

Private Equity Investment Spectrum

About Private Equity Investments

“Private equity” is a generic term covering investments predominantly in unlisted companies in various stages of their development. It is used to describe investments ranging from seed or start-up capital to later stage development capital to management buy-outs and buy-ins. Private equity investment is often in the form of direct equity but may include mezzanine financing or a combination of equity and debt. The major portion of the investment return is usually realised when the company or business is sold or listed on a stock exchange.

The three main types of private equity are described below:

Private Equity Investment Stage	Definition	Characteristics
Venture Capital	<p>Finance for new companies with undeveloped products or revenue. Investment is usually split into two groups:</p> <ul style="list-style-type: none"> Seed Stage – finance for research and development of a business concept. Start-up stage – finance for product development and initial marketing. 	This is a high risk investment as the company does not have a proven track record of profits and management.
Expansion/Development Capital	<p>Finance for the growth and expansion of a company with a trading history. The funding is often used to expand products, distribution channels or to provide additional working capital.</p>	This is a medium risk investment as the company has a track record of revenue and management experience.
Management Buy-outs (MBOs) / Management Buy-ins (MBIs)	<p>Finance for the purchase of a division or subsidiary from a mature company with established business plans, revenue and solid market share. An MBO is funding for the acquisition of a company by its existing management whereas an MBI involves bringing in an external management team.</p>	This is a lower risk within the private equity spectrum as the division or subsidiary is generally part of an established and mature company.

In addition to the three main sectors above, private equity investment incorporates many other sub-sectors that may include: pre IPO funding; private placements by small public companies; “turnaround capital” or “distressed asset investing” which enables a company in trouble to be rescued; public to private acquisitions in which “unloved” public companies are privatised; and a straight purchase of an equity position from an existing Investor. All these various styles of investing are opportunistic in nature and seek to exploit inefficiencies in the capital markets.