



Get More than Money from Private Equity

Ultimately, you want to grow your business, not simply sink money into it. Find the right partner who shares that view.

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Because there is so much capital available today in the form of debt and equity capital, fast-growth companies have options like never before. The excess supply of capital is driving the cost of financing to very attractive levels for entrepreneurs. As a result, many of the most sought-after companies aren't just choosing whether or how much capital to take on, but they have the luxury of selecting from a number of potential investment partners.

When it comes to picking a private equity partner, it's rarely the amount of money or the cost of that capital - that is, the amount of ownership they will have to give up in exchange for the capital - that is the final consideration. Valuation is important, but there are other factors involved, not least of which being finding a private equity partner that can accelerate growth and help maximize the long-term potential of a business.

A catalyst for success

Consider the case of NightHawk Radiology Holdings, Inc., a Southern California-based provider of off-hours radiology services to radiology groups across the United States, primarily overnight and via the Internet, from locations in Zurich, Switzerland, and Sydney, Australia.

The business quickly took off (more than 200% per year in its first three years in business) and a more robust infrastructure was needed - as was the capital to fund its build-out. NightHawk's founder, Dr. Paul Berger, began meeting with private equity firms with the initial objective of raising capital at the lowest possible cost. After a series of discussions with potential investors, the NightHawk team realized the right financial partner wasn't simply one with deep pockets; the company needed a backer who could help the company think strategically. Its executives also needed to develop a framework for evaluating and executing acquisitions that would further NightHawk's growth strategy. The company selected a private equity firm that offered \$25 million - and experience working with dozens of companies that had faced a similar set of strategic and

operational challenges that frequently accompany rapid growth. Eventually, with the help of the equity firm, NightHawk went public in February 2006, raising \$100 million.

Choosing a Partner for Growth

As NightHawk's experience shows, entrepreneurs should consider more than the cost of capital (i.e. valuation) in selecting a private equity partner. Companies should also pay careful attention to the track record and reputation of the firm. Don't hesitate to interview entrepreneurs and management teams who have partnered with the investors in the past. Does the firm have a steady hand in good times and bad, regardless of economic cycles? How experienced are the firm's partners? Will it provide you access to a strong network of strategic partners, other experienced entrepreneurs, senior managers, and potential board members? Can their involvement raise your profile with investment bankers, accountants, and other professionals?

Entrepreneurs should also evaluate the stability of the private equity firm's strategy and personnel. Has the team been together for a long time? Are the same people likely to remain involved in portfolio companies throughout the relationship? Other factors that may play a role include the depth and breadth of a firm's investor base and its partners' knowledge and experience in specific industries.

It is important not to underestimate the importance of chemistry. Spend time with potential investors and evaluate them on a personal level. Ultimately, your investors should be one of your most valued business partners. A successful private equity investment is a long-term relationship that addresses the most fundamental strategic issues your company.