Lazarus Resources Group, LLC

Management Advisors

Investment Bankers

Bringing Business to Life

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Achieving a Successful Exit Through a Partial Recapitalization

Succession planning is perhaps the most important issue that privately-owned businesses face. In most cases, the business comprises the single largest asset in a retiring business owner's investment portfolio and is a source of income to multiple family members.

The most common solution to the succession planning issue, the sale of the business, can be problematic. Business owners who attempt to sell the business coincident with retirement often encounter difficulty in finding a willing acquirer, as many potential financial buyers (e.g., private equity groups) require ongoing involvement from existing management, and consider the owner/operator key to the continued success of the business.

One solution is a staged exit through what is called a partial recapitalization: a transaction in which a private equity firm buys either a controlling or minority stake in the business, with the owner retaining the remaining portion of the equity. To finance the purchase, the equity group invests its own funds and utilizes the company's balance sheet and earnings to support a leveraged capital structure. Under this structure, the owner continues to be involved in the business until a second stage exit, at which time the owner sells the remainder of his/her equity in conjunction with the equity sponsor.

By structuring the transaction as a partial recapitalization, the business owner is able to achieve several important benefits, some of which are not achieved through an outright sale, such as the continuation of salary and benefits.

At closing, the owner generates liquidity by selling a portion of his or her equity thereby enabling diversification of the owner's investment. Diversification of an investment portfolio in advance of retirement is regarded as a core strategy protecting the overall value of the owner's investment portfolio.

An owner of a privately-held business often must personally guarantee his or her company's debt in order to secure a sufficient level of capital. In a partial recapitalization, however, the private equity sponsor often eliminates the need for the owner's personal guarantees, which substantially decreases the business owner's risk in the event of the company's default under the terms of the loan.

As the business's new equity partners typically anticipate exiting the investment within a

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Another Successful Restructuring

Lazarus Resources Group LLC, recently completed another turnaround and restructuring project.

The client, a Los Angeles based electrical equipment manufacturer found itself with deteriorating financial results, and a looming maturity of its credit lines. They retained Lazarus to assist them in developing a turnaround plan and negotiating a restructuring and extension of the company's loans.

We were able to identify avenues for improvement to operations, increase cash flow and articulate to the lender sufficient reasons to restructure and extend the loans, giving the company time to implement new strategies for growth.

"When a borrower's performance slips, and the lender is asked to restructure its loans,

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Investment Banking

- Mergers & Acquisitions
- Restructurings
- Workouts
- Recapitalizations
- Corporate Finance
- Value Enhancement

Management Advisory

- Corporate Leadership
- Turnaround Management
- Exit Planning
- Succession Planning
- Strategic Planning
- Interim Management

Benefits of a Partial Recapitalization:

- Liquidity and Diversification
- Elimination of Personal Liabilities
- Upside Potential
- Operational Control
- Growth Capital
- Built-in Buyer

Partial Recap (cont'd)

A 2-stage exit via a partial recap can often mean more value recognition over-all.

five to seven-year period, the owner has the opportunity to participate in any growth in the business over that time period.

The retention of management is an integral part of most private equity sponsors' investment strategy, as this approach provides the business with continuity and an experienced team that is focused on growing the business. Private equity firms prefer to manage a portfolio of assets, rather than oversee the daily operations of their portfolio companies. In order to facilitate the growth of the company and to supplement the talents of the management team, the private equity sponsor often provides business and industry expertise that may not have been previously available within the company.

Private equity firms will often invest additional funds to finance add-on acquisitions to fuel growth. These add-on acquisitions can substantially increase the overall value of the entity, thereby providing the business owner with an equity stake in a larger enterprise going forward.

While partial recapitalizations are more possible now than any time in recent memory, the number of private equity firms in the market makes it a daunting task to identify and negotiate with the sponsor best suited to maximizing value for the company and continuing to build the legacy of the owner.

Careful and detailed succession planning is an important component of achieving a business owner's objectives. Speak with your advisors to determine if a partial recapitalization is the right move for you.

Another Success (cont'd)

" Too often management waits too long to address the issues and either has to deal with the lender's special assets department or file bankruptcy,"

they want to know that the management has identified the causes of distress and has a solid plan to correct the problems," said Brian Wygle, Managing Director. "They also need to know how their financial involvement will help, the proposed structure, and how it will help the lender get paid back."

The recent project was typical of many of the firm's clients, and one of several engagements the firm has had in recent months.

Assisting companies in the lower end of the middle market to develop strategies for renewal and growth is a large part of Lazarus's activities. Typically the company is called in to assist in developing the strategy, create a plan that articulates the issues for all stakeholders, negotiate with existing lenders or investors, and advise the client in obtaining additional or replacement financing.

" Too often management waits too long to address the issues and either has to deal with the lender's special assets department or file bankruptcy," said Wygle. "Lazarus Resources Group helps its clients to avoid this path."

Lazarus Resources Group Has a New Address

New office at 2600 W. Olive Ave., 5th Floor, Burbank,

Lazarus Resources has a new address. As of April 1st, the company moved its offices to the fifth floor at 2600 West Olive Avenue in Burbank.

The company also has plans to open an additional office in Newport Beach.

Members of the firm typically travel to the company's clients and often work from home, so when the time came to make a move, the company opted for executive suites, choosing Premier Business Centers as it home.

The firm chose Premier because they have locations in almost all of the areas Lazarus operates. This allows us to provide offices, conference rooms and support to our staff wherever we have clients. We are able to expand our reach, while controlling costs, which we are then able to pass onto our clients.

For more information about Lazarus Resources Group, LLC, visit our website at:

www.lazarusresources.com