

**Wednesday, October 29, 2014  
3:00pm-5:00pm**

Webinar Panel Hosted by



**Paul Mudde**  
Associate  
Professor of  
Management



**Panelists**



**Jonathon J. Siebers**  
Attorney



**Doug Holtrop**  
Senior Vice President



**Randy Rua**  
President  
**Rua**  
ASSOCIATES

*Mergers and Acquisitions Strategists*



**Dan Slate**  
Partner/CPA



**COMPANIES**  
CPA'S & BUSINESS CONSULTANTS  
Established 1983

# Seller Expectations

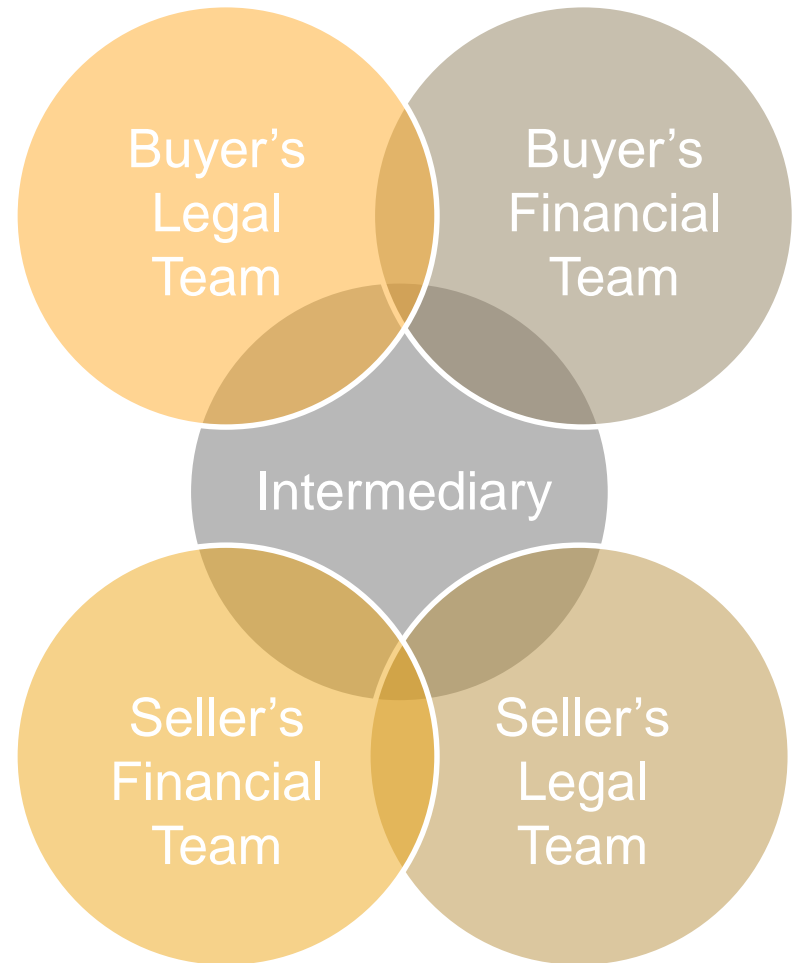
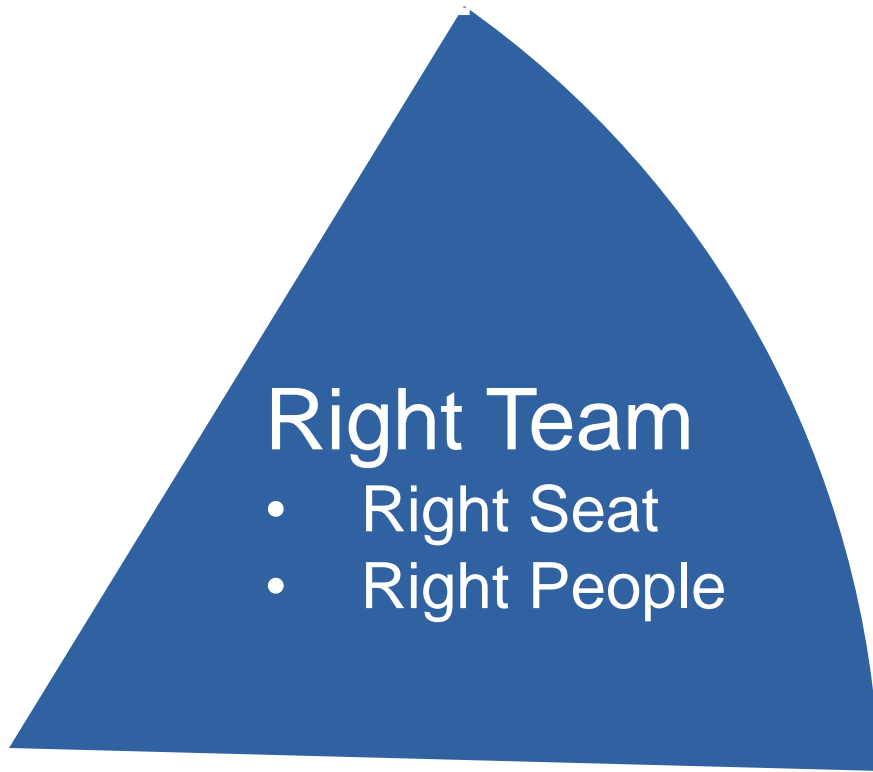
## Seller Expectations

