



# Private Equity

The CFO's Perspective



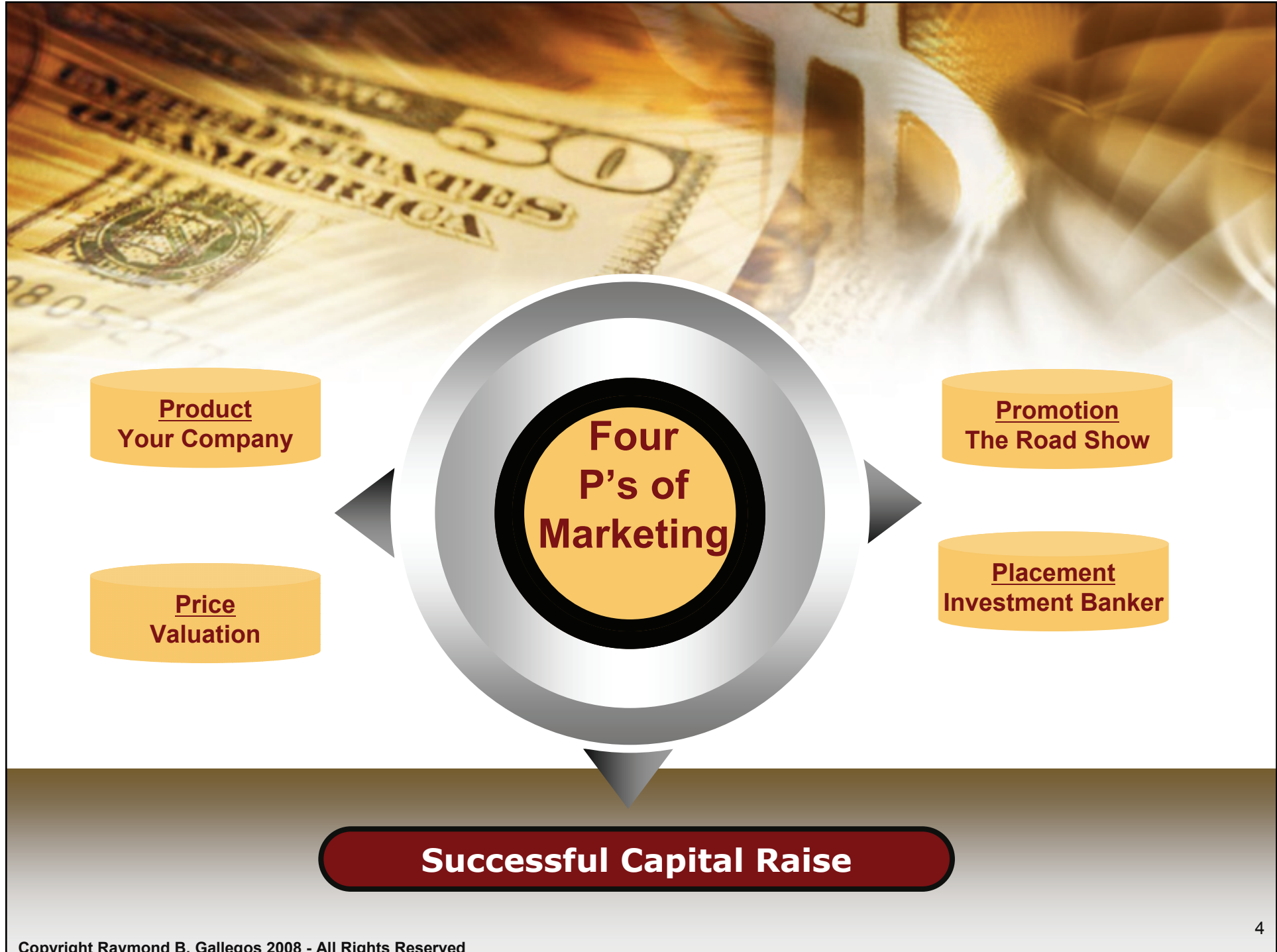
# **What is the Most Important Factor in Raising Private Equity?**



