated value of the company more than the other important aspects of the terms sheet such as the funding

### About Accent Capital Partners

Accent Capital Partners specializes in growth equity for established small-cap and mid-cap companies (\$5 to \$50 million in value) involved in business services, light manufacturing, and real estate and finance.

We aim for long term relationships with our portfolio companies, so we invest in companies with top quality management that have a drive to succeed coupled with a vision of how to do so.

We are based in the Bay Area and can be reached to discuss your clients’ private equity needs at 415.981.7200 or at [www.accentcapitalpartners.com](http://www.accentcapitalpartners.com).

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structure and the operational relationship. Along with the equity component, debt financing may be used to leverage the deal and those terms are also negotiated simultaneously with the equity term sheet.

The term sheet is negotiable and both parties have to be comfortable with it; after all, it lays out not only financial arrangements, but also a working relationship that will impact the way you manage your firm from the day the deal goes through. Ultimately, all money is “green” but the relationships between owner and PE firm can vary tremendously; so the nature and structure of how you will work together is at least as important as the amount of money the PE firm is willing to invest.

When terms are finalized, legal documents are drawn up and the deal closed. In all, several months may elapse between the first meeting and the closing of the deal, so it is critical that business owners look well into the future when beginning to think through business plans that will require a major injection of debt or equity. And because finding the right fit with a PE partner is so critical, you don't want to be pressed for time when negotiating for equity capital.

The day the documents are signed is not the end of the process; it is the beginning of the ongoing business relationship. At that moment the relationship changes from negotiating the terms of equity, to jointly attacking the marketplace for the company goods or services. Most relationships start with very regular contact in between board meetings, with one or more people at the private equity firm becoming intimately involved as a mentor to the business owner and senior management team of your company. Over time, the relationship may settle into a quieter pace, but the investor will remain actively interested in helping you and your company move to the next level of success.