Weller Equity

Growth Equity

A growth equity investment is a transaction whereby a business raises capital by selling a minority interest in the company to an investor. The funds are typically used for acquisitions, working capital or other business investments while the owner maintains majority ownership and continues to manage the business.
Top reasons for and against a growth equity investment:

FOR:

- Raise cash for acquisitions, working capital, or other business investment
- Owner wants to manage the business
- Owner wants to benefit from a future sale of the business at a higher valuation
- Gain a strategic partner to help develop a long term growth and succession plan
- Access to additional growth capital

AGAINST:

- Don't want any strategic partner
- Don't want to maintain a formal governance policy
- Poor business growth prospects

Example:

XYZ Company generates $3 million in EBITDA and is valued at 5x resulting in an enterprise value of $15 million. The sources and uses of funds are as follows:

SOURCES: ($000)			USES:	
Existing debt	7,500		Existing debt	7,500
Preferred equity (New)	2,000	(21.1%)	New business investment	2,000
Equity (Existing owners)	7,500	(78.9%)	Implied common equity value	7,250
			Transaction expenses	250
Total Sources	17,000		Total Uses	17,000

Note: This simple example assumes the company raises $2.0 million for new business investment.

Based on this example, the selling shareholder(s) would effectively sell 21.1% of their business for $2 million in cash and retain 78.9% of the new capital structure consisting of $9.5 million of total equity value. The preferred equity would typically have a liquidation preference as well as some form of dividend in addition to its ownership.

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