

Closed Case Files Perpetuation Chronicles™

EXCLUSIVE. THIS BUSINESS DOCUMENT HAS BEEN PREPARED FOR ENTREPRENEURS, BUSINESS OWNERS AND MANAGERS.

The Chronicles come from the exclusive files of Private Capital Corporation (PCC).

The case stories are true. Only the names and places have been changed to protect the privacy and confidentiality of PCC clients.

CLOSED CASE 17

CASE BACKGROUND

Starting with \$750 in 1968, R. Lorenzo invested in

used lithography equipment to begin a printing services business in a mid-sized, mid-western city. As it turned out, his timing wasn't the best. America was coming out of the Vietnam War and looming unseen around the corner was a killer economy – energy crisis and stagflation. But through his sweat equity and prudent business decisions, Lorenzo not only survived; he thrived. He brought family members into the business. The business grew and diversified into other complementary holdings. By 1997, the corporation was valued at \$21MM. As he approached retirement age, Lorenzo was gratified that he had two sons working in the business and he began to seriously contemplate how he could begin planning for his succession, the company's perpetuation and long-term security of himself and family members.

CASE CHALLENGE Although his business was “all in the family,” Mr. Lorenzo was not sure either of his sons was prepared to take the helm. He feared a possible rivalry if he arbitrarily chose one son over the other. But even more, he feared risking the company's future and didn't want to delay making a decision.

PCC ACTION

- 1 Through objective third party interviews with management, employees, customers and suppliers, PCC confirmed that Lorenzo's reluctance to tap one of his sons was justified. Both were valued but neither was felt to have the combination of leadership and management abilities.
- 2 PCC designed a Management Stock Ownership Plan (MSOP) to allow competent managers to invest in the company. This vested interest by key people would ensure long-term stability.
- 3 One of Lorenzo's trusted key executives was named CEO.
- 4 Trusts were created for the founder's grandchildren to provide education and equity ownership.
- 5 We designed a substitute creditor arrangement so that Lorenzo's personal bank guarantees could be replaced.
- 6 We designed a plan to assure that Lorenzo achieved personal liquidity, assuring that “all of his eggs were not in the company basket.”

EPILOGUE The company grew and continued to prosper. But, unlike Mr. Lorenzo, the sons and other managers were unwilling to assume personal guarantees on corporate debt. We helped the founder sell his company for a premium over FMV, and the company MSOP accounts were converted to 401(K) plans. In this case, the company was not perpetuated in the family, but it remains a thriving business, now valued at \$33MM.

PCC IS AN INVESTMENT BANKING FIRM, SPECIALIZING IN COMPREHENSIVE PERPETUATION PLANNING. FOR MORE INFORMATION, PLEASE CONTACT US AT WWW.MAIL.PCC.COM.