

CASE STUDY

LINCO Research

Failed Management Buyout



Our Client: LINCO Research is a life sciences company that manufactures and markets proprietary immunoassays kits for use in the drug discovery and development industry.

Situation: A critical factor in the Company's success was the founder's commitment to assembling and retaining a strong management team. After producing several years of outstanding results, the Company owner delegated control of day-to-day operations to the senior leadership team. When a decision was made to sell the business, the owner felt the senior management team should be given the first opportunity to acquire the business in recognition of their efforts to scale the business and increase the value of the Company.

Challenge: The management team did not own any stock in the Company and did not have the financial resources necessary to purchase the business. Although the Company's owner was willing to sell to the management team on favorable terms, he was not willing to finance the sale or defer receipt of the purchase price. Faced with the daunting task of arranging financing for the purchase of the entire Company, the management team reached out to a number of capital providers for assistance. Ultimately, the management team was able to identify an equity partner that would provide them with the necessary financing. However, under the terms of deal, the management team's ownership would be limited to a small minority interest.

The Solution: The Company's owner hired The Fortune Group to evaluate the management proposal and present strategic alternatives. Based on The Fortune Group's detailed analysis of the Company and the current market environment for similar companies, the owner realized the value of the business was much greater than he estimated when he had agreed to sell to management. The Fortune Group presented the owner with an expected valuation that would allow him to pay cash bonuses to the management team tied to the proceeds of the sale. These bonuses were well in excess of the value of the minority interest the management team would have retained under their buyout proposal and would net a greater amount to the owner than he would have otherwise received from the buyout transaction with management.

The Results: Working closely with the management team, The Fortune Group contacted a number of highly strategic buyers and generated multiple offers in line with the valuation presented. In a "win/win" for both the management team and the Company's shareholder, the business was acquired by a large, publicly held biosciences company at a valuation over three times higher than the value of the management buyout transaction. In addition, each member of the management team received a significant cash bonus at closing from the owner and an attractive employment agreement from the buyer.

About The Fortune Group: Founded in 1987, The Fortune Group is a mergers and acquisitions advisory firm serving middle market companies considering a sale or recapitalization of their business. With over 200 years of combined dealmaking experience, the firm has established itself as a leader in creating value for its clients by completing transactions that meet both financial and strategic objectives. Learn more at fortunegrp.com.

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