Ads by Adel
PUBLISH Tokenize Your Content
Monetize content and grow communities

Ron Bauer Explains How Private Equity Creates Profits for its Investors

Monday, March 2, 2020 1:26 AM UTC

The global value of private equity rose from $28 billion in 2000 to $502 billion in 2006. Of course, with this massive rise in value and private equity firms' reputation for dramatically increasing the value of their investments, interest in private equity has increased. The ability to receive high returns is attributed to several key factors.

As a venture capitalist, entrepreneur, investor, and business owner, Ron Bauer knows all about private equity and how it can turn a profit for its investors. He shares some of his best insight into why private equity is causing so much buzz in the financial industry.

What is Private Equity?

Ron Bauer explains that the simplest definition of private equity is shares representing ownership of an interest or entity that is not publicly listed or traded. As a source of investment capital, private equity derives from high net worth individuals (HNWIs) and firms that purchase shares of private companies (PE Firms). Larger pockets tend to dominate the industry, as the minimum amount for a firm or fund can start at $250,000, but can go up to millions. While the firms credited with creating private equity — the American Research and Development Corporation and J.H. Whitney & Co. — date back to 1946, the methods are as old as capitalism itself. Today, private equity has a global value of over $2.58 trillion in global assets under management.

Ron Bauer explains that the motivation behind such major commitments is, of course, a return on investment. Partners at private equity firms raise funds and manage this money to yield favorable returns for their shareholder clients — typically between four and seven years. Of course, the firms themselves also need to make money and have fee structures that vary. Each private equity firm typically charges both a management fee and a performance fee. Of course, this is how PE firms make money, but what about investors?

Buyouts and Venture Capital

Two private equity investment strategies are leveraged buyouts and venture capital investments. Ron Bauer explains that both of these have to do with taking an equity investment in a young firm in a less mature industry (like Beyond Meat, for example). Private equity firms will often see that potential exists in that industry, but the company itself lacks the revenue, cash flow, and resources to achieve it. Additionally, private equity firms will guide the target firm's inexperienced management along the way, adding as much value to the company as possible. By increasing operational efficiencies, private equity firms are therefore able to increase the overall value of the firms. This increase in value is not only good for the companies themselves, but for the private equity firms.

Buying Low and Selling High

Ron Bauer explains that the fundamental reason behind private equity's growth over the past two decades can be attributed to the firms' standard practice of buying businesses and, after steering them through a period of rapid performance improvement, selling them. If a private equity firm is able to generate an increased profit of, let's say, 25% every year for three years, it is very profitable for them to sell it at this increased rate. It is also interesting to note that private equity funds are organized as private partnerships and pay no corporate tax on capital gains from businesses, whereas public companies are taxed on such gains at the normal corporate rate.

Ron Bauer's Final Thoughts

Private equity firms provide the benefit of outsized returns to investors who

Ads by Adel
PUBLISH
Tokenize Your Content
Monetize content and grow communities
Blockchain-powered publishing system

Market Data

Financial Markets by TradingView

Ads by Adel
PUBLISH
Tokenize Your Content
Monetize content and grow communities
Blockchain-powered publishing system

Most Popular

1. Amorepacific to unload a 60% stake and sell to AUTAJON to further deepen their partnership and find new business opportunities.
2. The newly disclosed terms and conditions are drawing market attention since Nike sneakers shoes are now spearheading the reselling market.
3. Google, Apple, and other tech titans took up the bulk of sales of 209 foreign tech companies that filed corporate tax returns in 2021.
4. The Bay store underlines AC Milan's innovative spirit.
5. EA sees a 'tremendous opportunity' for 'Battlefield' if Microsoft removes 'Call of Duty' from PlayStation
6. Kyobo Books is buying Watcha OTT platform to expand its business to content and streaming service.
7. As a global partner and the Bulls' exclusive smartphone, the Chicago-based Motorola will also gain inventory across the Bulls' digital assets and their United Center home.
8. LootMogul believes its ability to draw Online 2.0 gamers and sports fans to Web 3.0 environments will be a huge competitive advantage.
9. BHC Chicken is bringing its brand to Singapore and

are willing to tie up their money in the long term. Since the returns do not trade, they are not subject to the roller-coaster ups and downs of the financial market.

If you are looking to learn more about investing in a private equity firm, Ron Bauer suggests seeking out an expert in the field rather than conducting your own research and potentially choosing the wrong opportunity.

This article does not necessarily reflect the opinions of the editors or management of EconoTimes.

Editor's Picks

Japanese government luring young adults to drink more alcohol

5 ways to deal with burnout at work

How monkeypox epidemic is likely to play out – in four graphs

The metaverse isn't here yet, but it already has a long history

What is a semiconductor? An electrical engineer explains how these critical electronic components work and how they are made

Samsung to use NFTs for offline shopping rewards

US: Joe Biden signs Inflation Reduction Act into law

Astronomers have detected one of the biggest black hole jets in the sky

What science says about the best ways to cool down

Malaysia to gradually expand overseas.

10 Taiwan's Mainland Affairs Council said only the Taiwanese people get to decide the nation's future.

EconoTimes
54,090 followers
Follow Page
Contact us

EconoTimes
on Wednesday

US President Joe Biden warned his Chinese counterpart Xi Jinping that aiding Russia in its war in Ukraine would be a "gigantic mistake." Biden cited that China would be potentially violating the sanctions the West has imposed on Russia.

ECONOTIMES.COM
US: Joe Biden warned Xi Ji...
US President Joe Biden warned hi...

Like Comment Share

Back to Top ▲

©Elmin Media 2022. All Rights Reserved. By using this site, you agree to the Terms of Service, Privacy Policy, and Cookie Policy.

About us Advertise with us Contribute Contact Us

Disclaimer: EconoTimes provides references and links to selected blogs and other sources of economic and market information as an educational service to its clients and prospects and does not endorse the opinions or recommendations of the blogs or other sources of information. Clients and prospects are advised to carefully consider the opinions and analysis offered in the blogs or other information sources in the context of the client or prospect's individual analysis and decision making. None of the blogs or other sources of information is to be considered as constituting a track record. Past performance is no guarantee of future results and EconoTimes specifically advises clients and prospects to carefully review all claims and representations made by advisors, bloggers, money managers and system vendors before investing any funds or opening an account with any Brokerage. Any news, opinions, research, data, or other information contained within this website is provided as general market commentary and does not constitute investment or trading advice. EconoTimes expressly disclaims any liability for any lost principal or profits without limitation which may arise directly or indirectly from the use of or reliance on such information. As with all such advisory services, past results are never a guarantee of future results.

EconoTimes. Elmin Media LLC. All Rights Reserved. | 17 Seonyu-ro 49-gil, Yeongdeungpo-gu, Seoul, South Korea
Newspaper Registration No. Seoul A04906 | Registration Date. 2018.01.02
Publisher/Editor. Sungmin Kwon | Juvenile Protection Manager. Seokjin Yoon
Tel. +82.2.6332.2245