



Managing the complexities of a company sale

Situation

A longtime Blue Fin Capital client in his mid-60s, who was the owner of a privately held business, was approached by a public company to sell his firm.

The acquirer proposed the following terms for the sale:

- 50% of the purchase price in company stock with a 24-month lock-up period before the client could sell any shares
- The remainder paid in cash, which was estimated at \$7.5 million after tax

While the client wasn't actively looking to sell his business, he felt the offer was attractive. Yet, he had several concerns for which he sought Blue Fin's guidance:

- **How to evaluate the financial health of the acquirer.** Since a portion of the sale proceeds was in the form of company stock, the client was concerned about the risk he would assume by holding this concentrated position during the 24-month lock-up period.
- **What his financial life would look like after the sale.** Specifically, he sought to understand how he and his wife would generate income from the sale proceeds over the course of their lifetime. He was giving up a healthy annual salary and was concerned about investing the proceeds from the sale in the stock market. His current Blue Fin portfolio was less than \$1 million and primarily in tax-deferred retirement accounts.
- **How to ensure his two young adult children would responsibly manage their share of sale proceeds.** The children were minority owners in the business. After-tax proceeds to each child were approximately \$500,000.

Approach

With the client's concerns in mind, Blue Fin took the following approach:

- **Conducted an analysis of the acquirer to help the client make an informed decision about the merits of the deal terms.** Blue Fin's work included 1) a market assessment and outlook for the acquirer's industry, 2) an evaluation of the company's financials and management team, and 3) a series of what-if scenarios for the value of the stock upon the conclusion of the lock-up period based on it performing above, below, and at expectations.



- **Worked with the client and his wife to establish financial priorities for the next chapter in their life.** This exercise included determining their income needs and the impact they sought to make over time in their community and with family. They discussed goals for long-term wealth transfer and considerations for updating their estate plan. The Blue Fin team also designed an investment strategy and retirement income plan for the couple.
- **Educated the client and his family about investing in the financial markets.** The Blue Fin team conducted several meetings with the client and his wife to educate them on the history of the financial markets, the meaning of volatility, and the importance of investing the sale proceeds in a manner to keep up with inflation. They included the couple's children in several of these conversations.
- **Helped him become comfortable with transitioning his wealth from an illiquid concentrated position to a liquid portfolio that was priced daily.** The client was nervous about investing the sale proceeds in the financial markets, where his wealth picture would change daily. Yet, he realized that given the interest rate environment, he would not earn much if the proceeds remained in cash.

Outcome

The client decided to move forward with the sale. The presale conversations with Blue Fin led to these additional important outcomes:

- Implementation of the custom-designed investment strategy using a staged market entry of the after-tax sale proceeds
- Coordination with the client's accountant to orchestrate liquidity needs for tax payments
- An updated estate plan for the family, drafted by an attorney Blue Fin recommended to the client
- Development of a plan to unwind the concentrated stock position once the lock-up period expired
- Establishment of a donor-advised fund to support the family's charitable giving, with the investments managed by Blue Fin
- New investment accounts, managed by Blue Fin, for each of their young adult children

Upon conclusion of the sales process, the client and his wife realized that their new financial situation both enhanced their wealth picture and gave them peace of mind that they are more diversified and more liquid than they were in the past.

This case study is for illustrative purposes only.