

When time is right for private equity



**MERRICK
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**By
Peter
Merrick**

Private equity is another method of raising capital for both growing and mature businesses. Different from 'angel investors' or true 'venture capitalists,' private equity investors are looking for mature and well-managed companies that are leaders in their defined markets and have significant upside growth potential.

In addition to investing for growth, private equity firms will provide capital to support complete ownership 'transitions'. This can include founders who are reaching retirement, or families who have

inherited businesses that they do not intend to operate. Private equity is also suited for owners who wish to lower their risk (i.e. 'take some chips off the table'), or who recognize their need for assistance to take their business to the next level.

There are many private equity firms in the marketplace. To take a closer look at the way they operate, examining one is a good place to begin.

ONCAP is an example of a strong private equity fund. Founded as an affiliate of one of Canada's largest corporations, Onex in 1999, ONCAP currently manages a \$575 million fund dedicated to investing in, and building value with North American small and mid-sized companies.

Since inception, ONCAP has acquired eight platform companies, completed 23 total acquisitions, and assisted the management teams of its companies in creating significant equity value in each investment. ONCAP was founded with capital commitments from ONEX and several of Canada's largest pen-

sion funds and financial institutions.

Gregory Baylin is a partner with ONCAP. "First of all, ONCAP invests in people and looks to partner with high-quality managers. Second, we look for companies that have a track record of profitability and free cash flow for a reasonable period of time," he explained. "Third, we typically look to invest between \$20 million to \$75 million in each opportunity that we consider."

There are other requirements, but these three 'gating items' (as they are referred to in the industry), are mandatory before there is reason to look closer at an opportunity.

Most private equity funds will look at deals in a wide range of industry sectors. However, once they have completed a transaction, it often makes sense to build in the same sector, particularly when there is an opportunity for consolidation. Leveraging existing investments is a strong premise of private equity.

Regardless of industry focus, most private equity funds avoid early-stage companies, real estate, and operating turnaround situations, as evidenced by ONCAP's basic 'gating items.' Making good companies better, through their involvement, is a core private equity principal.

There are many advantages to accessing private equity rather than some of the other sources of capital available in the marketplace. First, private equity funds generally have some level of involvement in the businesses that they invest in, and this can bring knowledge and experience that these businesses operators may not have previously enjoyed. Second, private equity funds bring relationships that can offer business opportunities that would never have been realized without them.

The attitude in private equity is that they bring more than capital to the table. In reality, they become partners with the ownership/management group.

Says Baylin, "At ONCAP, we

work closely with our management teams on issues related to acquisitions, financial structure, and strategic planning. But it goes well beyond these things. Partnering with the largest private equity fund in the country brings relationships and credibility that is unique and helpful for many independent businesses."

James Sbrolla, a partner with Growth Equity Partners and chairman of Environmental Business Consultants, co-wrote this column. He can be reached at (416) 234-5120 or james@growthequity-partners.com

Peter J. Merrick, BA, FMA, CFP, FCSI, is the president of MerrickWealth.com, a fee-for-service financial planning and executive benefit consulting firm in Toronto. He is the author of "The Essential Individual Pension Plan Handbook" (LexisNexis Canada, 2007). He can be contacted at: (416) 854-1776 or peter@merrickwealth.com.