

tl;dr

OSV is building an Australian SMB permanent equity platform because it makes sense. We're looking for investors, businesses, collaborators, and opinionated advisors. DM if any of those is you and you want to know if I'm just full of it, or if there might be some value.

Small and Medium Business Permanent Equity

The concept

Ogilvie Street Ventures (OSV) is building an Australian Small and Medium Business (SMB) Permanent Equity platform. Permanent Equity while technically private equity, is not Private Equity, which brand comes with preconceptions of large investment funds, significant leverage, aggressive growth driven by a massively incentivized, red hot management teams on a buy, grow, and exit paradigm. Permanent equity is about stability, income generation, long-term ownership, and lasting impact.

The OSV, SMB Permanent Equity platform, or more appropriately legacy equity platform is not intended to be your run-of-the-mill investment model. It's about facilitating flexible investor participation to acquire existing, transition ready, small to medium businesses with reliable, growing cash flows, in stable sectors and holding them indefinitely.

These aren't flashy startups; they are resilient cornerstones, established by individuals and families sometimes more than 40 years ago. It's about acquiring these businesses when the owner is ready to exit, systematizing operations, and ensuring a growing income. We're not flipping them; we're nurturing them. It's like owning a diversified portfolio of mini fortresses, each generating income month after month.

It's not a novel concept, there are some familiar names in the large-scale permanent equity space - Berkshire, Blackstone, KKR, Carlyle and at the smaller end of town there are several ventures in the US like Permanent Equity, Enduring Ventures, ValueStreet and SMEVentures amongst others.

The numbers and then some

Small Business Permanent Equity *is definitely* about the numbers; but it's also about balancing fair and attractive returns with preserving legacies and driving business innovation and employment in local communities.

Some of the numbers that make this Australian opportunity attractive:

- **>30%**: The proportion of Australia's GDP contributed by SMBs.
- **>40%**: The percentage of the total business workforce in Australia that is employed in SMBs
- **>140,000**: The number of small to medium businesses between \$2 and \$10m revenue in Australia
- **70%**: The chance that a small business that has survived 10 years will survive the next 10, (as an aside new businesses have only a 30% chance of making it to 10 years)
- **>30%**: potential annual returns to owner/operators
- **4X**: The possible valuation uplift through streamlining the operating model, reducing staff turnover, growing sales, and improving customer retention that can be achieved. All concepts that while likely not scale efficient to implement in a single small enterprise, have material scale benefit opportunities across a portfolio of small businesses.

Australian Business Counts

| Revenue Band | Count as of June 2022 | Employees | Count as of June 2022 |
|---------------------------|-----------------------|---------------|-----------------------|
| Zero to less than \$50k | 699,077 | Non-employing | 1,550,151 |
| \$50k to less than \$200k | 823,844 | 1-4 | 728,759 |
| \$200k to less than \$2m | 856,169 | 5-19 | 227,102 |
| \$2m to less than \$5m | 108,939 | 20-199 | 59,355 |
| \$5m to less than \$10m | 39,227 | 200+ | 4,533 |
| \$10m or more | 42,644 | | |
| Total | 2,569,900 | | |

ABS: 8165.0 Counts of Australian Businesses June 2022

The logic

The risks in acquiring, investing in, and operating small to medium businesses are many, but most can be mitigated through a robust selection and acquisition process and early embedding of low cost, cloud-based systems, and business size appropriate operating models.

Disclaimer: I am not a financial advisor, I do not hold any financial services licenses, and this is not financial advice, these are my views and opinions.

| Hurdle | Mitigation |
|---|--|
| <ul style="list-style-type: none"> × The financials are opaque and convoluted to optimize owner benefits × The owner has all the information in their head × The processes are not documented or if so, have not been updated × Customer management is in the salesperson's head and marketing is ad hoc × Working capital and cashflow management is done by gut feel based on experience × Lack of aligned, motivated management team, post exit of the founder | <ul style="list-style-type: none"> ✓ Normalized and standardized financial reporting during DD and post-acquisition ✓ Material handover period, earnouts and vendor financing ✓ Structured process documentation and maintenance ✓ Low-cost cloud-based CRM deployment ✓ Low-cost cloud-based accounting tools ✓ Install appropriately salaried and incentivized manager to run a business with standardized operating structures deployed across several businesses, with regular reporting to an experienced executive board |

The competition

These hurdles and the relatively small investment stake mean that this niche market has limited competition from highly financed Angel, VC, PE and strategic acquirers, but it's not a blue ocean. Growing activity in the Micro Private Equity space is typically focused on high growth SaaS startups. (A good overview of the concept and US players is provided by [Peter Lohmann](#)). In Australia, funds like Microequities Asset Management's Private to Beyond the IPO Fund, which has a mix of listed and private microcap investments is an indication of interest. The prevalence of Searcher and Search Funds looking for a single, small to medium business with the opportunity to grow and exit in 5-7 years is also increasing.

The money

The success rates and returns of established SMBs mean that one or two investments in long tenured, small and medium businesses should be considered as a diversifying complement to real estate in a forward thinking portfolio. Or indeed, as a counter to the higher risk Angel and VC investments that are seeking the 10x opportunity by investing across a portfolio of at least 40 companies (to offset the ~25% of Angel and VC deal exits that are liquidations) in early stage, high profile sector entities.

Coinvesting in an OSV, SMB permanent equity opportunity would appeal to investors with:

- An investment cheque of between \$300k and \$1m looking for material income and diversification benefits
- An investment horizon of greater than 7-10 years
- Time to get their capital away - closing an amicable, valuable and fair SMB deal takes time
- Sufficient resources to be classified as a sophisticated investor - smart enough to know what you are getting you or your clients into and willing to entertain each investment opportunity with an open and informed mind
- A preference for reliable, risk adjusted, long term income growth
- An eye on optimizing taxable income
- An understanding that the numbers must work out, but it's also that they have been fair to the owner and the staff

But not if:

- You are itching to get a massive investment away, so cheques of >\$10m
- Your preferred investment thesis is to grow and exit within 3 to 5 years
- You thrive on telling your friends about the latest crypto or SaaS startup in which you have invested

The team

Why OSV?

- Experienced principal who will be coinvested
- Leading edge, not bleeding edge business model
- Runway - it will be hard to build momentum and we have time
- We collaborate and take guidance

If, as a potential investor (or indeed advisor to investors), current or prior business owner, curious expert, or founder, you think there is something in this, then let's chat. I'd enjoy a robust discussion.

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