Should You Sell Your Company to a Private Equity Firm?

I am often asked by owners in the electronics industry about using private equity (PE) firms as potential buyers. It's true that PE firms have completed a lot of deals in the PCB and EMS industries over the years. In fact, two of the largest U.S. PCB shops—Summit Interconnect and AdvancedPCB—are owned by private equity firms, as are EMS companies, including Creation Technologies, SMTC, EmeraldEMS, East West Manufacturing, and others. More than half my deals are with PE firms, either as buyers for our sell-side deals or as clients on acquisition projects.

There are **several different types of private equity firms**, including those with a dedicated fund, family offices funded primarily by a wealthy family, and fundless sponsors, which are groups or individuals backed by investors or funds. Besides PE firms, many deals are completed by public and private corporations, and by wealthy individuals. In general, PE firms have trillions of dollars under management and are involved in deals in just about every sector in the economy. These firms amass their money by taking a bit of allocation from everyone: pensions, insurance, 401Ks, university endowments, and wealthy individuals. It has added up to an enormous and growing amount of money.

So, should you sell to a PE firm? I believe there are **several good reasons**. First, they account for approximately half the deals in our sector. Without PE firms, fewer deals would be completed and the deals would be at lower valuations. PE firms are bullish on the PCB/EMS sectors due to the tailwinds for the industry, including reshoring, the expansion of electronics into everything, government support/CHIPS Act, and robust U.S. military budgets. They have cash burning in their pockets and are likely to do deals to grow their portfolio companies.

PE firms generally supply growth capital to help companies expand via acquisitions and CapEx. They can provide ways to improve operations due to their experience in a variety of industries. Professional growth and job training are important strategies for their companies. In general, they have extensive networks that can help open doors to new customers and markets. In my experience with private equity, most of our deals have been successful, and we have **many positive stories about PE firms** in the industry.

Before selling to a private equity firm, it is important for a company's owner to understand the strategy and policies of the buyer. That is true with any buyer, however, PE firms typically have the **following common strategies**:

- **Equity ownership for the founder and top management team.** The seller is usually encouraged to keep some "rollover equity" in the company, usually 10–30%. This is to try to keep the incentives aligned for both the seller and buyer.
- **Growth through acquisitions and sales expansion.** PE firms generally do not rest on their laurels. They want to grow substantially and quickly.
- **Operational improvements.** They may not immediately throw the baby out with the bathwater, but they generally want to improve operations, margins, reporting, and other characteristics of the business. This may involve bringing in outside talent.
- **Reporting requirements**. PE firms expect a lot more data more quickly than most owners are used to. The firms have to report to their investors and they like to use data analysis to find ways to improve businesses.

Some owners do not want to sell to private equity firms. As with all stereotypes, there can be some truth in their reasoning, but my experience has generally been for very good outcomes. I have completed deals with all types of buyers, but I've also had deals fall apart for several reasons. I have not found a reason, in general, to eliminate any category of buyers based on stereotypes—except those buyers who do not have any money, and we can for sure, eliminate those buyers.

However, there are **several reasons not to sell to a PE firm**. If a business is not prepared it can be a difficult transition. For example, if a company has several family members and is run like a country club, it is probably best to make improvements before selling.

If the owner has not delegated and/or has not developed a management team, it will be tough to move on to new ownership. Also if the company experiences a lot of ups and downs, for example, a capital equipment manufacturer, it might be difficult to take on too much debt, which is a feature of many private equity deals.

In all cases, it is important to sit down with a buyer and **make sure your strategies are aligned**. There are thousands of PE firms and many additional thousands of other potential buyers, so the right match should be out there. Even if the business owner is not prepared, they may still sell, but the buyer will reap the benefits of any improvements.

As always, be sure to prepare the business, yourself, and your team for the sale process. This will increase the odds of a successful deal and make things go more smoothly, no matter who the buyer is.

*Thanks to our US-Partner **Tom Kastner** – he generously allowed us to publish his article.*

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Vienna, December 2024