

A TRANSACTION TYPE FOR EVERY SITUATION

There is no such thing as a “standard” private investor transaction. Every deal is unique, and every seller has their own specific needs and priorities. Our Investment Community has a range of transaction structures designed to meet your particular situation and objectives.

The Private Investor Recapitalization, is ideal for business owners looking for a partner to support the growth of their business, while a Generational Ownership Transition is suited for owners looking to ensure that their business continues to be a part of their family long after they have stepped back from the company. Management teams eager for an opportunity to become full equity partners in their business should consider a Management Buyout. Finally, while it is not ideal for every situation, a PE+ESOP Recapitalization can significantly increase after-tax proceeds from a transaction and create an opportunity to quickly grow the value of equity rolled over into a transaction

The Private Investor Recapitalization

How it Works

In a Private Investor Recap, the investor will acquire a majority ownership position in your company while you retain substantial equity in the business. Through this structure, we create a financial and strategic partnership to take the company forward.

What are the Benefits?

Flexibility

You have your own unique set of financial and personal priorities. The PI Recap gives us the flexibility to tailor a transaction to meet those needs. You determine how much liquidity you need, how much you want to invest in the business, and how much involvement you want to have in the company going forward.

Continuity

An investor will never know your business better than you do. Often, the investor would prefer your experience, your knowledge and your passion working alongside them. A PI Recap positions you to stay involved with the company and maintain the culture that you have worked so hard to build. Depending on your priorities, you can either continue in a full-time leadership role with the company or take a step back and contribute as a board member or advisor.

Liquidity

The PI Recap provides you with significant liquidity for financial diversification, wealth planning and intergenerational transfers. When designing a transaction, the investor will work with you and your advisors to find the most tax advantaged structure that best suits your needs.

Equity Appreciation

By maintaining equity in the company, you are positioned to reap the rewards of not only your own continued involvement in the business, but also from the focus, discipline and strategic resources that an investor will bring to bear to take the company to the next level.

Management Alignment

Typically, an investor will establish an equity incentive program that will let the management team participate in the rewards of growing the business. Through both a management option pool and performance bonus plan, they strive to ensure that both the management and ownership teams are aligned around the same objectives. Management and employees will also be able to personally invest alongside you and the investor as full equity holders in the company.

Capital to Support Growth

Whether the need is to fund working capital or complete a strategic acquisition, ready access to capital is key to seizing opportunities for growth. An investor's capital resources and ability to access the broader capital markets allows you and your management team can focus on what you do best: profitably growing your business.

Management Buyout

How it Works

As part of a senior management team, you are intimately familiar with your business and know how to take your company to the next level of success. At the same time, current ownership might not be motivated to commit the time, effort and capital needed to maximize growth. In this situation, a management buyout (MBO) may be the right option for everyone.

In an MBO, an investor will back your team's acquisition of your company, providing current ownership with liquidity and putting you in a position to lead the business as operational leaders and equity partners.

An investor will employ a combination of debt and equity capital. While providing the majority of the equity, the investor will look to you and your team to make a meaningful investment in the business that is in line with your personal financial resources. In addition to your equity investment in the company, they will put in place a performance-based equity incentive plan that will further align our interests in growing the business and create a significant wealth creation opportunity for you and your team.

A Delicate Touch

Proposing the Deal

Completing an MBO is a sensitive process. Even proposing a transaction to an owner should be handled carefully. It is critical that if ownership is not interested in a sale, you and your team are not placed in an awkward position. An investor who shares your vision will work with you to prepare and communicate your proposal so that deal or no deal, there will still be mutual trust and respect.

Managing the Transaction Process

Even after ownership has expressed interest in an MBO, the process needs to be managed with great care. Negotiating the sale of a closely held business can be an emotional process for all parties involved. Moreover, it is common in an MBO that both the seller and buyers do not have experience with similar transactions. As the parties have their first exposure to the normal give

and take of an MBO negotiation, it is possible that even slight miscommunications can cause friction and cause the process to become emotional.

We know that it is as important for your team to maintain a positive relationship with ownership as it is to close the deal. If for some reason the transaction does not close, your team needs to have confidence that your career trajectories will not be impacted.

Typically, an investor will over communicate with all parties throughout the process. It is critical that both the buyers and the seller understand not only what the other party wants, but also their rationale for wanting it. In our experience, the more each side understands about the other's thinking, the lower the risk of friction or anyone perceiving that they have been treated unfairly.

Managing the Business

Following the closing of the transaction, the investor's joint focus will be on driving profitable growth and creating value. Prior to the close they will work with your team to build a business plan that addresses short, intermediate and long-term priorities. That way, when the deal closes you will have already reached agreement on how to move the company forward and can focus on executing the plan.

While an investor will work collaboratively to develop and pressure test the business plan, they know that the plan ultimately has to come from you and your team. You know the business better than we ever could and it's your knowledge and effort that will make the company a success.

Generational Ownership Transition

How it Works

You have worked hard to build your company. Its success is the product of your skill, your dedication and your commitment to excellence. It has become more than a career. It is a source of pride, and when you step back, you want to leave it in the hands of the people that you trust most: your family.

In a generational ownership transition, an investor will support your family in acquiring your business while providing you with the liquidity that you need to properly plan for retirement. The investor will contribute equity capital along with your family to acquire the business, while arranging for third party debt to finance the balance of the transaction.

What are the Benefits?