**MARKETING...**

**MARKETING...**

**MARKETING...**





# AGENDA

1

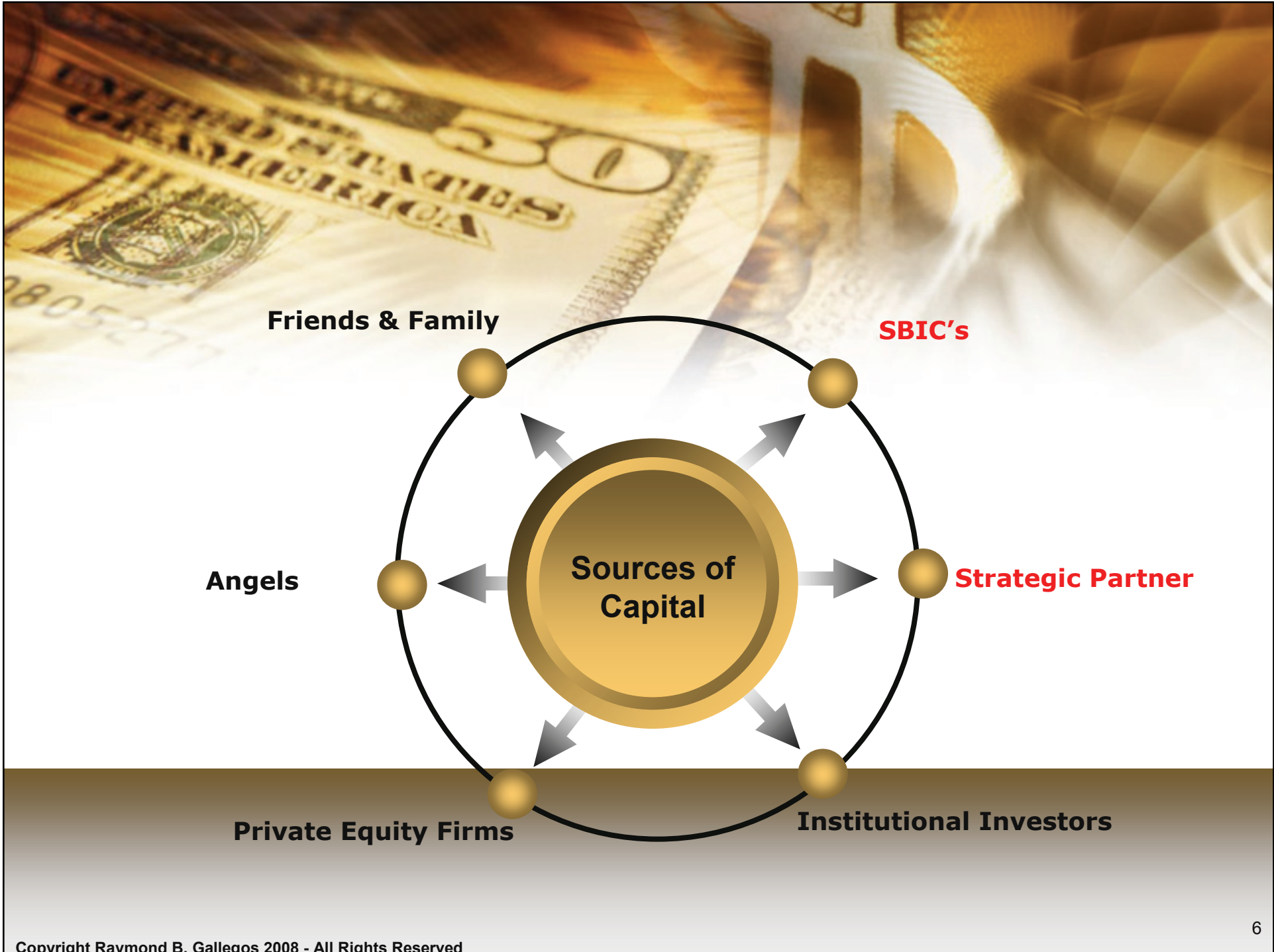
Private Equity Firm Process & Methods

2

Internal Process

3

Lessons Learned





Development Stage	Friends & Family	Angels	SBIC's	Private Equity Firms	Institutional Investors	Strategic Partner
Seed	✓	✓	✓			
Early Stage		✓	✓	✓		
Expansion				✓	✓	✓
Buy Out				✓	✓	