- Summary
- Same Page

- **Motivation**
  - Tired of working / burned out
- **Purpose**
  - Meet retirement goals
- **Options**
  - Internal Sale, ESOP, Strategic Buyer, Individual Buyer
- **Ideal Prospect Attributes**
  - Strategic Buyer with ? Ability, or Individual Buyer with cultural match
- **Ideal Transaction Picture**
  - Exit Date
  - EBITDA
  - Cash at Close
  - Total Valuation
  - Description of Life After Sale
  - Revenue
  - Valuation
  - Future Annual Cash Flow

## Right Team

## Team Roles



# The Components of a Successful Transaction

---

## Assessment

- Quantitative
- Qualitative

# It's All About Your Point of View

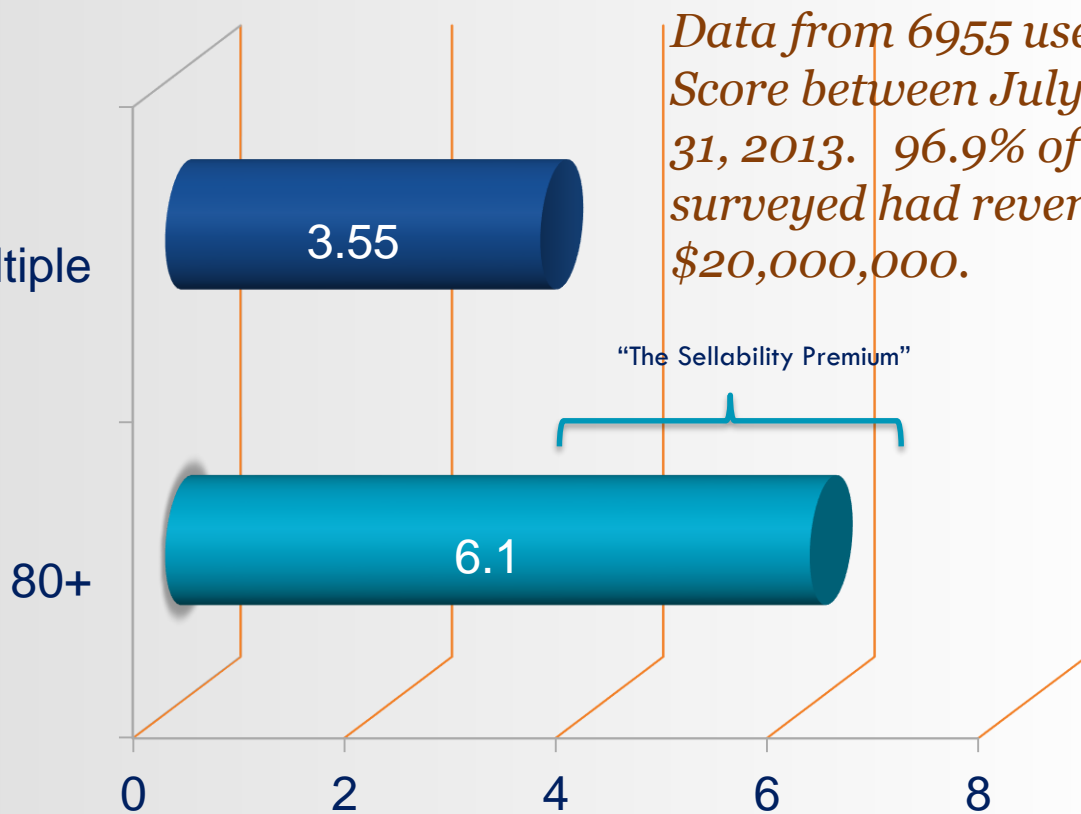


# Highest Multiple Offered To Companies With A Sellability Score of 80+

Q “What multiple of your earnings did the offer represent?”

