

**Liquidity Options Available to Family Owned Businesses
When Considering a Legacy Transition and Partial Sale Strategy**

By Eugene O'Malley

The most important element is to understand the various possible options available and then to put in place the proper planning for the execution and implementation of the optimum strategy. Strategy should be coordinated with your other advisers with particular attention to tax considerations during all stages of the execution and ongoing implementation.

Possible options are:

Company recapitalization with mezzanine financing:

This approach releases cash, for family purposes, by recapitalizing the company using the existing assets on the company's balance sheet and adding new debt to the balance sheet. This approach takes into consideration new financing opportunities by utilizing the existing assets in a more productive fashion.

Partial sale with minority ownership:

Strategic Investor

Investors well known to the families that seek to allow the family to play a more active role. Often, the strategic buyer has either approached the family or has been approached by the family to discuss a potential transaction.

Outside Financial Investor

When considering a partial sale, the family needs to clearly understand the various types of investors and the benefits/results of selecting that partner. Some partners will be passive while others will be quite aggressive in their expectations for the business. Each type of partner should be fully analyzed for compatibility with the family objectives. Each investor has a different mandate to employ their capital and families there should be a mutual understanding of viewpoints in order to select the right groups to discuss the partial sale.

Management Buyouts (MBO)

Management buyouts can take many different forms. In these cases, managers have been actively involved with the family business and have a strong desire to be owners.

Management Buy-ins (MBI)

Management buy-ins are outside managers who in many cases are very familiar with your business and seek an opportunity to be an owner.

Partial sale with majority ownership- aggressive approach

This type of investor seeks to take controlling interest and desires to grow the family business very aggressively. They view the family business as a platform company to grow the business through either expansion opportunities due to the industry or in the case of an industry going through consolidation. This investor has both acquisition and expansion capital readily available and wants to employ it in an aggressive manner.

Partial sale with majority ownership – conservative

This investor is a conservative long-term participant who sees the family business having a good market position and excellent internal growth potential. The investor takes a long-term view on the available return on investment and is content to see low leverage and above average growth to meet their objectives.

50/50 Joint Venture

Joint Ventures are the most difficult sale option because of implementation strategy and business expansion. Joint ventures are normally entered into to be aggressive in the marketplace but often result in extreme results. The main objectives are to bring the businesses together for a greater purpose. If the greater purpose is not realized then the remaining ownership is jeopardized.

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