

Recapitalization – A Case Study

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Excerpted from :

"Keep Or Sell Your Business...How To Make The Decision Every Private Company Faces"

by Mike Cohn with Jayne Pearl
Dearborn Financial Publishing, Inc., 2001

A recapitalization is a partial sale of a company to a financial buyer such as a leveraged buyout group. This transaction can provide liquidity to all or only certain shareholders. In addition, it can combine shareholder liquidity with access to growth capital. In a recapitalization the existing management/shareholders (the "Rollover Shareholders") typically retain a significant ownership position in the company as well as their management responsibilities. At a later date the company can be sold, taken public, or recapitalized again, providing liquidity to the financial buyer and a "second bite at the apple" for the Rollover Shareholders.

Example:

Assumptions:	
Sale Valuation of the company	\$ 100,000,000
Acceptable debt load	60,000,000
Shareholder wants to retain 20% ownership	

Results:	
<u>Sources of Funds</u>	
Debt	\$ 60,000,000
Equity Invested by Financial Buyer	32,000,000
Rollover Equity Amount	8,000,000
Total	\$100,000,000

<u>Uses of Funds</u>	
Cash to Shareholders	\$ 92,000,000

Rollover Amount	8,000,000
Total	\$100,000,000

<u>New Ownership Structure</u>		
Financial Buyer	\$ 32,000,000	80%
Rollover Shareholder	8,000,000	20%
Total	\$40,000,000	100%

Case study developed by James Dwyer, President, MPI Securities, Inc.