Average multiple

Comparing average multiple offered



Data from 6955 users of The Sellability Score between July 1, 2012 and December 31, 2013. 96.9% of business owners surveyed had revenue of less than \$20,000,000.

## Market

- Marketing Plan
- Qualification

# Sell Side Market Test

## Summary

- Contacted 20 Strategics and 20 Private Equity Firms
- Received Feedback from **5 Strategics** and **7 PE's**
- **50% of Strategics** were interested and **75% of PE's**

## Typical Structure:

- **Strategic:** All Cash if long-term management team is in place besides ownership
- **PE:** 70% Cash at Close, 30% Seller-Note, Rolled-Over Equity or Earn-Out

## Typical Multiple Range

**Strategic:** 4-6 times EBITDA  
**PE:** 4-6 times EBITDA

## Drivers of Multiple and Structure:

### Strategic Top 3:

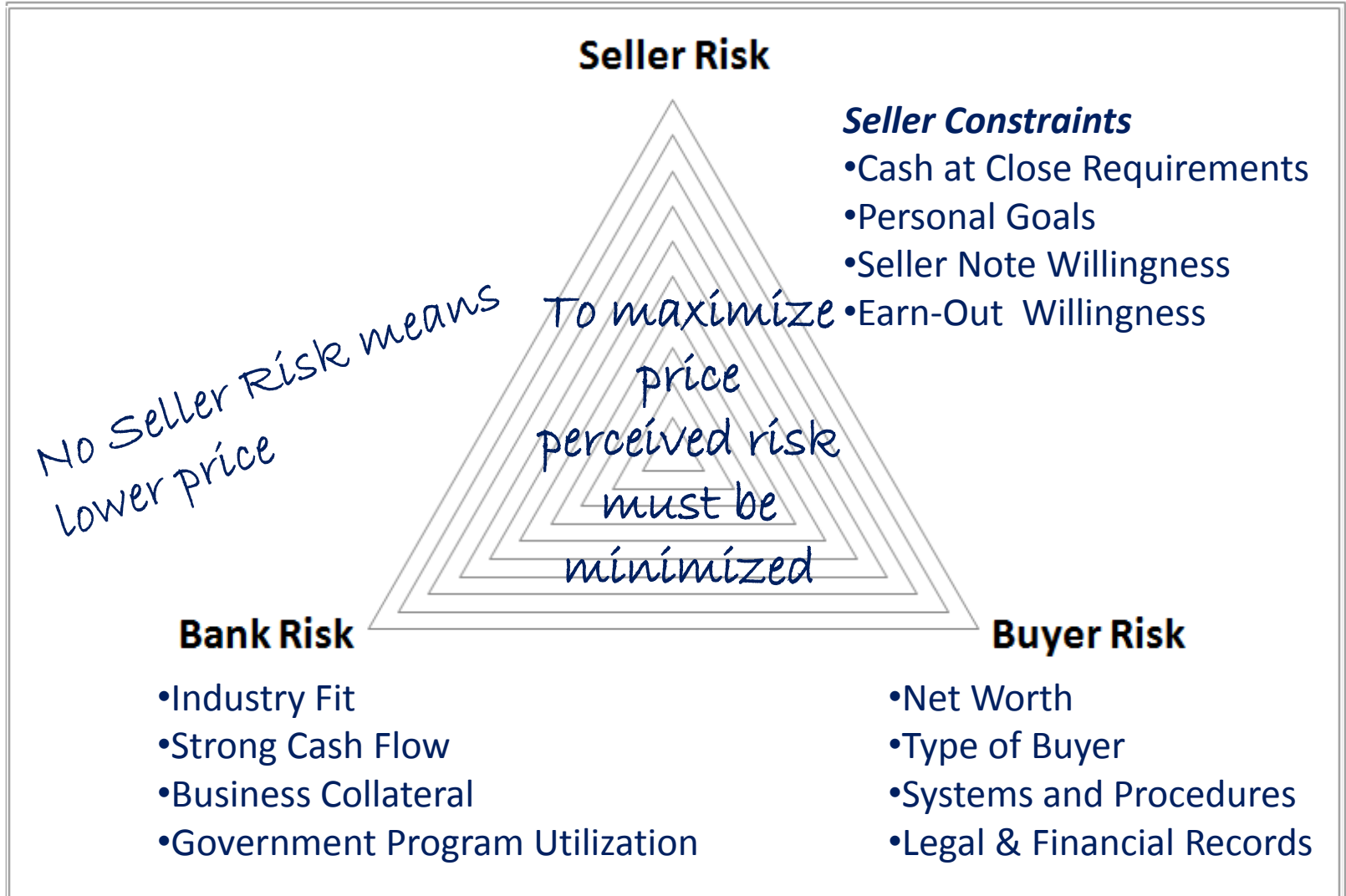
- Location
- Synergies
- Service Type

### Private Equity Top 3:

- Flexibility of Ownership
- Customer Concentration
- Strength of Management Team



