Weller Equity

Management Buyout

A management buyout is a transaction whereby a business owner(s) sells a large majority or 100% interest in the company to an investor while maintaining little or no ongoing ownership stake or management role in the business. Additionally, existing management is given the opportunity to obtain a significant ownership stake and continues to manage the recapitalized business.

Top reasons for and against a management buyout:

FOR:

- Raise maximum cash for shareholders
- Enable current owner to retire
- Enable existing management to gain significant ownership
- Gain a strategic partner to help develop a long term growth plan
- Access to additional growth capital

AGAINST:

- Owner doesn't want to give up large majority or 100% ownership
- Business is highly dependent on the current owner
- Management team is weak and/or incomplete

Example:

XYZ Company generates $3 million in EBITDA and is valued at 5x resulting in an enterprise value of $15 million. The sources and uses of funds are as follows:

SOURCES: ($000)			USES:	
Debt	7,500		Cash to selling shareholders	12,000
Seller note	3,000		Seller note	3,000
Preferred equity	5,000	(80.0%)	Transaction expenses	750
Common equity	250	(20.0%)		
Total Sources	15,750		Total Uses	15,750

Note: This does not take into account the impact of taxes, escrow accounts or existing debt repayment.

Based on this structure, the selling shareholder(s) would sell 100% of the business for $12 million in cash and also receive a $3 million seller note which is typically subordinated to all other debt. Ongoing management would invest $250,000 in common stock and receive a 20% ownership stake in the company. Management would also have the ability to earn additional equity through incentive stock options.

Depending on the creditworthiness of the company, collateral, cash flow and other factors, the use of debt to finance this transaction could be higher or lower. The resulting debt could be structured as senior or subordinated or some combination of the two.

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