

Management Buyouts: 10 Questions to Ask Before You Buy the Business

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With the merger and acquisitions market heating up and leveraged buyout activity at a 15-year high, more management teams than ever are considering the benefits of holding significant stakes in the businesses they've helped to build. Here are 10 key questions you should be able to answer before embarking on the management buyout journey.

1. **Have I put together an entire senior management team?** You should be able to name at least the CEO, COO, CFO and key lieutenants who are uniquely qualified to manage the target company. Management teams are only as strong as their weakest link.
2. **Can I define specifically how my team will add value?** A management team should understand how it will create value at the acquired entity. Every buyer thinks they are smarter than the previous owners. Get your arms around specifically how and why this applies to you. First, believe the plan yourself. Then effectively convey your vision to third-party capital sources (lenders and investors).
3. **Can I identify additional growth opportunities?** The best opportunities often go beyond organic growth. Can you identify prospective targets in your industry that would be good additions, even if they are not available immediately? Strategic growth stories are often particularly attractive to equity sponsors and can help differentiate your plan.
4. **Do I have the necessary financial backing?** Most sellers will not allow you to tell them to "wait right there while I get the money." You gain a competitive advantage if you have the ability to write the equity check at the time you are negotiating the deal. You don't need to raise the entire capital structure in order to get started; it all begins with the selection of an equity partner. Debt can often be raised after the fact and many lenders follow respected equity sources. Getting into the hunt without an equity sponsor, however, is virtually impossible.
5. **Do I shop for an equity sponsor?** Avoid the temptation of going with the first group you meet. If you have a good deal, the quality equity groups will follow and you can be selective. Initiating a quiet horse race usually will enable you to negotiate a better deal. This joining is a marriage of sorts. Management and the sponsor need to have similar philosophies and objectives. Also look at their related experience and track record. You never want to be an equity sponsor's first venture in an industry, or the largest or smallest deal in their portfolio.

