



Is a Management Buyout Right for You?

You are starting to think about taking a back seat, yet you are not sure if the reins will stretch that far! So, you realistically starts thinking about handing over the reins and reaping the equity that you have built up in your company.

Now you are posed with the question...Who do I hand the reins over to? You can hand them over to those already in your business, or someone outside of your business. I have written before about handing a business over to outsiders, but I have not written much about selling to the current management.

Depending on the size of the business, your management team may or may not have the financial resources to pay cash down. If you have a middle market company, the management team can generally find a private equity group that will back them in their endeavor. In this manner the Seller can end up with a cash deal. If you own a smaller business, it may have to be a combination of bank financing and seller financing. In other words, you may not get all your money up front, but over time, with interest! If you have faith in your management team this can be a great investment for the seller. the vision of your management team, and their ability to implement that vision. Do they have what it takes to grow the company to the next level? Are they competent to be at the very top? If the answer to these questions is yes, move on to the next stage.

Stage two is comprised of answering the question: Do they want to purchase the company, and can they and their families support the endeavor?

Stage Three's question is: Can they finance a deal that meets your needs? First determine what your financial needs are if you are to sell the company. Must you have cash all up front, or can you be paid out over time? Depending on your answer, you must then ascertain if the management group can pull together the funds necessary to meet your needs. In many ways, the strength of your company will answer this question. If you have a very strong company, the management team may have the best answer for you in terms of total equity. If your company is mediocre, then the management team may have a difficult time purchasing your company. If your company is weak, you will probably be forced to provide some seller financing.

No matter what, the management team can have less risk for any financial institution since they know the industry, know the specific business, and they are not going to walk out the door if you sell to them like they might with an outside buyer.

Ah...things to think about. We will have to talk later about trying to sell to the management team and an outside team all at the same time, and the grenades to avoid.

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