Buyout Assistance

Steps in a Buyout

Educate the supporters of the buyout.
Supporters may include all of the hourly and salaried employees as well as local management. Frequently, in situations involving an organized workforce, those employees protected by a union contract are the initial proponents. Local management and salaried employees should be brought into the group as soon as they are able to do so without their jobs being put in jeopardy.

Meeting 1: The initial education usually takes place in two meetings. The first is with the original buyout leadership and includes:

An explanation of the steps involved in doing a buyout and how Employee Stock Ownership Plans work and are used to finance a buyout.

A detailed discussion of the key factors which should be considered before employees attempt a buyout as these factors pertain to specific circumstances of the plant in questions.

A decision as to whether there are any obvious reasons not to pursue the buyout any further.

A plan for the next steps and a meeting with the rest of the employees.

Meeting 2: The second meeting is a presentation to all of the employees who are willing to attend. This meeting includes:

An explanation of steps to a buyout and ESOPs.

A presentation of the key factors which are important for a successful buyout and the leadership's preliminary assessment of these key factors.

A commitment on the part of a significant majority of those present to encourage the buyout leadership to continue exploring the buyout.

If the employees are not interested in a buyout, then it is unwise to proceed any further.

Establish a buyout association.
Membership in the buyout association is usually open to all the potential future employee owners. A leadership is usually selected to put the buyout together on behalf of the buyout association. Through its leadership, the buyout association:

Raises funds from members and solicits matching funds from government and other potential contributors.

Contracts with and oversees the work of legal and financial consultants.

Develops a management team.

Do a pre-feasibility assessment.
This assessment is a quick study by the legal and financial consultants of the key factors needed for the buyout to succeed. It should include:

Clarification of the issue of the owner's willingness to sell.

An evaluation of the company's historical financial performance.

Identification of potential lenders and investors.

Identification of the management team.

A judgment about the industry and the company's future market.

Identification of any obstacles which are likely to cause the buyout to fall. If such obstacles exist, and the professional opinion is that they cannot be overcome, then the buyout association should not continue to invest money, time and hope any further.

Conduct a feasibility study.
A professionally done feasibility study provides an in-depth analysis of the economic viability of the plant as an employee-owned company. This generally requires five years of company financial data on the performance of the plant in question, ascertaining the approximate value of plant and equipment, estimating the size of liabilities that come with the plant, and market research.

Feasibility studies can be done by local management (especially in small projects), business analysts, investment bankers, and other outside consultants. Such studies typically cost between $15,000 and $50,000, depending on the size of the project.

If the feasibility study shows that there is no feasible way for an employee-owned succeed, then the buyout association should cease pursuing the buyout.

If there are any feasible ways for an employee-owned company to succeed, they should be identified in the feasibility study. The buyout association should select the most acceptable alternative. At this point the buyout association has most of the information it needs to complete the following steps.

Develop a Business Plan.
If the buyout association proceeds beyond the feasibility study, it is because the study has explained how an employee-owned company can succeed. This explanation with a little packaging thrown in is the business plan which the buyout association will take to potential lenders and investors. The business plan explains how the new company will generate the money to replay the bank and reward the investors.

Negotiate the purchase and create the structure for the new employee-owned company.
The feasibility study should provide the buyout association with a reasonable estimate of the company's value as well as how much debt the new company will be able to support. Negotiating the purchase may be very time consuming and expensive. Typical legal costs vary dramatically depending on the complexity of the deal.

If the buyout is a sale of stock, then the company creates an ESOP to purchase the stock. If the buyout is a sale of assets, then a new company must be incorporated with an ESOP. The ESOP purchases stock in the new company and the company uses the proceeds to purchase the assets from the original company.

The buyout association develops a governance structure for the employee-owned company which will encourage all of the employee owners to contribute constructively and cooperatively to their company's future success.

The buyout association designs the Employee Stock Ownership Plan. A lawyer must be hired to write the ESOP document but the cost will be less if the buyout association already knows what it wants in the document.

Arrange financing.
A feasibility study should identify the capital expenditures and working capital needs of the company and these should be taken into account when arranging financing in a addition to the agreed upon purchase price. The financing may include equity or subordinate debt, senior debt, and working capital financing. Generally this requires professional assistance by your lawyer, business analyst or outside financial consultant. This can often be done on a contingency basis.

Close the deal with the seller.
This will require a lawyer for the paper work.