

Is a Management Buyout Right for You?

Are you an executive or member of a leadership team that is leading a successful middle market company, driving growth and building a better business but doing it all for someone else? Are you interested in becoming an owner and directly benefiting from the value you are creating? If so, partnering with a private equity firm to do a Management Buyout (MBO) may be an enticing solution.

What makes for an ideal MBO situation?

There are several components to an attractive MBO opportunity. Ideally, the underlying business is owned by a single owner (such as a founder) or a concentrated ownership group (a collection of founders of a family) that is seeking an exit. It is also best if the management team has a long tenure of successfully running the business, and owns the relationships with its customers and suppliers and will continue to run the business post deal with minimal disruption. Of note, while founder- or family-owned businesses are some of the more likely candidates for an MBO, divisional carve-outs also offer an enticing path for executives looking for an MBO. A divisional carve-out is the sale of a non-core business unit by a parent company.



Why would an executive want to do a MBO?

First and foremost, a MBO provides an opportunity for executives to become business owners, and they will now be able to directly benefit in the value they are creating in the business. In addition, management will be in far greater control of the business to drive growth. A symptom of many founder- or family-owned businesses is that growth is constrained because many of these companies are run as lifestyle businesses, focused on generating cash for their owners to take out of the business. As a result, there is little capital to re-invest in the business, which can stall growth (and frustrate management!).

Why is partnering with private equity an attractive option for executives wanting to do an MBO?

Here are some significant benefits that a private equity firm can bring to a management team that is seeking to do a MBO:

- Provides the equity capital to execute the MBO and facilitate the arrangement of the debt (by using debt in the MBO, management’s post-transaction stake in the business will be higher)
- Becomes a partner to the management team that is equally motivated to grow the business, both organically and through add-on acquisitions
- Creates and supports an add-on acquisition strategy
- Serves as a pro-active board member to provide strategic advice, and acts as a valuable “sounding board” for management
- Some private equity firms may also have existing operating partners that can join the business on a full-time or part-time basis to expand the business, make relevant introductions and develop the management team

For the private equity firm, the ability to leverage the experience of the executives who are already successfully running the business is invaluable. That experience leads to more effective and efficient due diligence pre-deal, but also a more informed and viable growth strategy going-forward.

At Post Capital Partners, a New York-based private equity firm focused on the lower middle market with a particular strategy in working with operating executives, we are always looking for management teams seeking private equity partners to buyout the businesses they are running. More often than not, this is the result of an aging ownership group that does not have a succession plan in place.

We recently completed a MBO of Smith Transportation. Founded in 2001, Smith is a national full-service third-party logistics and asset-light transportation services provider with a leading presence in the Florida market. The main owners were seeking a significant liquidity event and had already spent the past several years pulling cash out of the business rather than re-investing the capital to grow the company.

We met with the management team, which worked together for a dozen years at both Smith and Watkins Motorlines. The team has a strong track record of successfully leading transportation and logistics businesses. The management team partnered with Post Capital to execute a MBO in September 2018. As a result of the partnership with Post Capital, Smith has been able to upgrade the company’s technology infrastructure, expand its service offerings to new geographies, add sales & marketing talent, and explore potential tuck-in acquisitions.

It is not every day that an opportunity arises for executives to own the companies they work for, but when it does, it helps to have the expertise in place to make it happen.