

Business Succession and Financial Stability



Background	
Sector	Manufacturing
Established	Mid-80s
Revenues	Cyclical market, but stable profits
Capital structure	Conservative
Ownership	65% owned by the chief executive who plans to gradually step aside Second founding shareholder is 65 years old, wants to sell 25% stake
Management team/Succession	Qualified, owns a 10% interest
Operations	Products sold abroad, but limited customer base Multiple plants Innovation-oriented, but needs to increase capacity and automation

Business Succession and Financial Stability



Founding Shareholders' Needs

- ✓ Access a considerable amount of cash to proceed with the transaction without adversely affecting the company's financial health.
- ✓ Let the new owners acquire a significant equity interest.
- ✓ Seek out a new investor to assist the incoming management team in their initiatives to streamline processes and grow the business.
- ✓ Retain enough financial flexibility to support the company's growth.

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Project	
Purchase founders' common and preferred shares	\$11 million
Repurchase founders' preferred shares	\$2 million
Equipment purchases	\$5 million
Total	\$18 million

Source of Funds	
Common and preferred shares (QMF)	\$10.5 million
Common shares (new owners)	\$0.5 million
Subordinated debt (QMF)	\$2 million
Term loan	\$5 million
Total	\$18 million

Transaction

- ✓The two founding shareholders cashed in \$11 million by selling their shares to QMF and the new owners.
- ✓The two founding shareholders cashed in an additional \$2 million through the repurchase of preferred shares via QMF's subordinated debt (\$2 million).
- ✓Freeze put into place to create preferred shares (\$5 million), owned by the two founding shareholders.

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Needs

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Let the new owners acquire a significant equity interest.

Seek out a new investor to assist the incoming management team in their initiatives to streamline processes and grow the business.

Retain enough financial flexibility to support the company's growth.

Benefits

Transaction that allowed founding shareholders to cash in \$13 million and acquire a new block of redeemable preferred shares (\$5 million).

Through the freeze and the \$500,000 injection of new funds, the new owners' stake will increase from 10% to 40%. QMF owns a 30% interest and one of the founding shareholders will retain the remaining 30%.

Gradual buyback of preferred shares from founding shareholders (\$5 million) over a multi-year horizon, based on financial performance, to limit cash outflows and help the company move forward with its growth initiatives.