# How can risk be shared?



## Negotiations

- Proposal Elements
- Financing Feasibility

## Closing

- 90-Day Checklist
- Alignment

# The Rua Transaction Process

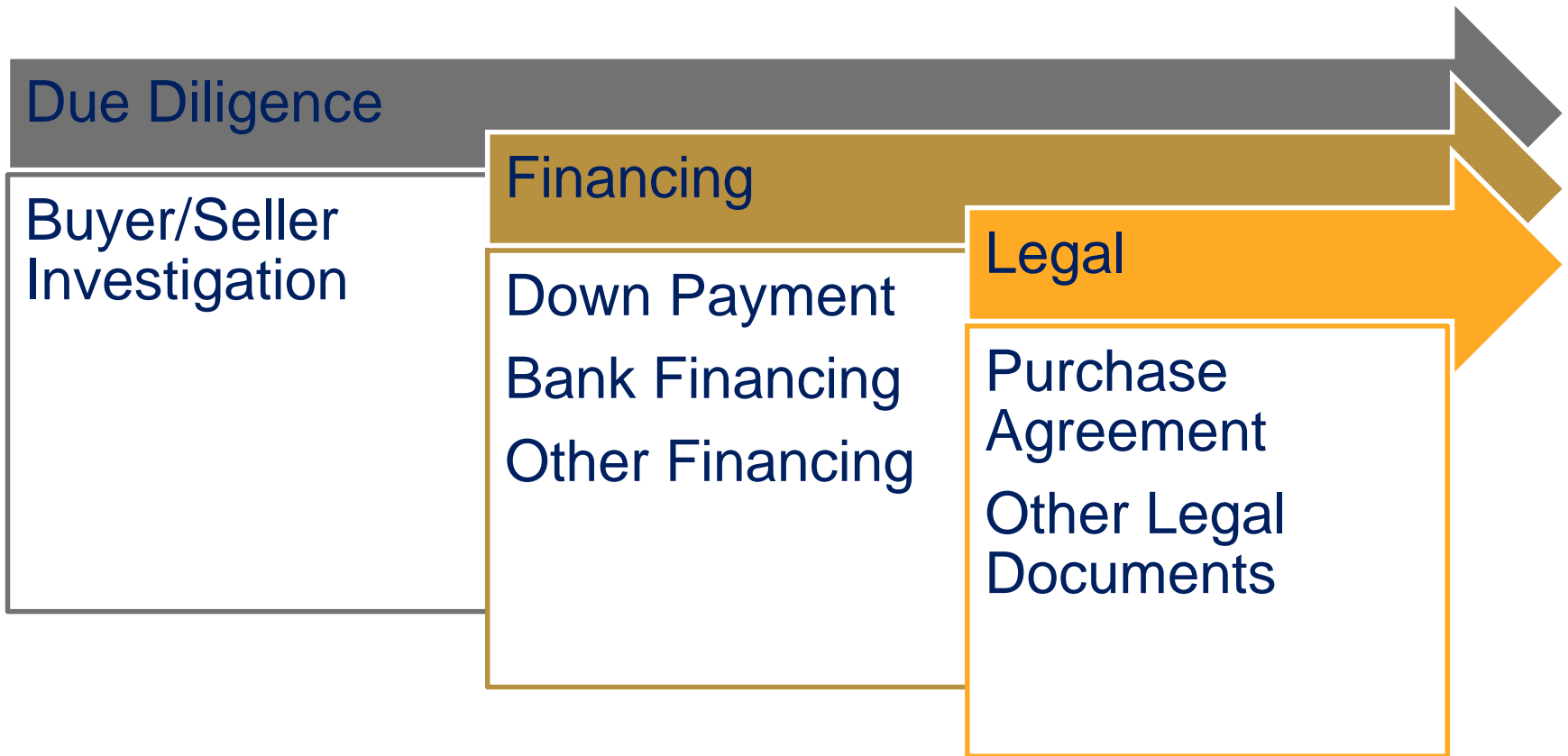
PREPARATION



