NHEPC Case Study: ReThink Learning

Tom Tyler was fatigued and preoccupied flying back to his home in Cambridge MA from the education software trade show he attended annually in Chicago. The industry's leading company had hosted him for dinner and proposed that they form a "strategic partnership": code for they want to acquire his company ReThink Learning. The industry leader is well financed with capital from an investment by one of the leading education investment funds and are seeking acquisitions. While not actually offering a price, they mentioned their last few acquisitions had been made at a 3x to 4x revenue valuation. Tom tried not to show it, but secretly, he was pleasantly stunned by that $75-$100 million valuation range, which is far more than he ever dreamed ReThink would be worth! They suggested a next step would be executing a Confidentiality/Exclusivity Agreement.

Tom found himself thinking about the future of the booming software business he had so successfully built. Two of his children work in the business, and most days he's fairly comfortable with their ability to lead it forward—even though he had frequent differences with them about strategy. His concern, highlighted by the trade show dinner, was more about the possibility of transfer of his own ownership stake. Was it even smart to leave a business worth $100 million to his kids? What's in the best interest of the employees? What about the customers? How will he and the love of his life— Martine, his wife of 30 years, provide for retirement? Would it change the family?

The education software business Tom launched in 1994 developed into a leader thanks to his tireless entrepreneurial drive, understanding of the higher-education market, and easy to use business model. His two youngest kids, Caroline and Timothy, made their way up: Caroline runs higher-ed marketing, and Timothy runs service and operations. Their older brother Chuck abruptly departed the business after some tension with Tom and other family members, and is now creating his own start-up business in an adjacent education industry space.

When his kids joined the business, Tom gave each of them 5% equity ownership--some skin in the game. Tom wondered if or how he should transfer his own shares, which represented 85% of ownership. Caroline and Timothy had made it clear they have no interest in dealing with a "passive partner" like Chuck, especially given the fact that Chuck had left the business with some bitterness (and only now was back to attending family Thanksgivings). Would an alternative be to give Chuck some real estate, and to give more shares to Caroline and Timothy? Splitting the real estate from the operations had been done by other family businesses for similar purposes. Would it affect Enterprise Value? Maybe Chuck should be encouraged to trade his 5% stake against some real estate? Tom mused to himself…is treating kids "equal" always "fair"?

Tom wondered…if his business ***really could be*** acquired in the Enterprise Value range thrown out there, would now be the ideal time to do that? How would it affect his (and the Tyler Family) legacy? How would it impact the discussion he and Martine are having to fund the turf field the community wanted them to donate? What would it mean for future philanthropic goals? Tom is a fit, young 67-year-old and expects to live 30 more years. Would Caroline and Timothy have a better career path under new professional ownership? If not, maybe they could do their own entrepreneurial thing with the capital they'd earn in a sale? What was ReThink *really* worth?

At this point, Tom also realized *Holy Crap*, he needed to better understand the consequences of the alternatives in front of him in light of the latest tax laws—they had recently changed and he was not even sure what his wife would receive if he passed away before her. Tom realized he needed discuss these issues with you his trusted advisor, picked up the phone, and called you directly.

Questions for discussion: What options should Tom consider when planning for a transition of ownership? Why not agree to the acquirer's suggestion and see what happens? What is your personal experience? What advice / guidance have you found useful or pitfalls to avoid that you have experienced?