

The Management Buyout



Mercantile Mergers & Acquisitions Corporation works with senior managers who want to acquire private companies or corporate divisions that are available for sale by their owners or parent company.

Being an entrepreneur is not for the faint of heart. Among a group of 10 young managers or professionals, statistics show that only one has what it takes to be a business owner. Management has to show some initiative and self qualify themselves if they want to put a transaction together.

What separates entrepreneurs from dreamers is their ability as individuals to invest somewhere in the vicinity of \$250,000 into the companies they hope to own. This number can be as high as \$1 million in some of the larger deals. If you want to own something, you have to put your money and likely your job at risk. If you are unable to put your money on the table, stop dreaming.

A substantial financial investment is critical for a serious management buyout because outside investors, institutional or private, need to know you are committed. Investors who will personally support a management team or make a company investment are almost always required and strongly recommended. Institutional investors request private investors that have some management background or special knowledge in the industry to co-invest with them. Institutions refer to these investors as the "smart money."

Some preferences presented by lenders when financing a buyout include:

- companies that are not highly cyclical and have steady predictable cash flows;
- companies with low capital expenditure requirements and high free cash flow;
- growth businesses, especially in high valued-added manufacturing; and
- companies with strong committed management teams and well communicated, compelling business plans.

Meeting these requirements can be a challenge for company executives interested in selling.

Management buyout opportunities present themselves often and for a number of different reasons.

One reason could be a private owner who wants to sell his business and not bother with the complicated process of selling to an outside buyer. Usually this seller has a very good relationship with the management team and has confidence in their ability to manage the business.

Mercantile Mergers & Acquisitions Corporation helps set a platform for managers wishing to do a Management Buyout. It is extremely important that management agree that they have an

arrangement among themselves as infighting is a major reason deals fall apart.

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