

# Article

## You Can Pay Me Now And Pay Me Later: A Recapitalization Gives Business Owners An Opportunity For Two Paydays

This article is the second in a series of articles that offer insight to buyers and sellers of middle market companies in today's merger and acquisition ("M&A") environment. (For purposes of this article, middle market companies are those companies with annual revenues or enterprise values between \$5,000,000 and \$500,000,000.)

### Executive Summary

Over the past several years, you've built a successful business. While you've heard about other business owners selling out to private equity firms or strategic buyers, you're not ready to sell or retire just yet. But you don't see any efficient strategy to take liquidity out of your business short of an outright sale. Maybe you're considering:

- Pulling money out of the company while minimizing taxes
- Diversifying your wealth
- Succession planning, either to the next generation or existing management
- Buying your partner out

A leveraged recapitalization, or recap for short, may give you the opportunity to take some money off the table, keep an ownership stake and stay with the business to position yourself for a second payday. A recap is a transaction that restructures the debt and equity of your business. In the typical recap, the company takes on new debt from a lender and issues new equity with special rights to a private equity firm. Part of the money raised is then paid to the owners of the business through a dividend or stock buyback.

### Primary Contacts



**Robert Kibby**

Dallas  
214.855.7504  
rkibby@munsch.com

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