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# Ron Bauer Explains How Private Equity Creates Profits for its

## Investors



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attributed to several key factors.



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





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











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







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





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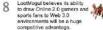




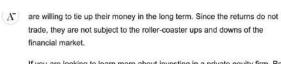












If you are looking to learn more about investing in a private equity firm, Ron Bauer suggests seeking out an expert in the field rather than conducting your own research and potentially choosing the wrong opportunity.

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