TRIGGER EVENTS

WHAT'S YOUR PAIN?

PARTNER WANTS OUT

Partner Wants Out

What To Consider In The Situation

How do you cut the wings off a plane and then sell it at full value? Successful partnerships usually develop over time and each partner brings a unique skill set to the table. There are some important considerations before starting a split such as: how important is the departing partner to the success of the current business operations, do you have a buy sell agreement in place, is your partnership in a good or bad place, why are you separating and what is the goal of the separation, how will you negotiate the price and deal terms of the sale?

It's important that while reflecting on the strategy behind leaving the partnership, you also take time to consider the partnership itself. Is the business failing, has it grown too quickly, have visions shifted, is there a lack of communication and guidance, is the issue money related? There are a multitude of reasons why it has faltered.

Ultimately, if you began your business with clear partner agreements (including provisions for what happens if one partner wants to leave), a strategic business plan, and measurements for when you should update these plans and agreements, transitioning one partner out of the business will be easier and lead to less resentment.

Here are some steps to take for ending the partnership:

1. Review your current operating or partnership agreement and see if it includes a buy/sell section.
2. Owners (the parents) v. the business (their children) - what is the WIN for each of them?
3. Obtain good legal and tax advice before doing anything.
4. Negotiate, document, and spell out the terms of the agreement.
5. Keep a cool head and try to manage your emotions

How ECG Supports The Situation

During a partnership buyout, the definition of a successful transition is - the partners separate in an agreeable fashion and the company survives post-close. We know that failure is not an option. We must make it work — for the partners, for their families, for the employees and for the business. More than a split — it is engineering the process on a human level. We are every bit as ready to help mediate as we are to orchestrate.

Case Study Example 1

The Challenge: A partner buyout with a lower-than-expected valuation

Two partners owned a business. The senior partner had ten years of experience over the junior partner, but he wanted out. The senior partner had his name on the building and the business; he was the base of the entire company. The negotiation came down to the value of the business. The junior partner would have to pay it out over the next ten years, but the business wasn't worth enough for this to make sense. The senior partner felt like the company was worth more, but without him, it wasn't.

The Solution

We assisted with the negotiation of price and terms, which took some time since the senior partner struggled with the low valuation. Through negotiations, we were able to help bring the partners to a compromise that worked for both of them. In the end, the future cash flow of the business determined what the company could afford to pay. Both partners needed to come to an agreement on what that cash flow would look like so a "fair" price could be determined.

The Result

The senior partner got a higher purchase price but was willing to work a little longer to help build the future cash flow. The transition took longer but the price was what he needed to retire.

Case Study Example 2

The Challenge: A partner buyout, but there were only stocks as value

An engineering firm owned by three partners with equal shares in the company. One of the three partners felt he was being kicked out, while the other two felt he was quitting. The relationship had soured and the three could no longer work together. The two partners who wanted to stay in the company were the operators. The departing partner was the sales generator and relationship manager. The business was not very profitable; cash was low and a lot of the company's value was based on owning stock in other startup companies. How do you value that stock when you sell the business? The partner leaving couldn't just take a third of the stock, but the company didn't have cash value.

The Solution

We executed a valuation of the company, which was more complicated than a traditional valuation due to the value being in stocks of other companies. We helped the three partners negotiate a fair stock split that everyone was happy with.

New Roadblock

Days away from signing the stock split agreement, the departing partner's ex-wife refused to agree to the terms, so ECG was brought on again to assist them. The key to that negotiation was making sure the partner communicated with their ex- wife throughout the whole process. We designed a new deal and the partners exchanged stock for stock (no cash was exchanged).

The Result

It ended as a WIN– the company survived with just the two partners, and all lawsuits were dropped.

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