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### Management Buyout Engagements

Grand Avenue has been engaged by management in the buyout of the companies for whom they work. Management is in a privileged position given that they are typically the movers of the growth and success of the companies they manage. Frequently, the opportunity arises wherein management is allowed to invest into or take over the majority ownership of their companies. The role of the Grand Avenue investment bankers is as follows:

- Generally, the controlling shareholders or the estate of the owners are notified that management wishes to acquire the Company. A “friendly” transaction is recommended. The Management Acquirers engage Grand Avenue Capital on an exclusive basis to manage, and if necessary, to arrange financing.
- Grand Avenue Capital’s involvement starts with a realistic assessment of the company’s current and projected performance. The Company’s growth plan is articulated and financial proformas are developed for benefit of the lenders (third party banks or vendors) and equity (if necessary) participants. Grand Avenue’s bankers test the following with management who wish to own the companies they run:
  - **Is the business plan defensible and achievable?** Often profit performance is planned to improve when a sales transaction occurs. The acquired entity will have additional capital constraints, debt, leery vendors, concerned employees who will have cost constraints placed on them by the new owners, etc. The management plan, post-acquisition must be realistic.
  - **Will the new owners achieve the rewards for the new risks they are taking?** Often personal guarantees will be required of the new management owners. Will this be acceptable?
  - Will the management owners have sufficient financial depth to bring some equity to the deal, thereby insuring they are at risk. Banks and selling shareholders will demand some of the risk is borne by management.
  - **Will there be adequate capital to grow the business, given that the Company will be leveraged to pay off the old owners?**
  - **Do the new management owners have an exit plan of their own?** Can this Company in the hands of newly energized management be grown to be an IPO candidate, or at least sold at higher valuation to strategic interests? If private equity assists the

# GRAND AVENUE CAPITAL LLC

## INVESTMENT BANKERS

Securities offered through Grand Avenue Capital Partners LLC

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management to buy the Company, these new financial partners will be very interested in an exit....sooner than later.

- On behalf of management, negotiations occur with the current shareholders as to major terms and conditions of the investment transaction planned by management. Timelines are proposed. A period of exclusivity is negotiated. If necessary, steps are taken to insure that during the period of exclusivity, the Company is operated in the normal course without preference to the existing management's plans.
- Grand Avenue bankers prepare compelling documentation for lender/equity participants if necessary. Strategic investors may be part of the prospective participant list. If engaged by management, Grand Avenue's objectives are to minimize the ownership dilution of its management clients. If engaged by the selling shareholders, Grand Avenue's responsibilities are to see valuation maximized.
- Financial participants are contacted simultaneously, and Grand Avenue assists management in the determination of the preferred participants. Definitive transaction documentation is prepared by legal counsel and reviewed by Grand Avenue and management counsel. Equity incentives for executive management are negotiated. Management consulting contracts are sought for key employees.
- The management buyout transaction is closed.
- Owners who sell their businesses to the trusted and long term managers, and even a sale to children who are active in the business must exercise an arm's length attitude regarding the sale. Owners need to resist granting under-market concessions to these well known counterparties, since the owners are probably relying on the proceeds from the sale to retire or have other financial commitments.

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