

Is A Management Buy Out Right For You?

If you know someone who is looking thinking about their Exit Plan, please pass on this email.

We are always pleased to help.

For many business owners that wish to exit their business, the possibility of selling to management should be considered and may well be the best and possibly the only option available to them.

There are a number of pros and cons to this process and some pitfalls that a prudent business owner should be aware of.

First, let's examine the Pros:

A Smooth Transition – Hopefully there is a great relationship and high degree of trust between the business owner and the management team. This will go a long way to ensure that the 'wheels don't fall off the deal' during what can be a very traumatic period. From a day to day management perspective, its 'business as usual'.

Customers may not even be aware of any changes in ownership structure at all.

High Chance of Success – The management team will know the business inside out. In fact, they may have already been effectively running the business on behalf of the owner for many years.

Risk should be significantly reduced for all concerned.

And now the Cons:

Finding The Money – The owner will in most cases wish to be cashed out of the business in the shortest possible time. Management might not have sufficient capital of their own to buy the business outright from the owner.

If the business has hard assets, a bank might consider lending some money using these assets as security. If the business is large enough and has strong cash flow, a venture capital firm or mezzanine finance source may be interested. However, the buyers will need to be

comfortable paying interest rates well in excess of what their regular bank will charge.

In many cases, the business owner will ultimately be asked to become 'the bank'. In practical terms this may mean that the business owner would receive a nominal sum at closing and the balance over a long period of time.

A Lower Price – In general, the management team will be expecting special treatment, i.e. 'a very good deal'. They may take the view that they that built the business for the original owner, so why should they pay a premium?

Possible Confidentiality Breach – If confidentiality is a big issue for the business owner, then they should think twice about approaching management.

Careless talk around the water cooler, may well result in a breach of confidentiality, creating nervous employees and possibly disloyal customers.

In conclusion, a Management Buyout should be considered, but not in isolation.

Other options could include: an Employee Stock Ownership Plan (ESOP), selling to an outside party, (ideally a synergistic buyer as they will most likely pay the highest price), or in some cases, simply shutting up shop and selling off the hard assets may make the most sense.



always, please feel free to contact us if you or anyone you know would like to explore their exit strategy and options in more detail.

Of course there is never any obligation.

For convenience please email our Principal Stuart Neal at: StuartNeal@WesternBusinessBrokers.com



Western Canada's
leading independent
business brokerage!

www.WesternBusinessBrokers.com

Stuart Neal
Certified Business Intermediary
(CBI) BA Hons., Dip IDM

780-416-9595

