

The Pros and Cons of Private Equity Capital Investor In Your Business

Asymmetric information flow, between would-be-entrepreneurs and investors obstruct the deal making because of insufficient information about the business idea. Effective techniques of business presentation are one of the essential factors ensuring effective presentation of business proposals to potential investors. Private equity financing has some distinct advantages over other forms of funding. Here are some of the **main benefits**:

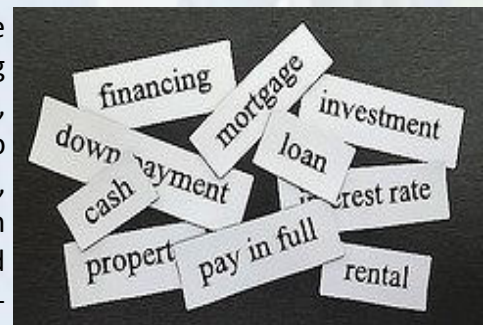
Large Amounts of Funding

Of all the options we've looked at so far, private equity can provide by far the largest amounts of money. As we saw, the deals are measured in hundreds of millions of dollars.

The impact of that kind of money on a company can be massive.

Active Involvement

With many of the other funding options we've looked at, the investor or lender has only minimal involvement in the running of your business. Private equity firms are much more hands on, and will help you re-evaluate every aspect of your business to see how you can maximize its value. This can lead to problems, of course, if their idea of maximizing value doesn't match yours, as we'll see in the next section. But having experienced professionals intimately involved in your business can also result in major improvements.



Incentives

Private equity firms have a lot of skin in the game. As we've seen, they often borrow a lot of money to make their investments, and they have to pay that back and generate a return for their investors on top of that. In order to achieve that, they need your business to succeed.

Disadvantages of Private Equity

Dilution/Loss of Your Ownership Stake

This is the big one. With the other funding options we've looked at, the investment came at a cost, but you still stayed in control of your company. With private equity, you get much more money, but usually have to give up a much larger share of the business and in effect loss of Management Control.



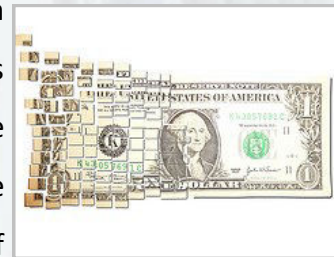


Beyond the money, you can also lose control of the business direction

The private equity firm will want to be actively involved, and as we mentioned in the previous section, that can be a good thing. But it can also mean losing control of basic elements of your business like setting strategy, hiring and firing employees, and choosing the management team.

Different Definitions of Value

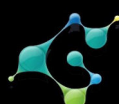
A private equity firm exists to invest in companies, make them more valuable, and sell their stakes for large profits. Mostly this is good for the companies involved—any business owner would like to create more value. But a private equity firm's definition of value is very specific and limited. It's focused on the financial value of the business on a particular date about five years after the initial investment, when the firm sells its stake and books a profit.



How do private equity investors make money back?

They generally receive a return on their investments through one of the following ways:

- An initial public offering (IPO). Shares of the company are offered to the public, typically providing an immediate return on an investment through the sale of shares in the firm.
- A merger or acquisition: the company is sold for either cash or shares in another company.
- A recapitalization: cash is distributed to the shareholders — the investors — either from cash flow generated by the company or through raising debt or other securities to fund the distribution.



This project has been funded with support from the European Commission under the Lifelong Learning Programme. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



[How does private equity fund actually acquire a firm?](#)

The most common way is through the leveraged buyout or LBO. This is the takeover of a company—part of it or some of the firm's assets -- using private equity funding as well as using borrowed funds from banks. The funds can be used to buy up all the company's shares if it's public — and then its taken private — or the money is used to buy out the firm's owners if it's not a public firm.

Other ways private equity can be used to take over a firm include using the funds to grow a firm, or to pay off a debt, and thus giving the private equity holders control of the company in each case.

[Checking of private equity investor readiness](#)

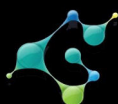
[Pilot Action of “Regional Investment Readiness Trainings” in Poland](#)

21-24.10.2014 Bielsko-Biala & Czechowice-Dziedzice, Sileisan Region

The Impact Investment Readiness Programme aims to accelerate investment into social and environmental businesses based in Poland by helping directly business support institutions and in effect would-be and entrepreneurs to:

- *Learn which type of investment is right for you now, and how to get it*
- *Discover how to write investable business plans*
- *Attractive presentation skills to gain an investment capital*

The training programmes delivered during the pilot testing included the three phases: PREPARATORY BLOCK 1 Financing for start-ups, ENABLING BLOCK 2 - Business planning and PRACTICING BLOCK 3 - Pitching with the investors. Regional



This project has been funded with support from the European Commission under the Lifelong Learning Programme. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



"Investment Readiness" training program included training package designed to develop participants' skills of using equity capital for the implementation of business ideas. In response to above, training course allowed to improve among more than 20 participants skills on how to raise risk/seed capital in the initial stage of company development, in particular:

- Raise awareness and understanding of entrepreneurs on risk capital opportunities and their requirement and operation modalities;
- Give the opportunity to entrepreneurs to measure their investment readiness level;
- Enhance entrepreneurs skills in better fine-tuning their business proposal and plan;
- Improve their skills in effectively present the business proposition towards **real investors**.

