ASPIRE management

Tips for Attracting a Private Equity Group

Private Equity Groups, sometimes called a “PEGs”, invest in privately held businesses. Their cash comes from several sources including: pension plans, insurance companies, wealthy individuals, family offices, endowments, such as universities and family foundations, and sovereign funds such as the Middle East and Asia. They usually have cash that has already been raised from those sources, but some private equity groups identify the business they wish to acquire first and then raise the cash from investors. One common requirement is that they will only acquire a majority interest in the selling company, although occasionally a PEG will hold less than a majority interest. It all depends on their business model.
The goal of a private equity group is to realize a pre- determined return, usually between 20% and 35% compounded annually, or more, depending on the size of the fund. These groups of investors have requirements and almost never look at opportunities that do not meet them. The following are tips for a business owner who hopes to one day sell to a private equity group. They are based on the requirements of most private equity groups.

- **Size matters:** A minimum of $8MM to $10MM in sales
- **Profit is the magic word:** $2MM minimum in net profit, and, a history of profitability over the last three years or more
- **Industries are in or out:** Every PEG has industries that they will and will not invest in. Manufacturing is generally desirable, but service businesses are not unless the workflow process is highly institutionalized. High-touch industries with custom work are generally not desirable.
- **Expect a short holding period:** Five to seven years
- **Loyal management makes it all work:** PEGs rarely want to run a company. A seller and a strong, well-functioning management team that will remain would be desirable to most PEGs.
- **Qualified employees are a must:** Undocumented workers and independent contractors would likely kill a deal
- **Customer diversification reduces risk:** A single customer that is responsible for more than 10% of sales would generally be undesirable
- **C Corporations are not considered:** PEGs buy assets of pass through entities and not stock because:
    - Sellers often back-out of a transaction when they discover what the tax bite will be for the sale of assets in a C Corp., after the PEG has invested time and dollars on due diligence
    - The holding period to convert the C Corp. to an entity filing as an S Corp. is 10 years, far longer than the PEG’s five to seven year holding period.
    - They do not want to take on the selling company’s liabilities.
- **Growth is what it’s all about:** steady projected growth during their five to seven year holding period is usually required, backed up with a solid business plan
- **No Unions:** PEGs often pass if a company’s labor force is unionized

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