PE Industry

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LBO's have received a terrible rap as it leaves the target company burdened by the extra leverage placed on their books while the PE owner exits their investment with bags of cash.

It only really works when the PE buyer purchases the company at low multiples and then they exit when the market picks up and they leave at a higher multiple. So in theory, the PE could make no changes to the company but still earn an attractive return through help from the market.

In order for the PE firm to create value add, so that they could exit their investments at the same entry multiple while realizing a reasonable gain, would require the PE to 1) dispose assets, 2) reduce headcount, 3) reduce expenses, 4) expand recklessly.

I believe turnaround specialists are no different, except they may deal with more dire condition companies than the typical PE target. It is a lot of gutting and selling off, rather than innovation and value added services.

We don't want to inoculated by the PE mindset. Rather, we want to acquire businesses with the mind of an entrepreneur. We want to build lasting businesses like Warren Buffett.

Surely, one could operate like the typical PE firm – in and out after 5 years with no regards to long term growth. But we want to approach investments in a more ethical and long term approach.