Improved investment readiness can stimulate the demand side by making SMEs more attractive for investors. The principal objective is to help place SMEs in a position where they can provide potential investors with a credible investment opportunity, to the benefit of both the SME and the potential investor. A successful outcome would be an increase in the number of SMEs attracting investments. Regional training program "investment readiness" initiated collaboration of business coaches, business originators and sometimes also investors. Thanks to that as well as interest it Investor Readiness showed by participants, similar teaching initiatives are planned to the implementation in upcoming 2015 year.

Pilot Action of “Regional Investment Readiness Trainings” in Belgium

25th to 27th June 2014

When looking at the financing of innovative SMEs, the supply of funds has been the main concern focus. Considerable work has been carried out to improve the supply of funds for investment in SMEs. Investors who seek to obtain a profit on their investment and unless they are convinced that an SME can grow and become profitable, they will not make a commitment. To ensure an effective market in the supply of finance for SMEs, it is therefore necessary to develop the demand side to help SMEs attract investors. In other words, SMEs should become “investment ready”.



This project has been funded with support from the European Commission under the Lifelong Learning Programme. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



In the course of the events the project itself, its target and achievements have been disseminated. A very good level of interest has been registered, especially during the final question and answer session and several questions and clarifications after the end of the training activities which have been also requested.

All participants, have been provided with an Info Pack about the project which contained the project toolkit and additional contacts in EBN for allowing interested parties to contact the organisation and have other potential follow ups of the same training. Coaching and self-assessment exercise provided during Pilot, in order to develop skills of trainees of the programme about how to gain risk/seed capital in the initial stage of company, allowed for:

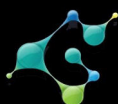
- 1) Guiding entrepreneurs in identifying the weaknesses of their business proposition and finding how to improve it;
- 2) Supporting entrepreneurs in fine-tuning their business plan adding all the relevant information requested by investors;
- 3) Introducing entrepreneurs to all the available sources of start up financing including equity and support them in choosing the most adequate one in accordance to their specific needs;
- 4) Supporting entrepreneurs in effectively present their business proposition in front of potential investors.

[Final Event of GReaC Project](#)

Project GReaC summary at closing event. Katowice/Poland/ 16 December 2014

To meet the needs of people with a business idea who want to raise capital from external investor, Regional Development Agency Bielsko-Biala (Poland) together with Meta Group (Italy), Zernike Group (Netherland), Ruse Chamber of Commerce and Industry (Bulgaria) and European Business Network (Belgium) implemented the project "Getting Ready for the Capital", including the development and testing of specialized training modules in the field of operation and raising investment capital.

The aim of the final project conference was to present both, the experience and achievements of the



This project has been funded with support from the European Commission under the Lifelong Learning Programme. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



project on raising capital from outside investors, as well as the presentation of the utilization rules of commercially available private equity funds for the development of innovative projects.

The meeting focused at issues as:

- creation of synergies between key players in the market who should be involved in the development of the knowledge economy and easier access to the seed funds (seed-capital, venture capital)
- development of professional training model appropriately tailored to the needs of regional vocational education and training systems
- familiarize future and existing entrepreneurs with the knowledge and best practices regarding the right attitude / business culture and presentation skills in attracting financial investors
- increase the professionalism and the quality and efficiency of services provided to prospective and existing businesses by Business Environment Institution
- creation of more favourable conditions for the development of innovative start-ups,

Conference participants become familiar with best practices regarding support the development of enterprises, through proper understanding of venture capital market and the development of personal skills necessary to effectively present their business proposals to potential investors, thereby increasing access to and use of the so-called "risk capital" funds.

In addition, participants had the opportunity to learn about investor readiness training path developed by Meta Group, for future and existing entrepreneurs, with a range of equity fundraising feedback in development of innovative business ideas, implemented in frame of GReaC project.

GReaC project initiated for the first time in the regions comprehensive cooperation between representatives of the business environment, business idea owners and equity investors.



This project has been funded with support from the European Commission under the Lifelong Learning Programme. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



This cooperation is important in order to achieve the main goal, which is to develop a model of training for trainers, business institutions and individuals with a business idea about functioning and raising investment capital. This model is aimed to enable the exchange of knowledge and best practices on relevant business culture and skills to use modern investments sources in the development of entrepreneurship.

[EBN TechCamp 2014, Munich Germany](#)

26th – 27th November 2014
<http://www.ebntechcamp.eu/>

Conversations with many stakeholders interested in creating innovation within an enlarged EU ecosystem about GReaC project during the event with more than 50 participants. New tools, methods, and processes to support innovative entrepreneurs have been showcased and tested through pitching sessions, bilateral meetings, real-time demonstrations, thematic workshops and a dynamic exhibition area. Key experts and tool developers, including GReaC ones, exposed and interacted with the audience during this dynamic 2-day event, which was dedicated to the following topics:

- Creativity and idea development
- Rapid acceleration
- Advanced coaching
- Networking and online business communities
- Innovative finance

The relevance of the EBN participation and the dissemination of the GReaC within this event was aiming at promoting the project's results and its short and long term objectives for supporting new stakeholders in the EU and at increasing the level of awareness in relation to the establishment of contacts with potential funders and financial supporters.

**For more information
we kindly invite to all of you to visit our project web site as well as FB account.**

