

Private Equity Do's and Don't



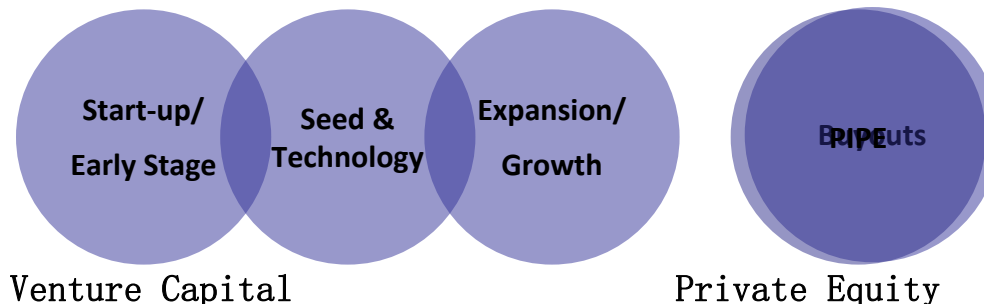
Private Equity and Venture Capital- Concept



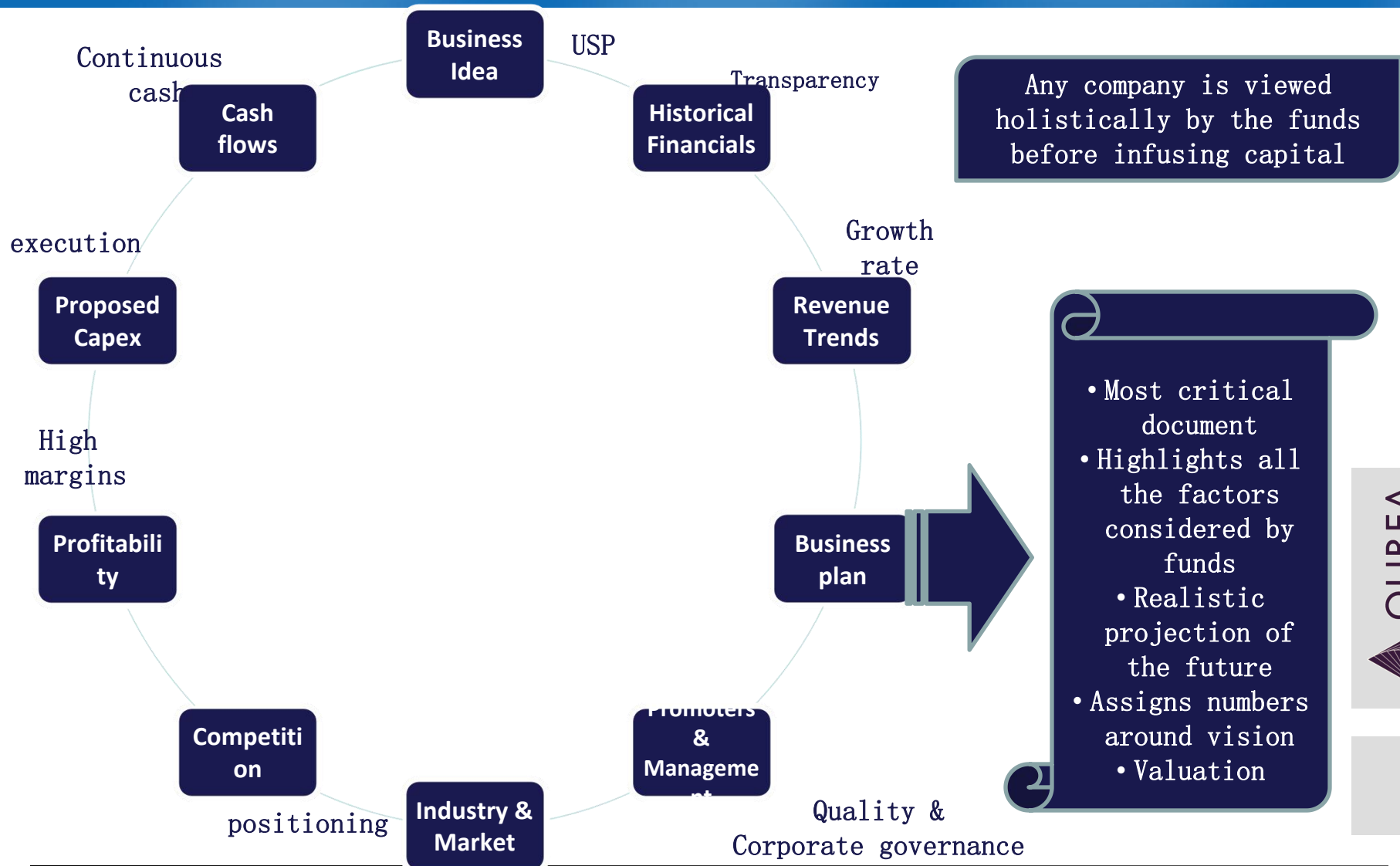
- Private equity is equity investment in high growth companies whether listed or unlisted
- Investments in private equity most often involve either
 - an investment of capital into an operating company or
 - the acquisition of an operating company (Buyout funds) or
 - purchase of shares of existing investors / promoters

- **Venture capital- It is a broad subcategory of private equity that refers to equity investments made, typically in less mature companies, for the launch, early development, or expansion of a business.**
- In India, private equity funds are active across sectors funding both listed and unlisted companies. Funding in listed companies is called PIPE (Private Investment in Public Enterprises)

Various Stages of Investment



Key parameters considered by VC/PE



Typical issues faced in private equity deals

- Business model – **Call of PE fund on the business**
- Valuation – **Both parties to agree on valuation**
- Agreement Terms – **Stringent terms if things don't work out as planned**
- Exit options – **Fund requiring immense clarity on exit**
- Confidence in promoter – **Will the promoter deliver?**
- Fear of private equity fund running the show – **Monitoring vis-à-vis micro management**

Typical dilemma's faced by the management

Growth v/s Dilution

PE leads to both growth and dilution – thus important to strike a balance between the two

Control & interference

Fear of the management that the fund will exercise control and interference

Valuation on future earnings

Structuring the investment on future earnings and profitability

Investment Horizon

Investment Horizon typically ranges between 3 to 5 years – can extend upto 7 years. Exceptions are family houses

Exit Options

IPO, Strategic Sale, Next round of larger fund

Some key takeaways...

Don'ts

- Don't raise equity just because it is cool today – ascertain the genuine need
- Don't prepare a business plan keeping the investor in mind, don't make the investor the fulcrum of your plan
- Avoid too many advisors

Dos

- Carry out a thorough financial, tax and legal due diligence internally
- Prepare a thorough plan. Think through it
- Negotiate valuation and deal contract properly – have a holistic approach
- Definitely have a lawyer at the side

THANK YOU