PLANNING A MANAGEMENT BUY-OUT (MBO)

CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business™

The management buy-out (MBO) is an increasingly popular exit strategy for small business owners. This exit option is essentially the purchase of a company by part or all of its existing management. An MBO is a way of achieving the owner's goals for continuity of operations and the business' identity. The transition may take place over a period of a few years, on average about two years. In addition to having the financing tentatively arranged, the owner (seller) and the management buy-out team (buyer) need to know what their primary negotiating points will be before negotiations begin.

The initial process of structuring an MBO can take between four to six months, and the table below outlines the usual steps and timeline required.

Throughout the process, it is important that the seller and buyer have independent professional advisors. In addition, having third party representation can ensure the parties maintain a friendly and positive relationship throughout the negotiations and completion of the deal.

MBO DEVELOPMENT PLAN

Steps	*Time*	*Action*
1. Owner and management group agree to price and terms	8 – 12 weeks	• Agreement in principle to open exclusive discussion/non-disclosure agreement • Owner provides management buy-out group with financial information and other company info relevant to valuation • Management group conducts due diligence • Negotiations on price and terms • Agreement in principle to price and terms • Identify financing requirement to complete purchase

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RINCROFT INC. CONSULTANTS

This document was created in collaboration with Rincroft Inc.

Steps	Time	Action
2. Secure financing	6 – 8 weeks	• Identify lenders best suited for the business being sold based on financials • Presentations to lenders including confirmation of purchase price and supporting financials • Determine lender receptiveness to lend within a determined range and associated security for both owner and management buy-out group • Secure financing with best lender; insert payments into financial projections going forward

3. Complete purchase agreements and closure	8 – 10 weeks	• Finalize financing arrangements and complete legal documentation
		• Purchase and sale agreements (share- or asset-based)
		  – Employment agreements
		  – Structure and schedule of deferred payments
		  – Agreements with service providers if needed
		• Subscription agreement
		• Sharehoulders' agreement
		• Constitution
		• Loan documentation
		• Service agreements

4. Post-ownership change	6 months – 2 years	• Work collaboratively to ensure a smooth transition of ownership with owner gradually reducing their involvement • Develop plan/forecast to accommodate deferred payment schedule with key milestones to monitor

Get in touch.

We're here to help.

Any questions? Call our business counsellors today.

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