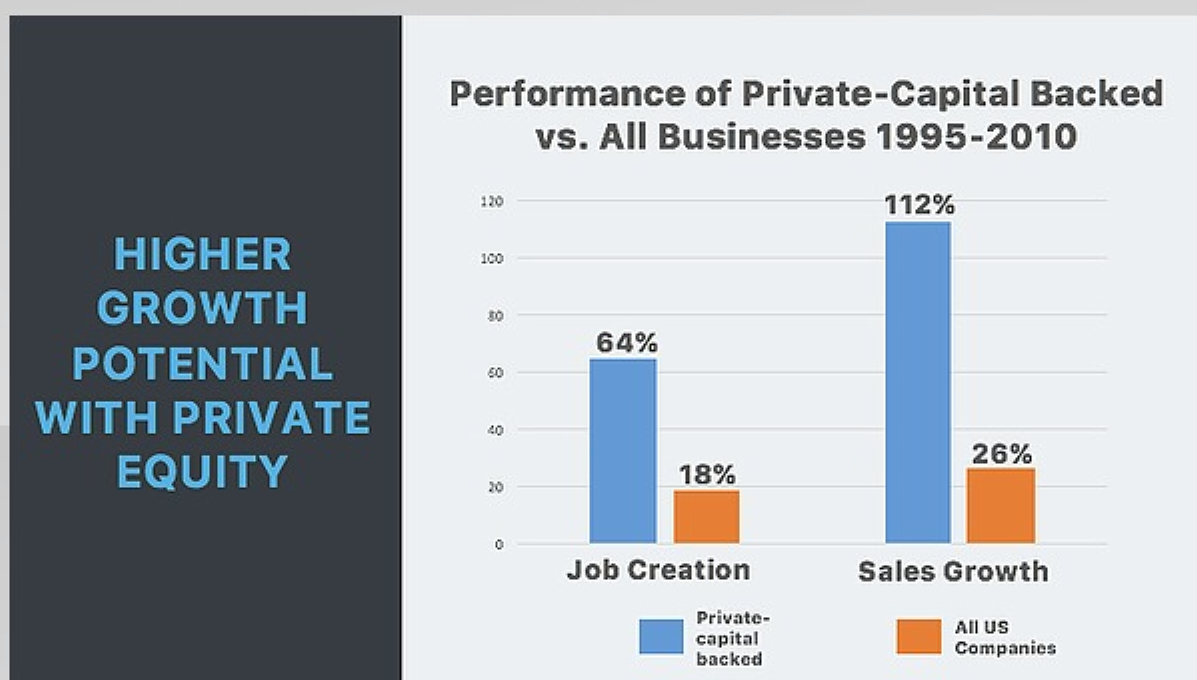
Muir Insights

Debt Is Good

Debt in the structure of an acquisition can significantly increase the returns on invested equity (e.g. 48% in the example below). This helps investors and owners alike.

In a private equity transaction, banks know that private equity firms won't earn a return on their investment – or get debt financing on their next acquisition – if they don't pay the bank back. So banks are willing to provide more debt capital in a private equity supported business than in one owned by an individual.

Typically, private equity firms in the lower middle market manage this debt, and the businesses they acquire, quite prudently. In fact, businesses backed by private capital have outperformed other businesses by a large margin. Results from a study completed by the Association for Corporate Growth confirm superior performance by private-capital backed businesses in job creation and sales growth from 1995 to 2010.



So what does this mean for your business? If you finance your own business, you can use commercial debt to improve the cash flows and income of your business – although you may require a greater cushion than private equity owners as a defense against negative surprises.

On the other hand, if you are selling your business to a private equity buyer, you can expect to have more debt of a variety of types on your balance sheet. And be glad for it. The remaining stock you hold in your business will likely be worth a lot more in the future because of it.