

NEWS

Bringing in partner can help family business

By PRIYA RAMSINGH

Going it alone isn't always easy. For many family-owned businesses, one person at the helm is fulfilling as the company grows and sails into profitability. But when retirement appears on the horizon, accompanied by a wave of economic instability, suddenly being alone as the captain of your own ship isn't as desirable anymore.

Selling shares can be a good solution, but the arrival of new business partners can bring disruptive changes to fine-tuned businesses built

on hard work and strong ethics. Long term employees could be affected and soon, it's no longer the same company handed down through generations.

It's not an easy situation. But an investment group called The Succession Fund, from Argosy Partners Ltd., offers a win-win solution that could bring many businesses successfully through the recession. Larry Klar, Managing Director of The Succession Fund says it's a good way for family-owned businesses to take some of their chips off the table and strengthen the company at the same time.

Over the last year, Klar admits his phone has been ringing a little more than usual. "Because of the recession, we are getting many phone calls from people who own 100 per cent of the family business," he says.

"Some of the comments I hear from companies are, 'I don't want all my eggs in one basket,' or 'I no longer want to be the only one that has to deal with the risks and challenges in my company'," explains Klar.

Clearly, The Succession Fund option has piqued the interest of these business owners. So what exactly is this magical financial remedy?

Klar explains The Succession Fund is a private equity fund built from investors ranging from institutional investors to private individuals. Once a company meets Argosy's criteria for investment, the fund will buy 35 to 50 per cent of the company's shares and become a partner in the business.

For many companies, this offers a safe solution that doesn't entail high risks or additional debt. "These people do not want to sell yet or burden their balance sheet with bank borrowing," says Klar.

But once the details are explained, there are some hesitations on the part of the business owner.

According to Klar, "Some people say, 'I want what you offer but I'm not sure I want to get married at this stage of the game'." Bringing on a business partner who owns such a large portion of the shares is a fear for many businesses that have been built on gut instincts.

But The Succession Fund option isn't disruptive. Once the investment is made in a company, a board of directors is put together to help manage, explore and execute various growth opportunities, says Klar. "We may identify acquisition opportunities, implement policies at the board level, and play a role in corporate governance and financial planning."

By no means however, does the board get involved in the day-to-day operations of the company. When The Succession Fund has agreed to invest, it's due to the success of the company,

and the qualities of the founder, and its current profitability. "They carry on doing what they have done," says Klar. "But that's why we are attracted to them ... these individuals have run their businesses with a culture of profitability."

For Westmount Storefront Systems in Kitchener, The Succession Fund partnership was a bonus. "With a new board member, you get new insight that you may not have had before," says Rino Messore, vice president and general manager of Westmount Storefront Systems. "With The Succession Fund, they do not come in and tell you how to run your company. They are investors and are on the board and they make their views known, but they do not push their ideas on you. We are able to work effectively as partners."

The \$20-million glass wall installation company wanted to ensure their employees still had their jobs, but the company's owner was looking to reduce his long work hours and take some chips off the table, says Messore.

Once the company met Argosy's criteria and the shares were purchased, a board of directors was appointed. Since forming the partnership, the company has maintained its status quo with a profitable advantage says Messore. "It's helped us expand and strategize different ways of profitably growing our business."

If it sounds too good to be true, Klar assures that it takes extensive research before The Succession Fund will consider the investment. "It's an extremely detailed due diligence process to investigate the history of the business, analyze the company's financial status, and focus on the people, risks and challenges as well as evaluating growth prospects," he says.

For companies who are just looking to relieve some of their shareholders there is another option to selling half of the company. "Not all shareholders have the same objectives," says Klar, and explains The Succession Fund can invest as a replacement partner for the shareholders that want out.

"In these recessionary periods," he adds, "increasingly frustrated business owners reflect on how hard they have worked, and often want to buy out certain minority shareholders such as silent partners or relatives who are not making a contribution to the business."

Whichever option is suitable, The Succession Fund is a ray of light for hard working entrepreneurs facing an unstable market. It offers a financially viable solution without compromising businesses built on family values and old fashioned hard work which are, after all, the backbone of the economy.

For more information on The Succession Fund, visit www.successionfund.com



Rino Messore, vice-president and general manager, with Tim Mitchell, president and founder of Westmount Storefront Systems of Kitchener.

Photo by Peter McCusker