

Vendor-initiated management buy-out (VIMBO)

A possibility for extracting cash out from a company and passing the business on to the next generation is a vendor-initiated management buy-out (VIMBO).

Let's say a father sells his business to his son for £2m in cash (funded by a bank, based on security available within the business) and £4m in vendor loan notes. Loan notes are a popular way of keeping the business within the family if one member wants to retire. Essentially, they are an 'IOU' issued by the acquirer, which will be paid off over an agreed period as the company makes profits.

This can be tax efficient for the seller and can generate reasonable yields. There is low transactional risk and banks quite like loan notes as the seller retains a stake, is often involved on an ongoing basis (perhaps as a non-executive director) and is incentivised to help grow the business. Once the loan note has been repaid, the son will fully own the company.

Using loan notes can be attractive for family-owned businesses because the deal remains private and creates minimal disruption to the underlying business. In addition, if there is no private equity investment, management won't be expected to sell in three of four years' time and the business can stay in the family.

On the downside, buyers may have to agree to do certain things in exchange for the loan notes, for example, pay interest, limit shareholder salaries or not take dividends.