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Management Buyout

A M&A trend in Viet Nam

Overview

Management buyout (MBO) is a form of acquisition where a company's existing managers acquire a large part or all of the company.

Purpose of MBO from the managers' point of view may be to save their interest in the company or to take advantage of potential inside knowledge, either if the business has been scheduled for closure or if an outside purchaser would bring in its own management team. In particular, the due diligence process is likely to be limited as the buyers already have full understanding of the company.

Financing a MBO

Debt Financing: Management of a company will not usually have enough funds to buy the company outright themselves. They would first seek to borrow from a bank, provided the bank was willing to accept the risk. MBOs seem risky for a bank to finance the purchase through a loan.

Private Equity Financing: If a bank is unwilling to lend, the management will commonly look to private equity investors to fund the majority of buyout. The private equity investors will invest money in return for a proportion of the shares in the company, though they may also grant a loan to the management. Exact financial structuring will depend on the backer's desire to balance the risk with its return, with debt being less risky but less profitable than capital investment.

Seller Financing: In certain circumstances, it may be possible for the management and the original owner of the company to agree the deal whereby the seller shall finance the buyout. Price paid at the time of sale will be nominal, with the real price being paid over the following years out of the profits of the company. Timescale for the payment is typically from 3 to 7 years.

Our Support

In addition to legal advice for your MBO activities in Vietnam, we can also provide deal structuring and other tailored services to relevant parties along with suitable support from private equity investors.

Disclaimer:

Information herein has been obtained from many sources believed to be reliable but we make no representation about its completeness or accuracy. It is not intended and should not be relied upon as legal advice in all circumstances.

Picture: M&A in real life - Source AP.

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