## Right Private Equity Investor



Stage

Industry

\$ Amount

Location



# Methods for Finding Private Equity

## Networking

- Family & Friends
- Angels
- SBIC's
- Strategic Partners
- PE Firms

## Investment Banker

- SBIC's
- PE Firms
- Institutional
- Strategic Partners

## Internet

- Angels



## **Advantages of Private Equity Investor**

- Bring expertise in a variety of disciplines
- Guide/focus company on executing business plan
- Extensive business & financial networks
- Identify acquisition targets
- Day-to-day managerial assistance (angels)



## Private Equity Firm Process

- Evaluate business plan
- Initial negotiations (valuation, deal terms)
- Due diligence
- Negotiation & execution of transaction documents
- Monitor Investment
- Exit



## 2 Internal Process

# What's The First Step?



# Develop Solid Business Plan

- **Market**
  - Large & growing
  - Market leader potential
- **Competition**
  - Differentiators
  - Sustainable advantage
- **Products & Services**
  - Uniquely meets a significant need in marketplace
- **Management Team**
- **Valuation Scenarios**
  - Current
  - At exit
- **Exit Strategy**
  - IPO
  - Buyout
  - Recapitalization
- **Financials**
  - Historical
  - Projected



## **Develop Solid Financial Model**

- **KISS approach (keep it simple & straightforward)**
- **GAAP balance sheet, income statement, cash flow**
- **By month for first 2 years + addn'l 3 years**
- **Key assumptions (scenario analysis)**
- **Best, worst, probable cases**
- **Don't "hard code" anything**
- **In one file – no linking to other models**

