

## CASE STUDY

# Creative Solutions to Overcome Ownership Transition Constraints

*How Platinum Group created advantageous loan structure for buyer and seller*

### SITUATION

The owner of a Midwest distributor in the residential and commercial construction market had doubled revenue and significantly increased profits in 10 years. He wanted to sell the company and eventually retire with a strong return on investment. Yet he faced daunting ownership transition constraints due to his agreement with his exclusive manufacturer. This, in turn, limited the universe of potential buyers with adequate funding. With no easy exit path, the owner's trusted advisors recommended that he work with Platinum Group.

### CHALLENGES

- Any change in ownership was subject to the manufacturer's approval. The manufacturer required the new owner to have voting control, meet their assessment criteria, and receive specific training. Private equity or individuals supported by passive investors were not permitted.
- Strong growth and profitability resulted in a business that was worth substantially more than the tangible asset value.
- New owner candidates had limited cash to invest, which necessitated an advantageous loan structure for the future buyer.



### RESPONSE

Platinum worked closely with the owner to create and present two financing options to the manufacturer for new owner candidates that would provide adequate cash upfront and payments over time to the existing owner. Both options were non-traditional funding approaches that would require the manufacturer's participation. Neither option was accepted by the manufacturer even though these financing structures could also help other U.S. distributors in the same situation as Platinum's client.

Platinum's focus turned to developing a more aggressive loan structure and finding a bank open to flexibility for the owner's selected candidate, based on the agreed-upon valuation. After discussions with several banks, Platinum refined the financing structure and incorporated the tax advantages of an asset purchase to amortize the purchase price over time. With a letter of intent from the potential buyer, this credit facility opportunity was presented to eight banks and led to formal proposals and presentations by four of them.

**RESULTS** – Platinum managed the bank selection and closing process in less than six months. The resulting five-year, cashflow-based term loan and the buyer's investment provided sufficient upfront cash to the existing owner, who would also receive payments over time. Annual tax savings of \$0.5M from the financing structure facilitated by Platinum could help pay down the loan faster. The competitive nature of the bank selection process resulted in a more advantageous solution and better banking fit for the company. The owner remains as CEO as he transitions his role and expertise, over time, to the buyer. He is pleased to have a clear path for retirement.