

GlassRatner Advises Manufacturer in Obtaining \$4.0M Acquisition Financing

Metal Fabricating and
Distribution

\$4,000,000

Acquisition Financing

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**MAY
2019**

Background

Our clients were an established water pump manufacturer and distributor for industrial and municipal markets, and a licensed tool and die maker. As partners, they had negotiations with the acquisition target for over four years. The owners of the acquisition target were aging and wanted to exit their equity position in the company through this buyout. The target comprised of a holding company and its three operating subsidiaries.

The agreed purchase price was \$4M and they had executed a letter of intent to acquire 100% shares of the target, but our clients had very limited personal funds to invest.

The target was a profitable and successful business which had the potential to grow and expand. However, the existing owners did not pursue expansion because of their intent to exit. The acquires identified the potential to grow the business and saw synergies with their own water pump business.

First Challenge

Our clients first needed help in structuring the financing, and clarity on the requirements lenders would have of them as new owners.

Solution

On our recommendation, after consultation with potential lenders, the clients were able to source an equity partner who would invest \$750K into the transaction for a 33.3% share in the company. We were able to leverage their personal assets to gather an additional \$250K so that there was a total of \$1M in shareholder equity (25% of the purchase price) going into the transaction.

Also, on our recommendation, the client put together a strong management team with experience in the industry to ensure that they were ready for a non-disruptive transition after the sale closed. This team gave lenders confidence that there would be few bumps during the first year after the sale.

Second Challenge

With the confirmation of the \$1M in shareholder equity, our client was seeking an additional \$3M of financing from a lender together with a \$500K working capital facility.

Solution

A confidential information memorandum was prepared that encompassed all the details of the acquisition and stated the separate sources of financing that would be pooled together to complete the deal. A wide range of responses was received from the senior and sub-debt lenders that were approached. From most lenders there was a need to have a senior and sub-debt structure for the required \$3M. However, the incumbent bank, knowing the underlying strength of the company, was willing to provide a term sheet for the full \$3M in senior debt and a \$500k line of credit.

Third Challenge

As due diligence commenced with the successful bank, the equity partner who had committed \$750K backed out of the deal and our clients needed an alternative to fill in the equity gap.

Solution

The clients did not have the cash to bridge the gap that was caused by the withdrawal of the third partner. Negotiations with the original owner resulted an offer to extend \$750K as a (vendor take back loan (VTB) and assume a debt position. The original owner would then be repaid as part of a payment plan starting in the next financial period.

Result

Since the acquirers had injected equity into the transaction, combined with the VTB from the original owner, the bank was confident in lending the required \$3M to complete the transaction, and the acquirers were able to purchase the target company as planned. The VTB lender has second position security and is satisfied with receiving \$3.25M upon closing of the transaction with the balance being paid through a payment plan commencing in the second year. The lender is in first

position and in addition to the \$3M, they also offered \$500K line of credit to be used for working capital.

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