The other private equity

Despite the credit crunch, growth equity spurs innovation, promotes economic growth, and builds strong public companies.

BY WILLIAM E. FORD

THE RECORD PACE and volume of "going private" transactions over the past couple of years made private equity a household phrase — one most associated with leveraged buyouts (LBOs) of publicly traded companies. While the credit crunch has constricted the financing that made so many large transactions possible, it has not diminished the integral role private equity plays in supporting the growth, and thus the health, of the global economy. Growth fuels innovation, creates jobs, and contributes to economic development, and there is an entire segment of the private capital market dedicated to just this purpose. It's called growth equity.

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On the private equity spectrum, growth equity occupies an important place between venture capital and LBOs. Growth equity is distinct in its focus on working with promising companies to achieve business scale and market leadership. It provides a vital bridge of capital and expertise for privately owned firms transitioning from successful start-up to a publicly traded enterprise.

Given the significant changes in the capital markets over the past several years, growth equity, dedicated to building businesses and fueling growth, has become more important than ever in supporting the success of growth companies and the public benefits they provide.

Equity is the lifeblood of growth companies. Growth companies often need outside equity investment to fund working capital needs, add skilled employees, build scale, extend global reach, and complete strategic acquisitions. Yet without significant hard assets or track records of profitable performance, most cannot rely on debt to fulfill their financing needs even in the most favorable financing environment; in a tight credit environment, of course, bank financing is even less available and more costly to obtain. Compounding matters, Sarbanes-Oxley and the overhaul of investment research have made it more difficult for younger growth companies to tap the public markets for equity capital. Growth equity has become more important than ever in supporting the success of growth companies and the contributions of such companies to the economy.

But emerging growth companies need more than capital. The most promising growth companies seek a partner that can add value by providing strategic and financial expertise. The best growth equity investors have deep industry knowledge and operational experience; their success is tied to the quality and soundness of a company's growth strategy. This is a far different calculus than driving performance from a mature business in an established industry and leveraging the results through sophisticated financial strategies.

Growth equity investors today also play a pivotal role in preparing companies to go public — a goal shared by most growth companies, despite regulatory challenges and the going-private trend among large companies. Public markets are often the most efficient source of additional equity capital for continued investment in the business. A publicly traded stock provides a currency to fund strategic acquisitions, helps attract and retain management talent, and offers all investors an avenue for liquidity. And an IPO still represents a meaningful milestone in the life of a company, the point at which the dream that began with an entrepreneur's idea is embraced by institutional investors around the world.

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For growth company management teams, a strong private equity partner can help ensure that their company not only is "IPO ready" in a much more complex environment, but also has a well-articulated growth strategy, a solid business plan, robust internal control systems, and a fully developed organization. That's why companies going public today with the backing of growth equity investors come to market as stronger firms, are better prepared to meet the demands of the public markets, and perform better once they are public than those without it.

Private equity is more than mega-sized leveraged buyouts of publicly traded companies, and the credit crunch does not spell doom for the private equity industry. Growth equity is more critical than ever to the development and long-term success of growth companies — the engines of innovation, job growth, and global economic development. Growth equity investors provide not only needed capital but also the value-added resources vital to growth companies as they build their businesses, seek the benefits of public ownership, and operate as successful public companies. ■

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