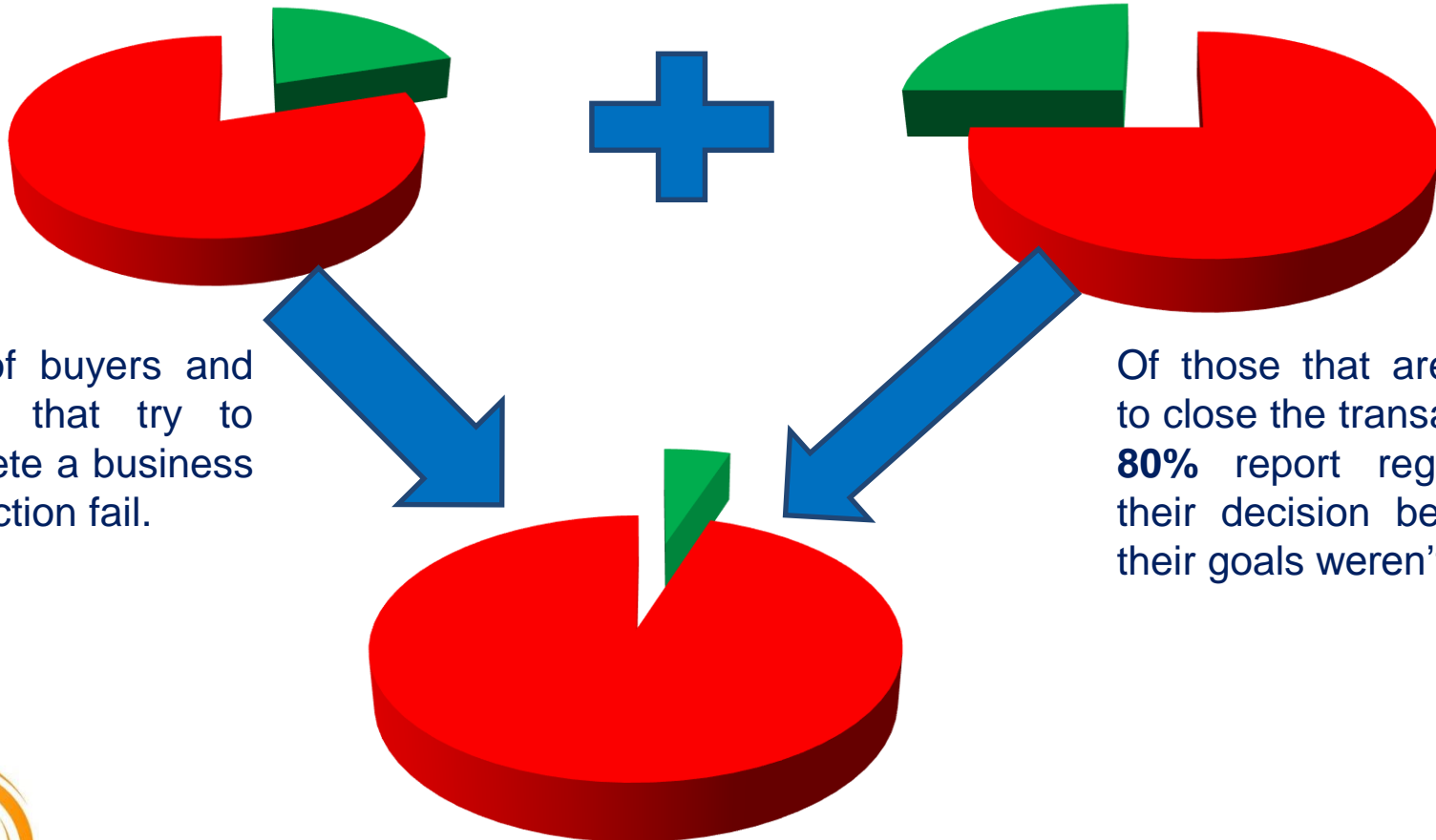
IMPLEMENTATION



# Closing Process – The Last 90 Days



## Only **5%** of Business Transactions are Successful\*



75% of buyers and sellers that try to complete a business transaction fail.

