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Beyond IPOs: Crafting Effective Exit Strategies in Private Equity for Family Offices

With a focus on optimal portfolio diversification and robust returns, various market participants, including family offices, are increasingly turning to private equity investments. On a global scale, the quantum of private family capital is reportedly larger than the combined value of private equity and venture capital[1], positioning future-ready family offices as a formidable force in the private equity investment arena. When investing in private equity, the timing and strategy behind the exit is paramount to availing optimal returns.

Leveraging public exit options

Choosing the best exit strategy, during different private equity investment scenarios, can mean the difference between making a profit and facing unnecessary loss. With the right strategy at hand, family offices can ascertain that both goals – maximising returns while minimising the underlying risk exposure – are met effectively.
Firstly, an exit can be made when the company itself goes public, i.e., it begins the process of listing with the intention of attracting investments from the general public. For a family office, this can help free up investment, and potentially result in significant returns. However, this is a complex and time-consuming process, given that, before listing, the company is required to meet a bevy of regulatory norms.
Secondly, family offices can opt for the initial public offering or IPO route, to exit their private equity investments. Akin to the public listing, the IPO will also get the company listed on the index but in this process, the family office will undertake an initial share offering to the public through an Offer for Sale (OFS). When the public bids for, and then purchases the shares held by the family office, they have the ability to exit with optimal returns, while also boosting the liquidity of the underlying company by enabling optimal price discovery.

Considering private exit alternatives

First among the popular private exit routes is trade sale, a process wherein family offices can sell their stake in the company to another investor or company, at a time wherein the invested company has matured in line with the pre-decided target. While this is a common route, it tends to be lengthy and expensive, making it somewhat unappetising to family offices. Alternatively, the company can also be exited through a strategic sale, wherein the family office chooses to sell the company to another, usually more prominent firm. This route enables family offices to circumvent the long and complex process of listing the company and complying with the manifold norms, while still earning robust returns on the investment. Finally, a share repurchase by the company's founders is another less complicated option that family offices can consider. Here, the promoters of the company choose to repurchase the shares issued to private equity investors, thereby helping the latter exit the scenario.

The right choice

Given that each of these routes have their own sets of pros and cons, it is up to the family offices to pick the right mode for their requirements. For instance, if they are keen on optimising returns and do not have a strict timeline on the exit, listing the company or opting for an IPO can be an excellent means to availing robust returns.
Examples of extremely popular IPOs, such as Nykaa, Zomato, ideaForge, etc. indicate the tremendous potential for gains exhibited by the public route. However, if the family office is keen on exiting privately, without complicated compliances, then a strategic sale or repurchase could be the right choice.

Recounting history

While IPOs have become a popular means to exiting private equity investments, the year 2018 was a concerning one for such investors. Owing to a drop in the market, 2018 witnessed the lowest number of PE and venture capital exits,

[1] https://www.forbes.com/sites/forbesfinancecouncil/2023/06/08/family-offices-are-shaking-up-private-equity-venture-capital/?sh=4128a263a681

in three years, via the offer for sale route. Accordingly, PE exits in 2018 were 70.76% lower than those of 2017[2], and this situation forced many investors to remain saddled with their investments, despite crossing their timelines. Even though the markets have recovered robustly since 2018, and we are seeing a rising number of IPOs, such an event could be concerning for family offices, and needs to be taken into consideration while opting for the public routes of exit. After all, the exit decision determines the actual returns that can be earned from the investment.

[2] https://www.financialexpress.com/market/private-equity-exits-through-ipos-decline-70-per-cent-in-2018-1450829/