

## Private Equity Financing for Public Companies

Public companies pursue private placements for a number of different reasons, including funding internal growth, accretive acquisitions, recapitalizations, reorganizations, or buyouts of large shareholders. A company might want to clean up its balance sheet by getting rid of expensive debt or expand its institutional ownership by monetizing large restricted stock position(s), in which case a traditional underwriting might not be available or a viable alternative. Depending on the then current market conditions, a private financing might be a more attractive option to a company than a public financing from a pricing standpoint.

### Speed and Confidentiality

The greatest benefits of private equity financing for public companies versus traditional underwriting activity are speed and confidentiality. Underwritten offerings and related "roadshows" can take anywhere from one to three months to complete, depending on current market conditions, keeping company executives away from the office and compromising their ability to effectively manage their companies growth. In the past Reedland has completed private equity financings of \$25 million and up in as little as a week, in which timeframe most issuers contemplating an underwritten offering are still courting different investment banks or negotiating lengthy underwriting agreements and related covenants. Almost all of our transactions have been completed within 30 days of our engagement by the company, in which time frame most issuers proceeding with an underwritten offering have only just filed their initial registration statement and are gearing up for their roadshow and two or three weeks of investor presentations, slideshows and cocktail receptions.

### No Syndication

Perhaps the biggest difference between Reedland and other placement agents (including many larger Wall Street investment banks) is that Reedland typically does not "syndicate" its private placements to a large number of investors than is suitable to the overall size of a particular transaction. Our long-standing relationships with our investors and portfolio managers gives us a unique ability to identify appropriate institutions for a particular issuer and structure, so time is not wasted on unsuitable prospects and we can maintain the confidentiality of the offering.

Generally speaking, for a financing of up to \$25 million, we will only place one investor in the transaction. For financings above \$25 million, we will not place more than two or three investors in the transaction and will only pair investors who have worked together in the past. In our experience, placing the fewest number of investors in a transaction facilitates more candid communication between the investor(s) and company management regarding their respective expectations, keeps the transaction confidential, and creates a more efficient and responsible exit strategy for the investors, thereby maintaining the overall integrity of the transaction and maximizing shareholder value.

In contrast, in a typical \$20 million financing, many competitor placement agents will contact 10 to 15 investors in order to find four who will each put in \$5 million. In addition to the obvious challenges this creates in terms of keeping the transaction confidential (essentially, the proposed financing is no longer truly "private") this philosophy creates additional problems for issuers seeking to expedite closings (particularly since there are additional parties with whom to negotiate specific terms and covenants). Also, depending on how the transaction is structured, this can actually incentivize investors to resell or hedge their securities more aggressively than might be appropriate.

### Quality Investors

Another differentiator between Reedland and much of its competition is the size and quality of the institutional funds we represent. We only work with large, qualified and experienced institutional investors who understand the sectors in which our corporate issuers operate. The smallest fund we deal with has approximately \$300 million of managed assets and the average size fund we work with has over \$700 million in managed assets earmarked for private equity deals. Many of our competitors utilize, from time to time, small funds consisting of \$50 to \$75 million in managed assets. The

problem with funds of that size is that a \$10 million financing would effectively constitute a significant portion of the fund's total portfolio. Consequently, a fund manager of one of those funds may feel significant pressure to turn that investment in six months (notwithstanding his representations to the contrary at the time the deal is being negotiated) which, again, could have a very negative impact on the stock price. With a \$600 million or \$700 million fund, a \$10 million placement is still an important investment, but it is not so material in size that it would create the same pressure to dispose of the investment quickly. Accordingly, the investors we work with are much more likely to hold their positions for 18 months to two years pursuant to an orderly and responsible exit strategy.

## Quality Service & Results

Finally, perhaps the biggest difference between Reedland and its competition is the overall quality of service we provide. We have the ability to arrange financing on competitive terms in virtually any industry in amounts ranging from \$5 million and up. The pricing of our equity transactions varies depending upon the type of investment, the company, the industry and a variety of other factors. We are selective in the transactions we pursue as we spend a considerable amount of time on each project we undertake. Our goal is to establish a long-term relationship with each of the companies that retain us. Because of our size, company management will always be talking to, or meeting with, a principal of Reedland who can make decisions on the spot and negotiate creative solutions to problems if they should arise.