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*Why These Fast-Growing Companies Turned to Private Equity*

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## PE firms get a bad rap. These CEOs partnered with them anyway.

Every time Greg Salario chats with an entrepreneur who's thinking about striking a private equity deal, he hears the same concerns: "I don't want to sell my company to a bunch of a-holes that are going to tell me how to run my company. I don't want to sell my company [to a firm] that's just gonna fire everybody."

**Salario, who co-founded** the medical equipment supplier and repeat Inc. 5000 honoree US Med-Equip, has been there himself. He had similar fears, he says, before he sold a majority stake in 2017 to the Austin-based private equity firm Owner Resource Group.

**PE firms**—which take a full or partial stake in a company and help run it before eventually trying to cash out for a profit—have long been maligned in the public imagination as "vulture capitalists" that strip American enterprise for parts.

**And not without reason.** PE firms have run many businesses into the ground, including Toys "R" Us, which filed for bankruptcy in 2017 after private equity saddled the beloved chain with debt. Even influencer par excellence Kim Kardashian, who two years ago launched her own PE firm, hasn't been able to fix the industry's reputational crisis.

**Still, the right private equity deal** from the right private equity firm can be just what a growing company needs. "They're investing in your success to be

even bigger in the future," Salario says. "They're cheering you on."

**Many Inc. 5000 companies** have used private equity deals to accelerate growth. Consider: The PE firm K1 Investment Management owns a stake in 30 different companies featured on the most recent Inc. 5000 list.

**Some startups** have had such a positive experience that they go back for more. A few years after signing his first private equity deal, Salario inked a second one in 2020 with Freeman Spogli & Co. Ownership of US Med-Equip wound up split between the two PE firms plus the original management team, including Salario, who retained a minority stake.

**Salario** was initially driven to seek outside funding after some of his company's big customers went sole-source. "So," he says, "we decided at that point to take some risk off the table, put some money in our pockets."

**The upsides of taking PE** ultimately proved to be myriad. It wasn't just an immediate injection of capital that allowed him to open more locations than he'd previously thought possible—the deal also helped US Med-Equip develop better relationships with banks and created opportunities to enrich Salario's employees.

"The first time we did a transaction," he tells Inc., "seven people became millionaires."

**For Pam Braden**, who inked a private equity deal with investment firm AE Industrial Partners while she was founder and CEO of the defense contractor Gryphon Technologies, PE offered an opportunity to do some succession planning.

"There were some owners who had some health issues, there were a couple people who felt like they were getting older and wanted to do something else, and some of us wanted to keep going," Braden says.

**From 11 potential partners**, Gryphon narrowed things down to one, AE, which had expertise in the defense industry—a trait Braden says proved vital to their partnership. The two sides struck a deal in late 2018 that gave AE full ownership of Gryphon, although Braden stayed on as chief executive until 2021 (when AE sold Gryphon to ManTech, another defense contractor) to help her company carry out five acquisitions over three years. In doing so, she says, it helped to have a private equity firm encouraging her to think bigger.

**AE Industrial** "had the expertise, they had the knowledge and they knew where to go look for these companies," she explains. "Partnering with people who knew how to do that, knew how to get the financing, knew how to put the deal together, do the due diligence... was just key."

**Whereas Braden** went out looking for private equity partners, Jason Hendren says that PE firms came to him, "banging on the door." Hendren became the sole owner of his light manufacturing firm Industrial Lighting Products during the Great Recession. He was feeling so good about the business that, when an adviser came to him with a pitch from a private equity firm, his instinct was to say: "Buddy, we're not for sale."

**Nevertheless**, he took a meeting with the firm, Pfingsten Partners, and was impressed by how much they knew about his sector. Pfingsten "really had a good pulse on what we do as a lower-middle-market manufacturing company, and they rolled that into an offer," Hendren recalls. "My wife and I were like, 'Whoa, this is life changing.' I'm the first one in my family to go to college; this was a lot of money."

**The deal that ultimately came together** in 2012 left Hendren in place as CEO and with a stake of about 25 percent. Working with Pfingsten, he continued to grow Industrial Lighting Products over several years—the PE firm helped with everything from developing Asian supply-chain partners to going paperless—before it sold to another private equity firm, Harbour Group, in 2017.

**The equity Hendren had retained** after the first PE deal, he says, was worth "significantly more" by the time the second one rolled around. He tells Inc. that the company's revenue nearly tripled, and its profit nearly quadrupled, between the Pfingsten deal and the Harbour Group one.

**The experience** led Hendren to write a book called *Things I Wish I Knew Before I Sold to Private Equity*. One of the main takeaways, he says, is that entrepreneurs need to consider what they want their life to look like once their PE deal is done.

"It's a culture shock, man," he says. "You go from being an entrepreneur to part of some type of externally-owned entity.... And then, when you are ready to walk away from this business, what are you going to do with your time?" "Beyond the monetary value," he adds, "what does this business mean for me [and] my self-worth?"

**It's quite an existential question** for a founder to deal with. Nevertheless, Hendren is very happy with how his private equity deals worked out. "I have no regrets," he says. "Things worked out really, really well for me."