



**VALUFINDER**Group<sup>SM</sup>  
Middle Market Investment Banking

FOR OWNERS  
**InHouse Recap<sup>SM</sup>**

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Valufinder has been successfully facilitating mergers and acquisitions for over a quarter of a century and we clearly understand the desires of the private seller. The vast majority of owners of middle market corporations take tremendous pride in their company. They take satisfaction in the security it provides for their family, its contribution to the welfare of its employees, and the esteem in which customers and suppliers hold the company. It is, therefore, no surprise that an owner usually does not want to sell.

However, in our discussions with many private company owners, we have discovered that they would like to achieve a personal liquidity event, to take out a big part of the company's enterprise value in cash, without selling any portion of the business, or losing control, or signing any personal guarantees. Working in conjunction with several non-traditional financing sources which represent tens of billions of dollars in large pools of long-term money (pension funds, insurance companies, endowments, foundations and wealthy families), we have developed a product which achieves these owners' goals - the *InHouse Recap*<sup>SM</sup>.

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*I could not point to any need  
in childhood as strong as  
that for a father's protection.*  
-Sigmund Freud

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The financial sources we have identified and work with are more focused, aggressive and flexible than conventional bank lenders who tend to be traditional, cautious, and risk averse. These financial sources have the expertise and experience that allows them to specialize in creating custom financing packages that meet the needs of the business owner, rather than the needs of corporations or the general public.

The InHouse Recap combines certain concepts and components from both a corporate buyer's acquisition financing package and from a home equity loan and then tailors the combination to attain an existing business owner's goals-*except that there is no acquisition*. The InHouse Recap allows the owner to reap most of the value of his business without selling which is similar to the way home owners can unlock a significant amount of the built-up equity value in their homes. Further, Valufinder can now do this for you in a tax-efficient manner by taking advantage of current low tax rates for dividends and capital gains.



Under the right circumstances and by utilizing an InHouse Recap, Valufinder can create a liquidity event which rewards ownership but does not impair the company's future. In broad outline, here are the major components and advantages of an InHouse Recap:

- 1 **Total Freedom:** The proceeds from the InHouse Recap can be used by owners in any way they choose. Satisfy personal dreams, provide long-term security for their family, diversify their portfolio, plan their estate, buy out their partners, purchase competitors, or whatever. Your money, your choices.
- 2 **Significant Payout:** Assuming no existing interest-bearing debt, the loan given to the company is comprised of securities ranging from senior secured debt to unsecured subordinated debt for a total value between 2-4.5 times adjusted EBITDA. If there is existing interest-bearing debt, the new loans are net of these amounts. Usually existing debt is refinanced within the new financing package.
- 3 **No Change in Ownership:** The normal InHouse Recap typically does not require any sale of the owner's stock.
- 4 **Tax Efficient:** With the Recap, a loan is made to the company which, in turn, declares a special dividend to the shareholders. The federal tax rate for the dividend is normally an attractive 15%, although you should consult your own tax advisor. Further, the interest the company pays on the loans is typically tax-deductible.
- 5 **No Personal Guarantees:** These loans do not require a personal guarantee. If there is existing debt which is being refinanced, the owner is normally relieved of any personal guarantees on that debt.
- 6 **Realistic & Flexible Structure:** Different types of loans, interest rates, amortization schedules and maturities are custom tailored to match a realistic assessment of the company's future earnings potential, ongoing capital expenditures, and, if needed, funds required for growth.
- 7 **Most Companies, Most Sizes:** Our InHouse Recap is extremely flexible and can work for stable mundane businesses as well as companies with strong sales and earnings growth. It can even work for companies with erratic earnings or those losing money with a large asset base.

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*Happiness has many roots, but none more important than security.*

-Edward R. Stettinius, Jr

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As for size, financing sources will generally look at companies with adjusted EBITDA of as low as \$5 million and up to \$40 million.

- 8 **Companies With Problems:** Companies with impairments such as legal or EPA issues, which would make them difficult to sell, can utilize an InHouse Recap. As long as the earnings needed to service the debt can be segregated from the problem during the term of the debt, an InHouse Recap can be created.
- 9 **Full Valuation:** If there is any equity investment by the financing source (usually not necessary), it is considered a yield enhancement by the lender. These investments are typically based on a full valuation of the company as if 100% were being sold.
- 10 **One-Stop Financing:** Our InHouse Recap usually offers a one-stop financing source which can provide all the components of the recap in one comprehensive package. Further, working with sophisticated financiers Valufinder can also create a single package of different tranches of financing from multiple sources.
- 11 **Quick Turnaround:** Because these financing sources are not buying the company, they do not require the same extensive due diligence. Once the initial company profile is distributed to these sources, a recap can usually be completed in about 14 weeks. In exceptional circumstances, it can be done in 4 weeks. In contrast, a typical acquisition takes 6-9 months to complete.
- 12 **Personal Confidentiality:** Only selected senior managers need know what you are doing. There are no company-wide announcements. Critical operating matters as well as your personal finances and objectives remain strictly confidential.
- 13 **Corporate Confidentiality:** No exhaustive offering memorandum or pie-in-the-sky valuation needs to be created or shared with the outside world. Initially, only a short company profile is written accompanied by a financial overview with information about both current and long term assets, and product literature. Confidentiality Agreements are executed before an exchange of information.
- 14 **Nominal Disruptions:** There are no long lines of potential buyers, including competitors, visiting the facilities and learning company secrets and disturbing employees. Visits are severely restricted.
- 15 **Owner Gains Access to Seasoned Executives:** The owner now has access to financially sophisticated executives with whom, if he chooses, he can discuss various business opportunities and gain their insights and possible help.



