

PRIVATE EQUITY AND THE ROLE OF AN FD

For a Finance Director or CFO, private equity isn't just a way of raising growth capital. It can allow you to focus on where the business is going rather than getting distracted by more short-term concerns.

This is especially true in the current climate, where the rest of the management team may likely be focused on getting staff back into the workplace and COVID recovery plans.

Private equity helps open up growth opportunities whether they're international, organic or acquisitive and there are many different reasons to choose private equity investment including to support an ownership change such as enabling a management team to increase shareholding, allow shareholders or owners to divest and/or de-risk and open up succession and retirement options. It can also provide a supportive stepping stone to a business eventually completing a full sale to trade or an IPO.

In this short guide, we'll explore why you could consider private equity and how to prepare your business for private equity investment, and what to do afterwards.



Private equity can provide many benefits including tax efficiencies and working capital structures as well as the funding to acquire other businesses. LDC were also able to spend time with me introducing new improved reporting and facilitating key introductions to other PE-backed Finance Directors with whom I can knowledge share with."

James Prince
Finance Director, Rhino Products

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WHY CONSIDER PRIVATE EQUITY?

Private equity provides investment to grow your business or fund a change in ownership – in return for a share in the company. Unlike raising debt, you'll also be backed by experienced business partners.

1. TAKE YOUR BUSINESS TO THE NEXT LEVEL

Private equity allows you to really focus on your company's growth strategy. Whether you're looking to grow organically, acquire other businesses, expand internationally, make business improvements or prepare for an IPO – private equity investment gives you the backing to make it happen.

2. PLAN FOR THE FUTURE

Private equity is also a unique opportunity to plan for the longer-term future of the business. If your founder is looking to step back or release some equity, this is the time to start succession planning.

You may even choose to buy the business you run as part of a management buyout.

3. GET THE WHOLE TEAM PULLING IN THE SAME DIRECTION

Another advantage can be the focus private equity gives management teams.

It means everyone buys into the growth strategy and is fully aligned behind it – especially if they have equity as part of a management or secondary buyout.

4. ADDING NEW EXPERTISE

Private equity investment provides an opportunity to bring in new expertise to sit on the board.

A non-executive director offers different experience and perspectives that can support with key decision making and strategy.

5. KEEP CONTROL OF THE BUSINESS

Private equity can help you do all of this without losing control of your business. LDC will back you and your team – often through a minority shareholding – but you still drive the business forward.

And we work to your timetable too, with no hard deadlines for when we eventually exit the business.

HOW TO PREPARE FOR PRIVATE EQUITY INVESTMENT

If you do decide that private equity could be the next step for your business, it's worth looking at how to prepare your company to attract the right investment partner. There are five fundamentals to consider when looking for investment:

TELL A GROWTH STORY

A strong track record of performance suggests that the management team can likely guarantee success over the lifetime of a private equity investment. Being able to walk investors through the team's track record is also important.

Business size doesn't always matter, as long as the numbers are moving upwards there is growth potential. The role of a Finance Director is critical as it's important to show your finances are in order and that you're ready to scale.

HAVE A CLEAR BUSINESS PLAN AND STRATEGIC VISION

A clear business plan and strategic vision is key. It might be a sales target, a new product that will disrupt your market or an acquisition strategy.

Demonstrating a thorough understanding of your market, the vision for your business and why you want to partner with an investor, helps you to paint a picture of what their funding will support.

SHOWCASE YOUR PEOPLE, TALENT AND SKILLS

Ultimately, success is born out of the people and talent within a business. SMEs need strong leadership but nurturing the next generation of talent and bringing in external strategic support when required is also key.

Investors are also looking for evidence of succession planning. They want management teams to have a strong pipeline of talent behind them with the potential to step into leadership positions in the future.

BEYOND THE CAPITAL, THINK ABOUT WHERE THE INVESTOR CAN ADD VALUE

It's also important to consider how an investor could add value by acting as an extension of your team.

Private equity houses often have extensive industry experience and specific expertise, so they can also help to bolster the skills of management teams by acting as a long-term partner and valuable sounding board.

MAP ANY RISKS

Some markets are naturally volatile. But future risks aren't a barrier to attracting investment. The most important thing is to show that you understand the strengths and weaknesses of the business and the market you operate in, and that you have considered how you'll navigate potential challenges.

Disruption can occur in any industry, so you'll also want to look for an investor that is committed to your strategy through the rough and the smooth

WHAT NEXT AFTER PRIVATE EQUITY INVESTMENT?

Taking on private equity investment is likely to be one of the most rewarding – and demanding – periods of your career. LDC will work with you as you meet new challenges head on, and develop new skills and competencies. Here are just some of the things you can expect:



A STRONGER NETWORK AND TEAM

Being the Finance Director of a private equity portfolio company is demanding, so LDC will work with you to make sure you have the right support behind you. You can't do everything on your own, so you'll need a strong partnership with the CEO, plus a talented team who are incentivised to help deliver your growth strategy.

With an extensive network of investment business, LDC can introduce you to people in the same situation at our regular FD network events – so you always have a sounding board when you need one.



INCREASED GOVERNANCE AND COMPLIANCE

Private equity can support you in professionalising your business as it grows, and the requirements change. For example, ensuring your books, processes and controls continue to be a priority. You might also need to prepare your accounts in dual US and UK formats, if you're planning on taking on overseas investment in the future.

LDC has over 40 years' experience of working with FDs and CFOs and can guide you through the changes step by step.



MORE FOCUS, MORE ENERGY, MORE AMBITION

If you've ever worked for business without a clearly-defined growth plan, you'll appreciate the energy and focus that private equity investment brings. You'll have a high level of control and the freedom to make decisions quickly.

As FD or CFO, you are the guardian of any transaction involving your business and your role is crucial in fulfilling the ambitions of the business. You're in the driving seat, and LDC can support and empower you to make the right decisions.

ABOUT LDC

WE INVEST IN GROWTH

As part of Lloyds Banking Group, we have £1.2bn to invest in UK SMEs in the next three years.

WE UNDERSTAND BUSINESS

With 90 companies from diverse sectors in our portfolio, we know an ambitious business leader when we meet one.

WE ARE WHERE YOU ARE

Our teams are based in 12 locations across the UK, which gives us a different perspective to other private equity houses.

WE ACTIVELY ADD VALUE

We help increase shareholder value for our portfolio companies through our Value Creation Partners team.

LDC has been working side-by-side with FDs and CFOs to deliver ambitious growth strategies for over 40 years. [Discover more about private equity at www.ldc.co.uk](http://www.ldc.co.uk)