Title:
5 Strategies to Help You Buy the Company from Your Boss

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1003

Summary:
Many employees are turning their daydream of being the boss into a reality in the form of a "leveraged buyout". Structuring a successful leveraged buyout can be demanding, and care in preparing the deal often makes the difference between great success and financial ruin. Following are 5 strategies to take to create a successful leveraged buyout.

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buyout, leveraged buyout, buying company, employee buyout, be your own boss, structuring business purchase, business transition, negotiating a business purchase, how to buy your business, how people buy businesses, buying your company, John Reddish

Article Body:

"If only I were the boss," is a daydream that probably goes back centuries. Today, more than ever, many employees are turning that daydream into a reality and the boss is often footing the bill. The phenomena is known as a "leveraged buyout" and it could work for you.

Stories of employees, unions and/or key management groups buying their companies appear regularly in the business press.   Usually such a story indicates the new owners have taken on substantial debt to make the acquisition and have used the business assets to secure their borrowings. That's what appears in the papers, but structuring a successful leveraged buyout can be demanding, and care in preparing the deal often makes the difference between great success and financial ruin.

Here's how to develop a successful plan of action: First, take a cold, hard, look at the business. If you WERE THE BOSS, could you really do as well, or better, than the current leader? Document your thoughts and build a written case for yourself. Be tough. Write out your plan and document it. Project future sales and earnings for existing products/services of the company over the next 5 years. While the business may have substantial assets (land, buildings, equipment, patents, people, contracts) unless it has a future in the marketplace, you are in for trouble.

Next, ask yourself if there are new areas for growth that can be exploited within the capital structure (debt plus equity of the company under your leadership) during these next 5 years. Add these sales and cost figures to your initial projections. See what your new profit numbers look like. Remember that things usually cost more and businesses earn less, at least in the short term, than you may think -- it’s called the start-up period. Give yourself some room and some leeway.

Now step back and take another objective look at the company, only this time focus on valuing the assets. This starts your due diligence, and even though you have been employed in the company, it’s still important to follow each step. Ask the owner to let you review tax returns, financial statements and other company documents. Be sure to speak with the company's accountants, attorneys and other advisors. Also speak with vendors, customers and other employees. Check industry sources for norms and statistical information. If something doesn't seem to make sense, or looks different under this intense inspection, ask for more information. Buying any business, particularly one your are close to, is somewhat like buying an old house -- you know there are skeletons and creaks, and while some are cute and livable, some could be real killers.

Environmental concerns, for example, are growing in importance and must not be ignored. Your financial institution will probably require an environmental assessment of any real estate purchased, and if there is a problem, it could impact the deal significantly. In one case, I experienced a situation in which the environmental clean-up wiped out the seller’s profit and some of the costs were actually passed onto the buyer.

Once you are satisfied you have the correct information on a company, make several valuation computations on its worth. Some companies seem to sell for multiples of earnings, some sell for asset value plus goodwill, some sell at a significant premium over valuation numbers, while still others sell based upon sophisticated models. There is no one right value for any company. Knowing how much to pay and under what terms are central to ensuring your future. And that's when you begin the often trying task of negotiating the purchase.

In buying any business, I always advise clients to aim to control the terms rather than the price. Some years ago, I was able to negotiate a deal in which the seller and internal buyers were far apart in their respective judgments on just what the company was worth. In structuring the deal, we were able to create an agreement of sale that on a net present value basis (if you had to buy it in cash today) equalled what the buyer wanted to pay but the total dollars of the selling price plus interest were more than the seller originally asked. During the 5 years of transition between the old and new owners, compensation and benefits were equalized and one of the new owners took over the presidency in the third year. Going gently in the negotiations and being flexible in the terms led to a very successful transition.

Once you have the deal you want, how will you pay for it? There are many ways to finance an acquisition -- a leveraged buyout is no different. A brief list includes: your personal worth and credit and that of your fellow buyers, family, friends; banks; state and federal loan and grant programs; professional investors and venture capitalists. Use these sources to augment the part of the purchase price being provided by the business being acquired and by the sellers themselves. Putting the right financial package together can mean the difference between success and failure as time goes by. Allow an average of from 2-6 months to identify and line up funding sources.

Now that you've done all this work, you still haven't bought a business. In fact, it won't be yours until the closing. So tread carefully, as many deals fall apart at, or prior to, the closing session.

Once the deal is signed and sealed, you have to deliver. You are now the proud owner of the business. Your old boss is off the hook. You have acquired the opportunity and have become an entrepreneur. You have bills and employees to pay. You have products and/or services to deliver. And, you have approached the effort from a no-nonsense business perspective that should help increase the likelihood of your success. The "buck" now stops with you. It feels wonderful, and if it's in your blood, the feeling will linger for many years. Good fortune and good luck -- you are now the boss.