



Value Investors: 1 Attractively Priced Private Equity Stock

Description

Alaris Equity Partners (TSX:AD) is a Canadian company that provides [alternative financing](#) to a diversified range of profitable, well-managed private businesses throughout North America. The company uses an innovative financing structure that allows it to provide capital in a manner that maximizes valuations, is tax effective and allows existing owners of the private companies to retain business control.

The company's primary objectives are to generate predictable revenue streams from partners and increase cash flow per share both organically and by making accretive investments into new and existing partners. These objectives allow it to pay a predictable and stable dividend to shareholders and generate solid returns on investments that are redeemed.

Attractive cash financing

Alaris provides cash financing to private companies at an agreed upon valuation, in exchange for a pre-determined distribution from such private companies. The company [receive distributions monthly](#) but determines the amount 12 months in advance and adjusts the distributions each year based upon a mutually agreed top-line financial performance measure of a partner.

The company's financing structure is characterized as equity and, as a result, Alaris does not require a principal repayment or return of capital, which allows partner ownership to focus on long-term objectives rather than the short-term objectives it may have otherwise had to focus on with financing from a traditional equity sponsor.

Protective covenants

Alaris prefers the use of common equity in certain transactions so it will enable the company to access additional deal flow and provide the ability to participate in a larger share of a partner's growth. Alaris also uses preferred equity to ensure the investments are cash accretive and remain in-line with the company's strategic objectives.

Generally, Alaris has numerous positive and negative contractual covenants in place with the company's partners to protect distributions. Alaris' prior consent is required for items outside of the ordinary course of business, including incurring new debt over predetermined levels, or any material change to existing debt facilities.

The company's structure allows it to monitor Alaris' partners without needing to be involved in day-to-day business decisions. Through Alaris, private companies are able to access ongoing capital, remain private and maintain direct control of the common voting equity.

Focus on the long term

By supporting management teams that remain fully motivated, through an ownership position, the company's shareholders are able to receive stable dividends from the distributions paid. Alaris does not force an exit strategy upon partner owners at any time. This allows the owners to focus on the long term, rather than short-term goals that are not in the company's best interest.

In addition to generating predictable, stable cash flows from the revenue streams Alaris receives from our existing partners, the company aims to grow cash flows by partnering with more private companies that have similar qualities to the company's existing partners.

Alaris' focus is on private businesses in Canada and the United States that are controlled by individuals which intend to use the capital it provides for growth, acquisitions, generational transfers or partial liquidity. This focus should serve long-term shareholders well.

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1. canada

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