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WHITEPAPER

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This short white paper suggests five important strategies for completing a management buyout and maximizing management ownership.

Management Buyout

5 Strategies For Maximizing Ownership

By Chris Risey, President, Lantern Capital Advisors, Atlanta

If you are an executive interested to do a management buyout, you likely have two objectives: (1) complete the buyout AND (2) do it in a way that maximizes your personal ownership and control of the Company. Most books and resources provide plenty of information on how to accomplish objective #1 but little on accomplishing objective #2. In fact, accomplishing a buyout where management owns a significant portion of the equity requires some out of the box thinking that can go against the conventional wisdom for financing management buyouts.

This short white paper suggests five important strategies for both completing a buyout and maximizing management's ownership.

LOOK BEYOND TRADITIONAL PRIVATE EQUITY FIRMS: The conventional way of financing a management buyout is with a private equity fund. The problem with that is that most private equity funds often end up owning 90% of the equity in the business. To get more equity, managers need to look at other sources of financing such as specialty debt providers. Specialty debt providers can generally provide more capital than traditional banks but at a higher rate. They also often offer attractive terms like customized repayment schedules and limited or no personal guarantees. Some of these groups may also look to take part of the equity in the company in order to meet their target investment returns but their ownership requirements are usually much less than what private equity groups would require. To give you an example, we recently helped a manager finance the buyout of his division for $7.5 million. The manager ending up owning 27% of the business at the closing. However if the manager hits his three-year

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FINANCE IS NOT AN EXACT SCIENCE! SO GIVEN WHAT IS AT STAKE, IT PAYS TO CAST A WIDE NET. IN OUR TYPICAL PROCESS WE STRIVE TO CONTACT 50 OR MORE CAPITAL GROUPS INCLUDING A VARIETY OF DIFFERENT TYPES OF CAPITAL PROVIDERS. FROM THIS EFFORT WE EXPECT TO OBTAIN MULTIPLE OFFERS WHICH GIVES OUR CLIENT OPTIONS AND CREATES COMPETITION WHICH CAN DRAMATICALLY IMPROVE THE COST AND TERMS OF FINANCING A BUYOUT.

financial projections, that ownership will increase to 43%. In addition, the selling owner retained 12% of the ownership thus giving the manager and the selling owner the opportunity to collectively own 55% of the combined business and control its future if they hit their numbers. (For a more detailed discussion about financing options for buyouts, see our other related white paper, "Creative Management Buyout Strategies."

BECOME PRE-QUALIFIED: Owners often don't take managers seriously when it comes to buyouts, because owners don't believe managers can come up with the funds to buy the business. So, before trying to really explore buyout terms with the owner, have some preliminary discussions with potential financing sources to determine their likely interest level. Your goal is to find one or more financing groups that are sincerely interested to explore funding your buyout, even before the definitive terms of a buyout have been set. We routinely use this approach of connecting early with interested financing sources and we find our clients enter talks with greater confidence and greater clout in the owner's eyes if they already have a few interested financing partners identified.

"I HAVE SEEN THE SPREAD IN FINANCING TERMS BE 50% OR MORE OF A COMPANY'S EQUITY. THIS CAN MEAN THE DIFFERENCE BETWEEN MANAGERS HAVING A CONTROLLING STAKE OR A MINORITY OWNERSHIP STAKE IN THE COMPANY."

DEVELOP WIN-WIN TERMS: Another conventional buyout strategy is to focus exclusively on the price for the Company. Price is certainly important, but there are many other 'deal points' of a buyout such as payment terms, equity retention and future performance that can impact the amount of ownership a management team is able to secure. In fact, I have worked with managers and helped them negotiate buyouts where the price for the Company was actually *higher* than first discussed and the management team ended up with *more* ownership. This is the definition of a true 'win-win' buyout! Win-win buyout terms are developed by understanding the key parameters for each party then adjusting the deal terms in a way that appeals to all groups - the managers, the owners and the financing partners.

