

# PRIVATE EQUITY FINANCING

Its advantages for companies looking for capital and for the providers of capital

Charles B. (“Chuck”) Loewen  
Loewen & Partners

Ukrainian Chamber of Commerce  
February 21, 2006



LOEWEN  
& PARTNERS

# Changes in the Financial World

- The advent of in-depth investment research
- The expansion of the investing institutions
- The unfixing of stock exchange commission rates
- Great stock market and hi-tech run up.  
1994-1999
- The rise of the private equity market



# Experience in Ukraine and the FSU

- Pre Perestroika and Perestroika 1987-1990
- Canadian Fracmaster in Russia 1989
- UNP and Pansmak in Poland
- Ukraine Enterprise Corporation 1994-2001



# Sources of Capital For Growing Companies

---

- Banks
- The Public Market
- Private Equity Investors
- Angel Investors and other Sources



# Your Friendly Banker

---

- **Pros**

- Not looking for equity, no dilution
- A relatively low rate of interest

- **Cons**

- Your bank requires good security
- Tough terms and conditions; likely to be enforced
- If in default your loan likely to be called
- Bankruptcy is tiresome and expensive

*Bank financing is the way to go so long as your business has little or no risk.*



# Ways to the Public Market

---

- An IPO (Initial Public Offering)
- An RTO (Reverse Take Over)
- A capital pool



# The good work of the Securities Commissions - and unforeseen effects

- Full true and plain disclosure
- The issue of inside information
- What is in a prospectus and what isn't
- The difference between providing information and selling an investment opportunity.



# The Public Market

## Getting your shares listed

---

- **Possible Advantages**
  - If your company is in one of the three industries investors currently love – fine.
  - If you can get investment analysts to follow and recommend your stock – fine.
- **Drawbacks and Risks**
  - Financing costs: legal, accounting and other professional fees.
  - Commission rates higher for small cap financings than for major corporations
  - The annual costs of being public
  - The importance of float and the unfortunate effects of no market following
  - Implications for future financing
  - Shareholder relations and implications for the CEO

*Once your market capitalization is over \$100 million, a public market will be to your advantage.*



# Private Equity Financing

---

## Types of “Private Equity”

What “Private Equity Financing” means

### Forms

- Straight forward common shares
- Preferred shares
- Convertible preferred shares or preferred shares with warrants
- Mezzanine financing; debt with an equity kicker
- Convertible debentures, debentures with warrants and other variations



# Who are the Providers of “Private Equity Financing”?

---

- Friends and family
- Angel investors
- Professionally managed pools of capital
- Strategic investors
- The varying specialties of different pools
- The varying sizes of the pools of capital
- Characteristics of their managers



# The Cost of Money

---

- Depends on the degree of risk
- Your bank is a lender – requiring security – not an investor
- The private equity fund is an investor
- The bank's interest rate: prime (currently 5.25%) plus some add-on; perhaps 8% overall
- The private equity fund looks for a rate of return, usually over a 5-year period.

## **The Key Consideration:**

*How great the capital appreciation that you will get on your stake in your company, after all costs, as a result of the infusion of capital.*



# Mezzanine Financing

---

- The pros and cons of the various possible structures
- The advantages and disadvantages of leverage
- Timing and exit



# What private equity pools of capital look for

---

- When structuring an investment arrangement, a fair valuation of your company as it stands today
- A reasonable rate of return on the capital they invest and a way of getting there.
- Confidence in you and belief that they can get along with you even though you have control
- Ways to mitigate risk

*Their focus is on the risk/return ratio*



# Private Equity Risk Mitigation

---

- Careful analysis of your company's business
- Financial modeling and projections
- The importance of modeling and projecting cash flow
- Understanding possible exits



# The Advantages for you of Private Equity Financing

---

- A safer way of financing than bank borrowing if there are risks in your business – and as in most business there are.
- Low cost relative to a public offering
- The costs of financing are in effect paid on closing by the supplier of capital
- Flexibility in capital structure
- The investor has a stake in your success and it is in his interest to help you all he can
- No dealings with corporate or governmental bureaucracy required



# How to Organize for a Private Equity Financing

---

- Get a capable agent or advisor to assist you. The agent must be registered with the OSC.
- Be sure your agent has good contact with the type of capital pool likely to be interested in your company.
- Try and get your administrative bookkeeping in good order.
- Have a business plan and a forward looking financial model
- Be sure you have confidence in the ability, experience and reputation of your agent when you sign your engagement letter.



# Loewen & Partners

---

- Corporate finance advisory firm
- Four Loewen partners, all highly experienced
- Serving emerging growth companies
  - Dedicated to the private equity market
  - Matching clients with the right institutional investor – financings and sales
  - Private placements - \$5 million to \$30 million



LOEWEN  
& PARTNERS

*Our reputation is built on quality and integrity*