



THE FACILITATED

MANAGEMENT BUY-OUT

OVERVIEW

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HOW IS A FACILITATED MANAGEMENT BUY-OUT DIFFERENT FROM A TRADITIONAL BUY-OUT?

The Facilitated Management Buy-Out is an alternative to a negotiated buy-out, which is the more traditional process used when a management team purchases the business from its owner. A negotiated buy-out is intermediated rather than facilitated. This simply means that the lawyer or investment banker is inserted in between the “opposing” parties to handle the negotiations. When the parties are strangers, this process has obvious merit. When the parties work together on a daily basis and trust each other, an intermediated process often feels contrived, placing long-standing relationships at risk. It stifles an opportunity to rely on earned trust and established communication channels. It also is comparatively expensive, requiring a duplication of professional fees.

Conversely, the Facilitated Management Buy-Out takes advantage of the existing relationships and collective wisdom of the parties, starting with a conversation about process. The presumption here is that nobody is more knowledgeable about the corporate culture and committed to a positive outcome than the parties to the negotiations. Hence, with some help, these stakeholders are best suited to establish the knowledge and resources they need to reach a fully informed decision.

WHEN IS A FACILITATED BUY-OUT APPROPRIATE?

The Facilitated Buy Out is not appropriate in all circumstances, but it is compelling in certain situations where:

- Management and the owner(s) have a longstanding, trusting relationship;
- The owner’s desired exit includes a business legacy best carried forward by the existing management; and
- The owner(s) and management team are willing to trust their own abilities and take the time to do the work required to understand the many nuanced details involved in the transition of the business and its leadership control.

BENEFITS OF A FACILITATED MANAGEMENT BUY-OUT

- Reduced professional costs
- An open and transparent process, allowing both parties to first gain knowledge and understanding about the possibilities, and then craft a buy-out suitable to the unique circumstances and needs of both parties
- A process in which the interests of owner(s) and management are inherently aligned, freeing the stakeholders to imagine and strategically plan for the best possible future for the business
- The best-possible opportunity for the owners to indefinitely continue their business relationships and influence for the business after the sale
- Increased odds of a successful result



STAGE 1: BEGINNING THE CONVERSATION

A management buy-out is almost always uncharted territory for both parties, and that's why facilitation is necessary. The stakes are high and for many, this may be the most important financial transaction of their lives. Attempting to begin the conversation with an offer and list of specific terms is unrealistic and generally a deal stopper, because the proposal is made in a void of knowledge.

Rather, start the conversation by gathering a clear acknowledgement of interest among the parties to pursue a transaction. Then you will be ready to engage in a facilitated conversation about what constitutes the best possible process to reach the desired end. Invariably, filling voids of knowledge and defining needed resources is an important component of the early process, as is a discussion about the flow and transparency of information.

STAGE 2: SELECTING THE RIGHT ADVISORS

When selecting advisors to assist in the buy-out transaction, a negotiated process can potentially lead to a win/lose scenario or a complete breakdown in negotiations. It assumes the worst about the parties and is based on the negative presumption that the parties will take advantage of each other if given a chance. Conversely, a facilitated process assumes the best – that both parties are smart and trustworthy.

Accordingly, with a facilitated arrangement, the *business* hires a single set of advisors – rather than

each party hiring their own set of advisors. These advisors generally include an attorney, a valuation expert and a facilitation professional – all representing the business. Of course, anyone who is a party to the transaction is free to decide whether he or she needs their own, private counsel to review the documentation. Typically, the management team finds separate counsel to review the documentation, which potentially avoids the need for each member of the management team to retain his or her own counsel.

STAGE 3: IMPLEMENTATION

Once the parties have agreed to the value of the business and the timing and terms of the transaction, the attorney for the business will draft the purchase and sale documentation. Again, the lawyers do not intermediate. Rather, they provided document review and counsel to empower the parties to handle and complete their own negotiations.

WHY ARE FACILITATED MANAGEMENT BUY-OUTS SUCCESSFUL?

It has been said that: *People don't trust what they don't create*. We believe this to be fundamentally true, especially in high-stakes circumstances. The Facilitated Management Buy Out process allows all parties to embrace and trust the transaction because they have been part of the creative process. By design, all parties are fully present and apprised from the beginning to the end. The result is one they understand because they crafted it with the help of their partners, setting the stage for a new and exciting future for the business.