PLAY THE NUMBERS: Another common approach in buyout financing is for managers to lock into one financing group very early in the buyout process. If you have time, you want to consider as many financing groups as possible because there can be a big range (or spread) in financing terms and cost. In fact, I have seen the spread in financing terms be 50% or more of a Company's equity. This can mean the difference between managers having a controlling stake or a minority ownership stake in the Company. Finance is not an exact science! So given what is at stake, it pays to cast a wide net. In our typical process we strive to contact 50 or more capital groups including a variety of different types of capital providers. From this effort we expect to obtain multiple offers which gives our client options and creates competition which can dramatically improve the cost and terms of financing a buyout.

DRIVE THE PROCESS: Once you have selected a financing partner and worked out the buyout terms with the owner, make sure to keep driving the process through closing! It may seem odd, but some owners drag their feet during the closing process because they still have mixed feelings about selling the business. Finance groups can also drag their feet too because they are busy working multiple financings at the same time. Once you have deal terms set, you want to move as quickly as possible to close on the deal. The faster you can keep things moving the less likely something is going derail the process, like the owner changing his or her mind or some unexpected interruption to the business. Also your assertiveness during the process will make a favorable impression on your new financing partners.

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So if you are a manager interested to do a management buyout and you really want to maximize your ownership in the process, consider these 5 (unconventional) strategies. If you want more information on these steps or want to discuss how we can help you and your team, please contact us. We believe in the strategies discussed here and we use them everyday to help our clients maximize their ownership and get the most out of their opportunity.

CONTACT LANTERN CAPITAL ADVISORS

To learn more about Lantern Capital Advisors and corporate financial planning for your company please visit our website www.lanternadvisors.com.

About The Author

Chris Risey

Chris Risey is the founder and President of Lantern Capital Advisors, an Atlanta-based financial consulting firm that specializes in helping successful entrepreneurial companies finance growth, acquisitions and management buyouts. Since its formation in 2006, Lantern Capital Advisors has helped clients develop strategies and fund their Company to drive growth, increase value, and accomplish important goals.

Prior to founding Lantern Capital Advisors, Mr. Risey served as a Managing Director for niche consulting firm that provided corporate financial consulting and helped companies raise capital from a variety of institutions including banks, specialty and mezzanine lenders, venture capital firms and underwriters. After nine years, Mr. Risey left to launch his own financial consulting firm to provide cost effective services, guaranteed results, and high client satisfaction. Chris started his professional career as a CPA in the audit and advisory services group for Arthur Andersen in New Orleans, Louisiana.

Active within the business and civic community, Mr Risey has served for many years in a variety of leadership roles within Rotary International, Financial Executives International, and The Association for Corporate Growth. Mr. Risey is also a frequent writer and speaker to financial executives and entrepreneurs throughout the country interested to learn more about today's financing and planning strategies that have created significant value for a variety of companies.

Mr. Risey is a magna cum laude graduate of the University of South Florida with a degree in Finance. He was twice named Academic All-American (Men's Basketball) and is a former Rotary International Ambassadorial Scholar whereby he studied at the Australian Graduate School of Management at the University of New South Wales in Sydney, Australia. Chris lives in Atlanta with his wife and three children.

About Lantern Capital Advisors

Many clients have limited prior experience in the capital markets and want to gain the benefits of an experienced advisor to source funding alternatives and give advice that is in their best interest. Lantern Capital Advisors hourly based approach uniquely positions us to do just that. Our professionals have been engaged in a broad array of large and small assignments across various industries across the United States. Common client engagements and activities include one or more of the following:

- Develop detailed financial plans
- Secure capital for refinancing, growth, or liquidity
- Coordinate mergers/ acquisitions
- Coordinate management buyouts
- Prepare quality business plans
- Replace current lenders or investors
- Remove personal debt guarantees
- Solicit underwrites for securities offerings