While all deals are unique, the following is an example of an InHouse Recap we are currently facilitating, on behalf of a 42 year old owner. Originally, he wanted to sell his business to protect his family by diversifying his estate and to reward himself for 15 years of hard work. However, while his brain told him a sale was the right thing to do, his heart was telling him otherwise. He believed in the company and felt that it would be considerably more valuable in the future. While he did not mind having sophisticated investors involved in his company, he definitely did not like the idea of losing ownership/control.

Once we understood his real issues, we devised an InHouse Recap as an alternative. When we explained it to him, he was enthusiastic about it because it appealed to both his brain and heart.

Working with a "one stop" financing source which is a major lender to the Leveraged Buyout market (LBO), we created in general terms the following structure for the owner:

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*After Valufinder initially explained to me the pluses and minuses of their InHouse Recap, I felt I would be morally negligent in not providing for my family if I did not explore this further. I was very glad I did.*

- 42 year old Entrepreneur

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- The financing source would lend the company roughly 3.4 times its adjusted EBITDA. The company, in turn, would declare a special dividend equaling this amount to the owner.
- Portions of the debt were secured with a low interest rate and certain pieces of the debt were unsecured with higher interest rates.
- The senior debt will be amortized over a 5 year period and the subordinated debt will require interest-only payments until the senior debt is retired. Subordinated debt will be amortized between years 5 and 8 after closing.
- Both the owner and financing source had excellent chemistry and agreed that the lender would purchase warrants and common stock directly. Together these investments represented 9% of the common equity. The investments were based on a valuation of 6.5 times adjusted EBITDA.
- No personal guarantees of any kind were given by the owner.
- Total financing including debt and equity was 4.2 times adjusted EBITDA.

The net effect of this InHouse Recap is that the owner will receive in cash 64.6% of the value of his company while still owning 91% on a go forward basis. He satisfied his desire to provide his family with financial security, continued to control his own destiny and gained a sophisticated financial partner to help him grow his business.



The degree of enthusiasm financing sources show owners depends to a great extent on how owners demonstrate their ability to manage their company and to pay back the financing. Before an owner approaches any financing source, an owner should thoroughly prepare a persuasive presentation in two parts: written and oral. Financial sources will want an owner to convince them that they and their company are a reasonable risk.

To successfully complete our InHouse Recap for an owner, Valufinder, depending upon circumstances, will:

- Work, together with the owner and those senior managers and outside advisors the owner deems appropriate, in preparing a descriptive and persuasive memorandum on the Company and its operations for use in confidential discussions with prospective financing or lending sources (collectively "Sources").
- Prepare a select list of Sources concurrently with the preparation of the memorandum.
- Contact each prospective Source approved by the Company.
- Have the approved Sources that have an interest in the proposed transaction sign a Confidentiality Agreement (which will be pre-approved by the Company) after which they will be sent the written Confidential Information Memorandum.
- Assist the owner and senior management in preparing a confidential oral presentation to be delivered by Company management to each of the approved Sources that visit the Company.
- Schedule and attend exploratory meetings and, subject to availability, any subsequent meetings requested by the Company with any interested approved Sources, and assist them in their due diligence efforts.
- Assist the Company in evaluating each proposal made by the approved Sources to assess the relative advantages and disadvantages of each proposal.
- Assist the company in negotiating various business points with financial sources.
- Assist attorneys in preparing and negotiating any necessary legal documentation with any final prospective Source.

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*To give real service you must add something which cannot be bought or measured with money, and that is sincerity and integrity.*

Donald A. Adams

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Because there is no buyer and lenders normally do not pay fees to intermediaries, we would look to the owner for our fees. Valufinder becomes the owner's advisor in creating this financing package. We ask for a nominal non-refundable retainer to demonstrate the owner's good faith in pursuing the InHouse Recap and to have our reasonable expenses reimbursed. The retainer is offset against the success fee which is payable at closing. Simply put: **No transaction, no fee.**

### **Your Next Step**

We hope that this information helps explain the characteristics and mechanics of our InHouse Recap. If you have any questions or require additional information about how this powerful financing tool can help you obtain a significant liquidity event, please feel free to **contact us** on a confidential basis and without obligation at your earliest convenience.



**CONTACT US**  
TO LEARN MORE ABOUT OUR SERVICES.

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If you are an owner, a potential seller or buyer of a business, or if you have a question about the information provided on our website, are a member of the press requesting an interview, or would like general information about Valufinder, please visit our website. A member of the Valufinder team will respond promptly to your request.

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