



PRIVATE EQUITY –THE PRO’S AND CON’S

There are many implications regarding raising equity for your business. It is not purely a financial decision, it involves introducing partners. This information sheet looks at the pro’s and con’s of raising equity so that you can make up your own mind as to whether it would be right for you.

Lifestyle

Pro’s

- It can involve introducing an active partner or partners who can share the responsibilities of ownership and management with you.
- It frees you up to take reasonable time off for holidays- for example:-

Con’s

- You are no longer your own boss – you are accountable to other parties so good people chemistry is important.
- Introducing an equity partner or partners almost inevitably involves diluting your control of the business.

Financial

Pro’s

- You are sharing the financial responsibility with others.
- It enables you to finance growth without increasing personal debt.
- Your investment receives more leverage because the borrowing capacity of the business can be increased.
- Buy buying underperforming companies, turning them round and selling on at a profit, Private Equity (PE) firms benefit the whole economy.

Con’s

- Your control of the business is diluted
- Direct access to the cash flow in the business may cease.
- Private Equity investors are often seen as asset strippers
- If anything goes wrong with your Plan expect to be pillared. Managers of pension funds invest in Private Equity firms and expect a high rate of return on capital invested.

Economic Conditions

Pro's

- When economic conditions favour your business you should be able to capitalize on them by raising equity at a more attractive, higher price.

Con's

- When economic conditions are unfavourable to your business, you may have to dilute your investment further (i.e. raise equity at a lower price than in better times).
- Investors will be reluctant to pay a full price until they see the end of a downturn in economic conditions for the business.

Flexible /Capability

Pro's

- Introducing a partner or partners increases the critical mass of the business.

Con's

- The equity partner will have the final say on how his capital is used.