



AMBITIOUS ENTREPRENEURS: EXPLODING THE MYTHS OF PRIVATE EQUITY FINANCING

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Many business owners misunderstand how private equity works. A common fear is that investors will enter at a low valuation, take control, and capture most of the gains at exit. In reality, well-structured private equity partnerships often increase an owner's final payout by providing capital, expertise, and strategic support that accelerate growth. To evaluate whether private equity is the right path, it is important to understand how these firms operate, how control is shared, and what owners can expect throughout the investment cycle.

PRIVATE EQUITY BASICS

Private equity firms invest in privately held companies with the objective of helping them grow and eventually selling their stake for a profit. Funds are raised from limited partners (such as pension funds, endowments, and family offices), while general partners manage the fund and make investment decisions.

Private equity investments typically fall into three categories:

1. Venture Capital

- Funding for early-stage or emerging companies with strong growth potential. These investors expect rapid scaling and may provide operational guidance, industry expertise, and connections to talent and customers.

2. Buyout or Acquisition Financing

- Investors purchase a controlling interest in a company, often bringing in new leadership, improved systems, or operational best practices. The goal is to enhance profitability, streamline operations, and position the company for a future sale.

3. Expansion Capital (Merchant Banking)

- Growth financing for established businesses entering new markets, launching new products, or expanding operations. Owners typically maintain majority control while leveraging investor resources.

SHARED CONTROL: WHAT OWNERS NEED TO KNOW

Partnering with a private equity group does not automatically mean losing control of your company. Many owners retain significant equity and continue to manage day-to-day operations. In many cases:

- Selling less than 50% typically preserves full operational control.
- Even when selling a majority stake, owners can negotiate governance terms to retain decision-making authority on key strategic issues.
- Private equity firms want the business to succeed because their returns depend on it.

A well-structured partnership aligns incentives, allowing founders to share in the value created during the next phase of growth.

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DISPELLING THE MYTH OF THE “EARLY EXIT”

Another misconception is that private equity firms seek a quick turnaround. While exits are necessary for investors to realize gains, most firms plan to hold investments for five to seven years. During this period, they invest heavily in growth, talent, and infrastructure. When it is time for a sale, owners typically have several options:

- Buy back shares using bank financing
- Partner with a new private equity group for the next growth phase
- Pursue a strategic buyer in the industry

Rather than limiting options, private equity often expands them, giving owners flexibility at each stage.

BEYOND CAPITAL: THE IMPORTANCE OF EXPERTISE

Obtaining a fair valuation is essential before accepting outside investment. A qualified valuation professional can provide an objective assessment of the company’s worth and help owners negotiate from a position of strength.

However, valuation is only one part of the decision. A high offer from the wrong partner may create friction or unrealistic expectations. Strong private equity partners typically:

- Understand the company’s industry and competitive environment
- Share the founder’s long-term vision
- Bring operational expertise and strategic insight
- Provide access to networks, talent, and customer relationships

Many private equity firms specialize in particular sectors, giving them firsthand knowledge of industry cycles, common pitfalls, and proven growth strategies. This expertise can help a company scale faster and more effectively than it could on its own.

CLARIFYING YOUR GOALS

Before engaging with investors, owners should review their strategic direction and assess how private equity aligns with their long-term vision. Key questions include:

- Do you want to scale faster than organic growth allows?
- Are you preparing for succession or partial liquidity?
- Do you need additional leadership, talent, or operational structure?

Understanding your desired outcomes will help determine whether private equity is the right partner for the next stage of the business.

CHOOSING THE RIGHT PRIVATE EQUITY PARTNER

Choosing a private equity partner comes down to alignment, transparency, and trust. Ask questions that reveal how they work, how they support management, and what strategic value they add beyond capital. Focus on their operational involvement, team structure, approach during challenging periods, industry expertise, and investment timeline.

These conversations help you look past the dollars and determine whether a firm is truly equipped to be a long-term strategic partner.