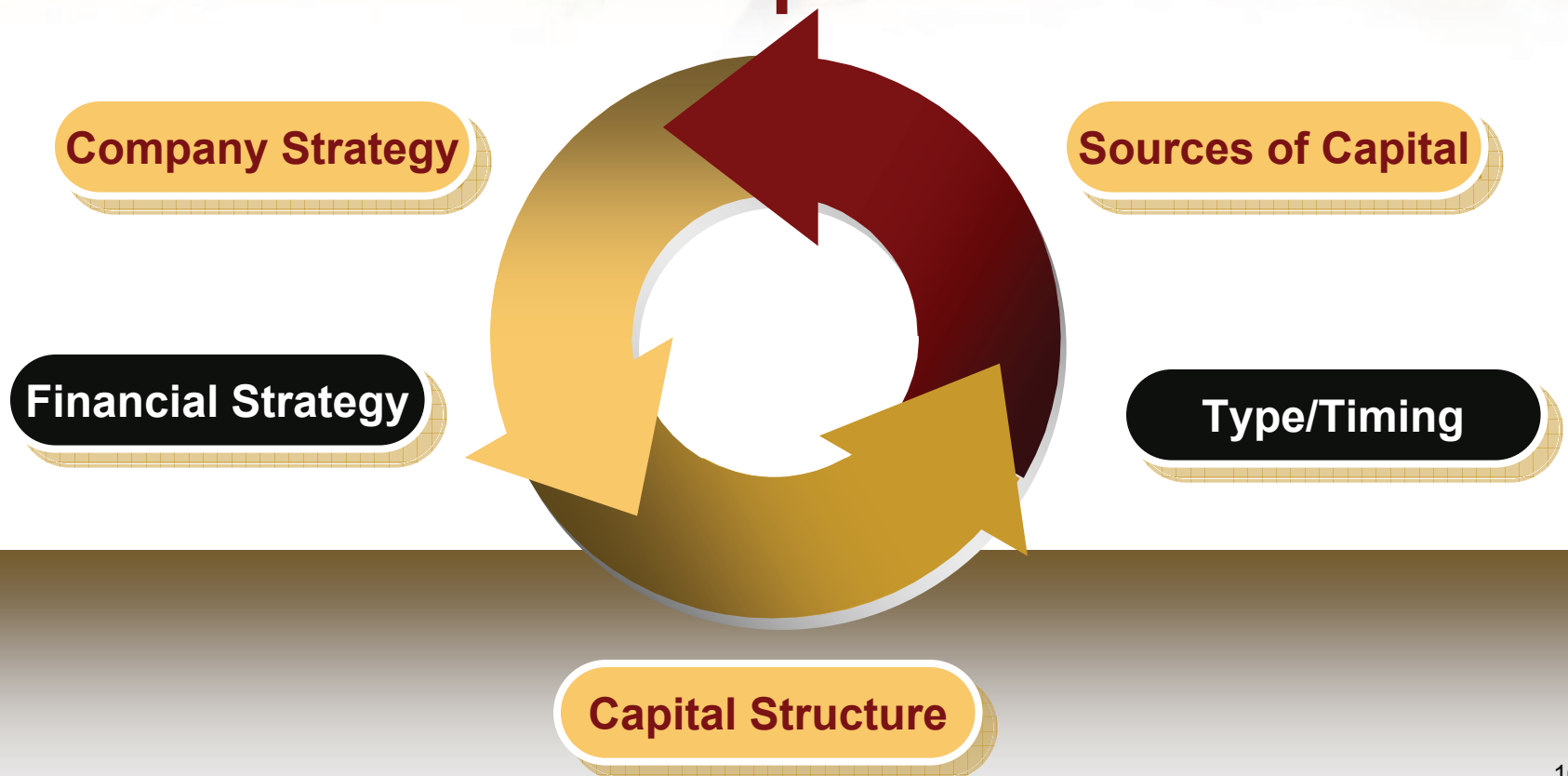


## Develop Solid Financial Model

### – What are investors looking for?

- Key market, operational & financial drivers
- Break even analysis
- Cash flow
  - When positive?
  - Potential additional financing rounds
  - Capital alternatives (mezz debt, LOC, etc.)
- Economies of scale
- Profit margins
- IRR

# Define Your Capital Needs





## Assemble Your Team

### Internal

- CEO
- CFO
- COO
- CMO

### External

- Investment Banker
  - PE/SEC Lawyer
  - CPA Firm
  - Appraiser
- Key Consultants





## **Assemble Historical Financial Information**

- **2-3 years financial statements (if not a start-up)**
- **GAAP compliant financial statements**
- **Reviewed financial statements (audited is better)**
- **Historical management reporting**
  - Plan vs. actual analysis
  - Trend analysis (sales, GP margin, KPI, etc.)
  - Sales pipeline

**Legal**

**Operating**

**Compile Due  
Diligence Documents**

**HR**

**Sales**

**Financial**



## **Develop Deal Book & Presentation**

- Typically done by investment banker
- Deal book can be large & detailed
  - Includes everything (summary, business plan, etc.)
  - Substantial input from management team
- Presentation must “sell” the company
  - Use a communications consultant
  - Create superior transition between team members
  - 20 minutes maximum
  - Rehearse, rehearse, rehearse



## **Time to Hit the Road (Show)**

- **Distribute investment information**
  - Internally review list of potential investors
  - Investment banker sends executive summary to get initial “read”
  - Monitor investor list & status team
- **Conference/meetings set up by investment banker**
- **Anticipate likely questions**
- **Create list of questions & concerns raised to address in future conferences/meetings**



## Time Is Money

- Time to complete varies
- Depends upon
  - Funds required
  - Investor type (angel, SBIC)
  - Quality of materials
  - Business model
- Oftentimes 6+ months





**Value of Company**

# **Negotiation- An Iterative Process**



**Control**

**Investment Type**



## Final Steps

- **Due diligence**
  - Less strenuous if you prepared beforehand
  - Have team ready for questions
- **Final negotiations**
- **Create transaction documents**
- **Close transaction**
- **Celebrate!**



3

## Lessons Learned

- **Prepare, Prepare, Prepare - you only get one shot**
- **Pick the right investment banker (industry, contacts, etc.)**
- **Ensure a good “fit” with investor group**
- **Internally agree on your boundaries prior to raise**
  - Valuation
  - Control
- **Create internal communication strategy for employees**
- **Make plan to handle workload (funding/existing duties)**



**Information Resources:** [Privateequity.com](http://Privateequity.com), [Privateequityinfo.com](http://Privateequityinfo.com), [Regdresources.com](http://Regdresources.com), [NVST.com](http://NVST.com), [GobigNetwork.com](http://GobigNetwork.com), [nasbic.org](http://nasbic.org) (National Association of Small Business Investment Companies), [naicvc.com](http://naicvc.com) (National Association of Investment Companies), [perfectbusiness.com](http://perfectbusiness.com), [vcfv.com](http://vcfv.com), [raisecapital.com](http://raisecapital.com), [mycapital.com](http://mycapital.com)

# Thank You!

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