

## Need Cash to Expand? Call Private-Equity Investors

by Galen Gruman

### A Helping Hand For Latinos

Recognizing that only 5% of U.S. Latino businesses receive VC funds, the U.S. Hispanic Chamber of Commerce created a \$75 million fund devoted to this overlooked group. Targeted industries include telecom, franchising, hospitality, and financial-services firms.

**F**OR MANY small companies outside the high-tech sector, the dot-corn IPO boom has dashed hopes of going public. "It's the backhand of the dot-corn craze: Investors have abandoned brick and mortar for brick and click," says Paul L. Schaye, managing director of New York City's Chestnut Hill Partners, a five-year-old M&A advisory firm that specializes in private-equity transactions for small and mid-sized companies. "It has forced them to look for alternative exit strategies and seek new sources of expansion capital."

One overlooked money spigot is the huge private-equity market, according to Schaye. More than 800 private-equity firms nationwide manage funds capitalized at \$85 billion for institutional investors. In a recent interview, Schaye, whose firm has helped 40 small companies raise \$600 million in private-equity capital, told FSB how such financing works.

#### How are private-equity funds different from venture capital funds?

They back mature businesses in sectors that VCs typically aren't interested in—from restaurants to manufacturing—and provide very-late-stage expansion capital. Private-equity funds are also willing to dole out larger sums of capital than their counterparts. The sky is the limit. In return, they seek annualized in-

vestment returns of about 25% to 30%.

#### What kinds of businesses are private-equity investors most interested in?

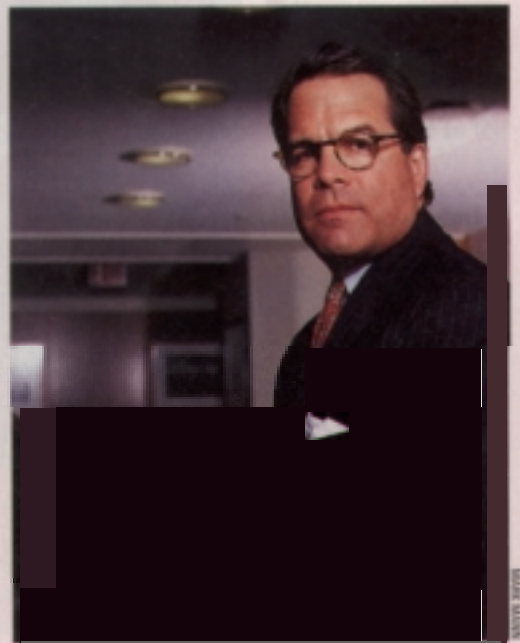
Those with unique products and services that have a competitive advantage in their industry. The investors look at companies that have a minimum of \$15 million in annual revenues, a diversified customer base, and healthy profits.

#### When should a CEO consider a private-equity buyout over a merger or a total sale of his firm?

It's an option for anyone who doesn't want to leave his legacy to a competitor. More often than not, it's the retiring founder's archrival who makes a bid to merge or buy the business. Most of my clients don't want to open their kimonos to their enemies. They are also afraid that such a buyer will dismantle their business after the sale and destroy their legacy.

#### How are your buyout deals different?

We can arrange them in a variety of ways to suit the needs of the entrepreneur. If he wants to sell all of his holdings and retire, we find a private-equity firm willing to buy him outright and continue to run the company. If the CEO still wants to run the business and just get some cash off the table for retirement, we find a



Schaye: helps brick-and-mortars find capital

firm that will buy either a majority or minority equity stake and let him do just that.

#### So how do you find the right private-equity firm?

It's tough to do this on your own, because these funds are hard to find, and each has a different set of investment criteria. The quickest route is to go to a firm like ours. We are called originators, because we are deal matchmakers. We have a database that monitors the portfolios of private-equity funds, so we know what types of deals they are looking for. That facilitates the process and enables us to complete deals in 90 days. Our fee is 1.5% of the amount of money raised.

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