Like the Private Investor Recapitalization, a generational ownership transaction provides a range of benefits, including liquidity, flexibility in structuring a transaction to meet your needs, and the potential for your to participate in the continued growth of the business. Most importantly, the transaction will ensure that your business continues to be managed by those whom you trust and who will maintain the culture on which the company was built.

The investor can also structure a transaction that gives your family the right to buy out the investor's interest in the company at a future point in time. This creates an option for your family to maintain ownership of the business even after the investor has realized its objectives to facilitate business continuity and growth.

ESOP (Employee Stock Ownership Plan) Financing Overview

The Options

Several Private Investors will arrange and participate in ESOP financing. They have the expertise to provide a financing solution to your new or existing ESOP Company. The investor will provide smart junior capital for the following ESOP transactions:

New ESOPs

If you are planning to sell your business to a newly formed ESOP, the investor can furnish the capital to provide you more liquidity and wealth diversification than a traditional ESOP. See below for “Wealth Diversification”.

Partial ESOPs

If your Company is partially owned by an ESOP, you probably know the value of getting tax-free proceeds through a 1042 rollover. What you may not know is that potentially the best way to get more tax-efficient liquidity is to sell the balance of your ownership to an ESOP. The investor can show you why this may be your best liquidity alternative and provide the capital to help you achieve complete liquidity.

Mature ESOPs

Maybe your ESOP has significant repurchase obligations that are causing cash flow concerns. Maybe you are concerned about your employees’ retirement funds being all in the same basket (your stock) and you would like to provide them some diversification. An investor can provide the capital to address and solve these common issues of mature ESOPs.

Wealth Diversification

An investor can invest the capital necessary to provide significantly more wealth diversification for a business owner. In a “Traditional ESOP” transaction, a newly established ESOP borrows money through a senior bank loan and purchases the Company from a business owner for proceeds consisting of cash (generated from the bank loan) and a seller note from the Company. Often, the cash only represents 30% to 40% of the proceeds.

In a private investor backed ESOP transaction (see [PI+ESOP Recap below](#)), the business owner can receive 80% or more of his proceeds in cash. The chart below shows the wealth diversification generated through a Traditional ESOP transaction, and through a [PI+ESOP Recap](#). If one of your primary goals is wealth diversification, the [PI+ESOP Recap](#) allows you to achieve that.

The Private Investor (PI) +ESOP Recapitalization

The Tax Efficient Alternative

We know that as a business owner you don’t like to pay taxes. If you could eliminate your capital gains tax when you sell your company, would you and your advisors want to learn how to make it happen? We think so.

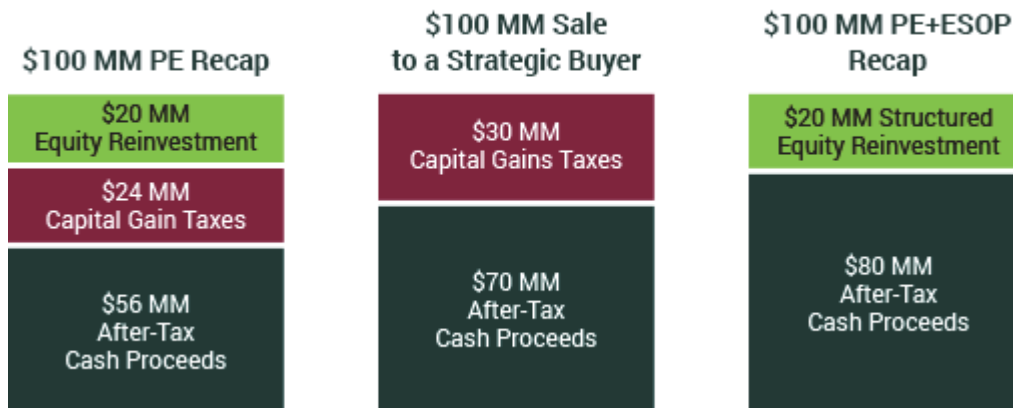
The tax-efficient alternative to the PI Recapitalization is the PI+ESOP Recap. It is more complicated than a traditional PI Recap, but it could significantly increase your proceeds from a deal.

How is this accomplished? The PE+ESOP Recap combines a traditional PE Recap with a standard ESOP (Employee Stock Ownership Plan) transaction. We generate the capital gains tax savings utilizing the Internal Revenue Code 1042 rollover. This traditional ESOP transaction has been used thousands of times using only bank financing for capital. A private investor can add their own equity capital into the transaction to provide more liquidity. Please read some of the publications in the Additional Information section below to learn more.

There Are Many Options

Private investment options offer you a choice. Together you can develop a detailed analysis of how each structure meets your goals and you can choose the transaction that fits your needs.

In a simple example, let's assume that the market price for your company is \$100 million and your capital gains rate is 30%. The charts below illustrate how your \$100 million of proceeds would be allocated for each of 3 transaction structures;



Additional Information/Publications

- Private Equity + ESOPS Presentation - Rutgers Conference April 23, 2018
- PE+ESOP Recapitalization - Basics for Business Owners
- More Liquidity - The Role of Private Equity in ESOP Transactions - 2016 NCEO Presentation
- Seminar – Getting More and Keeping More
- Private Equity and ESOPs - A Creative Combination
- ESOPS and Private Equity Presentation - The Beyster Symposium June 2016
- Forbes – The Private Equity-ESOP Hybrid
- 1042 Exchange – Basics
- Tax Advantages for Business Planning
- ESOPs in S Corporations
- ESOP Tax Free Rollover for C-Corporations

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