

MANAGEMENT

An opportunity for business owners

By Howard E. Johnson

MANAGEMENT BUYOUTS HAVE become increasingly popular in recent years due in large part to the abundance of available capital from financial investors throughout North America. Financial investors provide capital and work with the management team to grow the business. The payoffs from a buyout can be lucrative for the financial investor, management and the business owner. In most cases, the management team and the owner that retains a residual interest in the company can fare considerably better (in relative terms) than the financial buyer where the company exhibits strong operating performance following the transaction.

For business owners seeking to sell their company, buyouts can be an attractive option compared to selling to an industry buyer for several reasons.

- Financial buyers tend to react more quickly than industry buyers.
- Confidential information about the company is not exposed to competitors.
- Financial buyers generally offer cash deals, whereas industry buyers may seek less favourable structured payment terms.
- Management can feel like part of the process, rather than being concerned about what will happen to their jobs after the transaction.
- The business owner can enjoy upside potential by retaining a residual interest in

the company.

In addition to an outright sale, buyouts can be a powerful vehicle for companies seeking capital to expand or for business owners who simply want to divest of a minority position in their company.

Adequate planning and preparation are critical for business owners to undertake prior to seeking out financial investors and in structuring a deal that meets their personal and financial objectives. Financial investors generally prefer companies that have a sustainable competitive advantage, good growth potential (including a well conceived business plan setting out the growth opportunities and risks involved) and a strong management team. Financial



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