

Fotajek – college essay



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The organizational and financial structure of the Fojtasek companies had been in flux since the spring of 1994. By March 1995, three different financial transactions have been proposed to streamline and restructure the firm: an outright acquisition, a leveraged recapitalization, and a hybrid transaction called " Private IPO. " Heritage Partners is interested in taking a stake in the Fojtasek Companies by proposing a " Private IPO" transaction.

The paper will analyze the health of the Fojtasek companies and the economic benefits gained from Heritage Partners' proposal. Through careful calculations, one would recommend the proposed transactions to take place between Heritage and the Fojtasek family. Founded in 1986, Heritage Partners has developed a business expertise in family companies. Their value-added can be seen in the General Partners, all of whom had successful track records in Private Equity.

Of the three elements that distinguish them, the most important is their development of the " Private IPO" structure. This financial strategy enables majority holding while reducing estate taxation for the founder and management. For the Fojtasek family, they had been seeking potential buyers to restructure their company. Unlike its other product and distribution channel, business in the Baloleum Division has been declining. Additionally, the founder Joe Fojtasek has decided to step down at the age of 73 and hand over his role to his sons.

Thus, Fojtasek companies decided to take advantage of the opportunity to radically streamline its structure for future growth—buyout, leveraged recapitalization, or " Private IPO. " There are two common disadvantages

with leveraged buyouts and recapitalizations: a higher credit and default risk that comes with having a high leverage, and a possible loss of majority control that can lead to conflicts of interest. From both Fojtasek's and Heritage's perspective, it would be optimal to have a hybrid transaction that would lower debt levels while retaining family control of operation.

From Heritage's perspective, the exchange of securities under a " Private IPO," instead of a large cash payout, would not only leave out ambiguities concerning tax obligations but also make financing for the transaction feasible. Moral hazard of family members is essentially reduced as their equity is being tied to the firm. From Fostasek's perspective, the ability to retain family control of the company makes certain that some or all of management would not be replaced. In this sense, the " Private IPO" transaction does address the information gap, making this hybrid strategy an optimal strategy in this context.