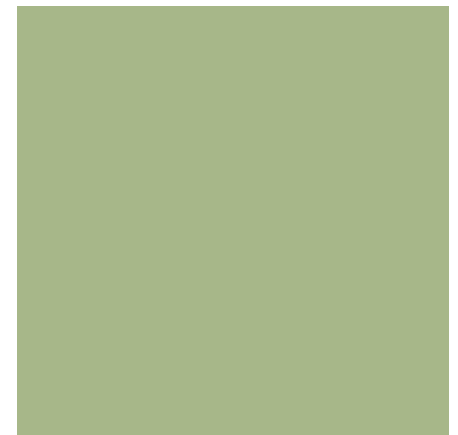
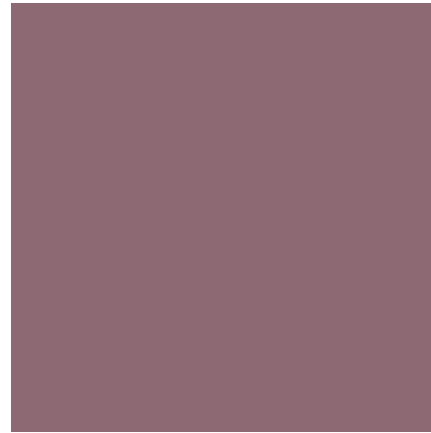
Of those that are able to close the transaction, 80% report regretting their decision because their goals weren't met.



\*The Business Reference Guide, 15<sup>th</sup> Edition, by Tom West



# How to Sell a Business



Doug Holtrop  
Mercantile Bank of Michigan  
Senior Vice President

# + Buyer Profiles

- **Related Buyers – Co-Owners, Family, Employees**
  - Pros: Easier transition, Seller controlled process, Higher likelihood of success
  - Cons: Lower valuation, Management strength, Financing / deferred risk
- **Financial Buyers – Investor, Private Equity (PEG)**
  - Pros: Better Valuation than related, Shorter transition, More buyer options
  - Cons: End of legacy, Culture changes, Loss of some employees
- **Strategic Buyer – Competitor, Customer, Vendor**
  - Pros: Often best value and terms, May be short transition time
  - Con: End of legacy, Limited buyers with funding (large public companies)



