

## **POINTS TO CONSIDER WHEN FIELDING CALLS FROM PRIVATE EQUITY FIRMS**

By: **RKJ Partners Atlanta Corporation** (Cyril Jones, *Founder & Managing Partner*, [cyril@rkjpartners.com](mailto:cyril@rkjpartners.com))

As the owner of a business, you field numerous interactions throughout the day whether it be emails or phone calls, sales people or reporters, all the while juggling your internal business. A new norm of these daily interactions is that of a phone call from private equity firms seeking to meet with you. The natural reaction varies based on the level of insight into this type of call – for some it may be to hang up, for others it may be to hear them out considering your succession plan is still undefined. There are key strategies to have in mind when money begins calling to invest in or purchase your business.

There is not a defined path to thinking about private equity; whether you are raising equity capital or selling your company. The direction a company takes when making this decision varies based on their set of objectives. Some owners are more interested in the economic value they are able to attain in selling their company, some see the infusion of capital as critical while maintaining a vested interest in the business they have established. Despite the notion that there is not one roadmap to follow when accepting equity capital or selling your business, there is one defined direction you must take to complete this process efficiently – **ASK QUESTIONS**.

Proper due diligence of prospective investors or buyers is a necessity whether selling to a company or a private equity firm. This leads to a common question – “what questions do I ask when money calls”?

### **DIG FOR MORE INFORMATION BEYOND THE BOILERPLATE**

Start simple – ask them to tell you more about their firm and why they chose your business to call. What types of businesses are in their current portfolio? Do they commonly invest in manufacturers? How did they find your company? Their level of expertise and interest in your specific manufacturing operation will provide enough simple information from the start to know if this is the right firm to be talking with. If they lack tangible expertise or actual industry experience you may find yourself leaning towards the reaction of hanging up and carrying on with your day. Starting a conversation with a firm who has not done their research, or is not versed in your industry, is a tough sell, especially when receiving this type of call out of the blue.

### **DIVE INTO THEIR FINANCIAL STATUS**

Another avenue to pursue during this conversation is to find out the financial status of the firm. Their answer can serve as a hint as to how long the process of working with this specific firm will take. Do they have committed capital to work with, and if so, how much? Not having committed funds results in a much riskier undertaking and this process tends to take longer than a typical sale when capital is committed and available. Ask them if they have a portfolio investment in the manufacturing industry. This provides you with insights on the phone as to whether or not this firm really knows how your specific company operates.

### **DISCUSS VALUE**

Asking the firm “how would you value my business?” may lead to a series of questions that do not lead to an actual answer. Typically, this is when they need to know about your business beyond the due diligence they have done on their end.

We advise our clients to never discuss this information in the beginning because it puts you in a position of releasing information which is confidential or could put you at a disadvantage later in the negotiation process. A relationship needs to be established before going down this route.

### **HOW DO THEY DELIVER**

If you want to take the step of asking more about their investment philosophy, then ask how they work with their current portfolio companies. How do they work with similar companies – do they become a part of the operations, or are they strictly involved from a board level or financial standpoint. Knowing this type of information after receiving this type of call not only gives you their perspective, but also allows you to better understand how one private equity firm functions vs. another.

## **NEXT STEPS**

It comes down to your objectives, your companies' position, and timing. Timing of the market, timing of your strategic vision, or timing of whether or not you want to consider taking the path to accepting capital or conducting an outright sale. At the end of the day a relationship built on a foundation of trust is key when divulging details of your business. RKJ Partners has always, and will always, encourage you to consider all of your options. That is where we come in. Knowing what direction to take whether selling to private equity or to another business is a decision which is typically not a do it yourself task.

Our team has answered the questions surrounding what to do when money calls in numerous industries. At the core, no matter the industry, the best practices we shared above are how we advise our clients to approach these scenarios. We work with you to make sure you get the best possible results whether you pursue the private equity firm that called you, or by doing the legwork to find the strategic fit for your business' succession plans.

As you receive these types of calls from private equity buyers, know this is a common trend happening due to strong market activity in 2017, and a boisterous outlook ahead for 2018. If you have any questions as you field these interactions feel free to **CONTACT US** to determine the right strategy for your business.

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## **About RKJ Partners [www.rkjpartners.com](http://www.rkjpartners.com):**

Founded in 2008 and headquartered in Atlanta, Georgia, RKJ Partners offers a unique suite of investment banking advisory services specializing in corporate valued less than \$100MM. The firm follows a client-centric business model that eliminates conflicts of interest, while delivering seasoned expertise and higher success rates when compared to other lower middle-market investment banking firms. Our clients include buyers of private and publicly owned businesses, strategic buyers, financial partners and private investment groups who seek uncompromising advice regarding their investment banking activities.

Whether our client's objective is to raise capital, sell all or part of their business, divest a division, acquire or merge, our unique service offerings enable us to evaluate all of the options in order to determine the most effective solution that meets our clients' needs.

## **MERGERS & ACQUISITIONS**

RKJ's investment bankers have provided buy-side and sell-side experience for a myriad of entities. Utilizing our extensive transaction experience, we provide clients with senior-level attention throughout all phases of the transaction process including: identifying candidates; conducting valuation analysis; sourcing financing; structuring and negotiating terms on M&A transactions; performing due diligence; and processing closing. Our deal experience includes asset and stock purchases, licensing agreements and earn-outs.

## **SALES & DIVESTITURES**

RKJ prides itself on creating strategies that mirror our client's objectives. Understanding the objectives is paramount to developing an exit strategy. By drilling down on the objectives, we are then able to determine what the appropriate strategy should be: a sale to a strategic or financial acquirer; a partial or outright exit; a divisional divestiture; or an employee stock ownership plan or management buyout.

## **CAPITAL RAISING**

RKJ assists clients in raising capital required to fund continued growth, acquisitions, and provide for additional liquidity. Whether the capital source is senior debt, subordinated debt, a private equity investment, or venture capital, RKJ has extensive relationships within the arenas of corporate finance, private equity, venture capital and angel investors that enable us to deploy the optimal capital solution.

## **STRATEGIC ADVISORY SERVICES**

RKJ provides industry and capital markets advisory services to owners, shareholders and their boards in developing strategies that maximize their companies' value and facilitates a better understanding of all available options. In developing these strategies, we engage in a deep and thorough evaluation and analysis that results in the identification of value deflators and growth drivers.