Private Equity Minority Investments: Sharing Control in Closely Held Private Family Firms

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✔ Verified Book of Private Equity Minority Investments: Sharing Control in Closely Held Private Family Firms

Summary:

Triggered by the financial crisis starting in 2007, the private equity industry has entered a new investment cycle characterized by more conservative capital structures. As acquisition prices of target companies have remained comparatively high, the equity tickets to acquire control ceteris paribus have increased. In addition, deal flow of high-quality assets has reduced. In search of new investment opportunities, a number of private equity funds have broadened their focus to include minority investments. At the same time, the new market reality has led some owners of family firms to consider partnering with private equity funds to gain access to capital, as well as professional expertise, experience, and business contacts. Despite potential mutual benefits, minority investments carry considerable potential for conflicts between the business partners. In the absence of privately negotiated legal tools, private equity minority investors who invest in closely-held private family-controlled firms risk ending up with an economically significant investment with no de facto voice and control. In case of under-performance, they have hardly any ability to intervene or exit the investment. This study explores the possibilities and limitations of statutory and privately negotiated legal tools and arrangements that minority investors can use to protect their interests, to reduce the probability of opportunistic behavior by controlling shareholders, and to enhance their influence both at the shareholder and the board of directors level. The focus of this legal analysis is on voice and voice-related mechanisms or rights. Voice is gaining importance as private equity investors increasingly focus on strategic and operational value creation in addition to or instead of leverage effects. Voice helps ensure that the value-enhancing strategies devised at the outset of the investment are implemented as planned.

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