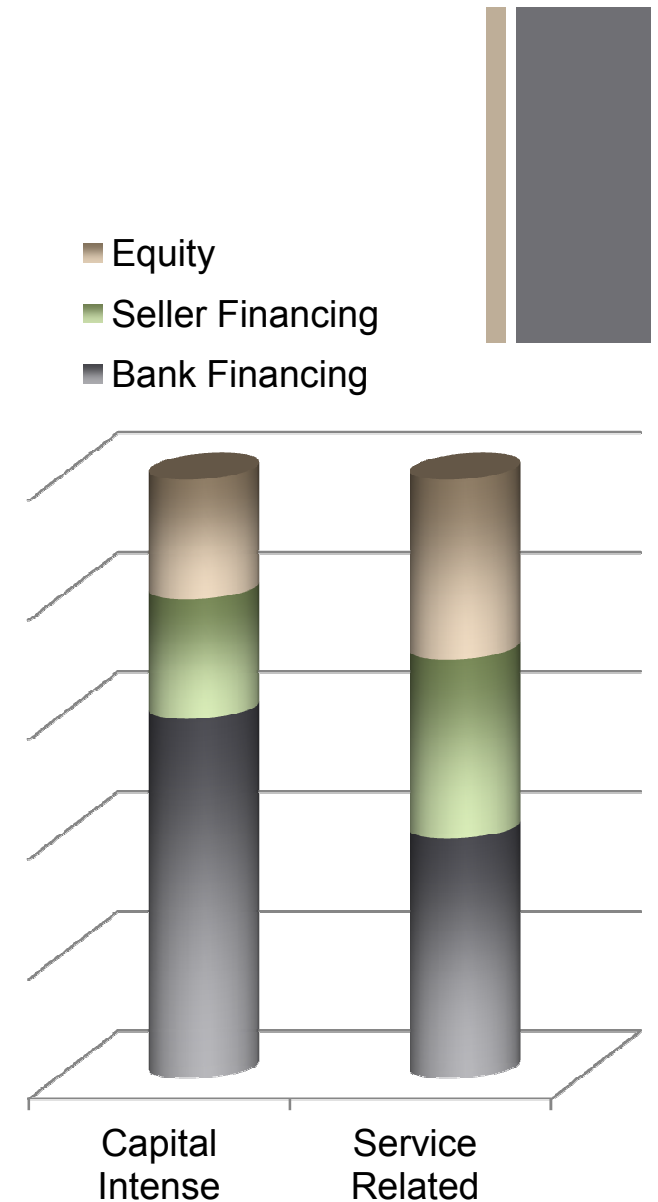
# + Capital Structure

## ■ Bank Financing

- Based largely on collateral values
  - Capital intense business
  - Service business

## ■ Buyer Equity

- Internal buyers often lack liquidity
- Financial buyers target ROE
- Strategic buyers leverage existing assets or access capital markets



# + Seller Financing



- Helps to fill financing gap and maximize sales price
- Typically short term (2-5 years)
- Repayment
  - Variable – Earn out
  - Amortizing
  - Balloon Payment
- Security
  - 2<sup>nd</sup> Position in business assets
  - Stock / Interest in the company
  - Personal and/or Corporate guarantees

# + What can I do today to increase my company's value?

- Clean up the books / records
- Be intentional about customer / revenue mix
- Reduce under-utilized fixed assets, product lines, and employees
- Consider your most likely buyer and their value world.

# + Exit Planning – Related Buyer



Who: Manager(s), Employees, Partner (LBO, MBO, ESOP)

Value Builders: Eliminate external owner reliance, Separate ownership from employment

Positioning: Hiring well, Groom management, Documented Systems, Build lender capacity, “Ownership training”

# + Exit Planning – Financial Buyer



Who: Financial Investor, Private Equity Group

Value Builders: Sales Growth, Market Share, Unique products, Strategic advantage, Key employees, Presentation

Positioning: Focus on Sales / Products / Market share / Customer care, Key “Technical” employee development, Documented systems, Clean records

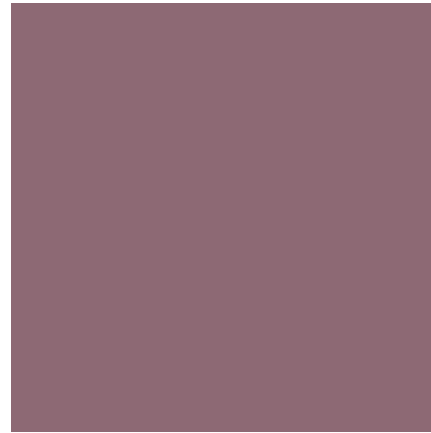
# + Exit Planning – Strategic Buyer



Who: Competitor, Customer, Industry Complement

Value Builders: Sales Growth, Market Share, Unique products, Key employees

Positioning: Less focus on back-office, Key “Technical” employee development, Focus on Sales / Products / Market share



Doug Holtrop  
Mercantile Bank of Michigan  
310 Leonard St. NW  
Grand Rapids, MI 49504  
616-233-2346

# Legal Issues in Selling a Business

By: Jonathan J. Siebers, Attorney

616-458-5298 | [jsiebers@shrr.com](mailto:jsiebers@shrr.com)





# Legal Steps in Preparing to Sell

- Perform seller-due diligence – what red flags will a buyer see?
  - Make sure federal, state and local taxes (including unemployment) are up-to-date.
  - Analyze renewal and assignability of key contracts.
  - Make sure corporate records and state filings are up-to-date.
- Assemble Team of Advisors



# Legal Structure of the Transaction

- Basics of an Asset Sale
- Basics of a Stock or Membership Interest Sale



# Seller's Primary Goal

- The primary goal, generally, is to collect and keep the full amount of the purchase price.
- Representations and warranties, indemnity provisions, and the goal.
- Seller financing and the goal.
- Earn-outs and the goal.



# The Key Legal Documents

- Non-Disclosure Agreement (NDA)
- Letter of Intent (LOI)
- Asset Purchase Agreement (APA) or Stock Purchase Agreement (SPA)
- Non-Compete Agreement
- Seller Financing Documents (Note, Security Agreement, Mortgage, Guaranty)
- Other Documents (Bill of Sale, Consulting Agreement, Assignments)



# Tax Considerations When Selling Your Business

Dan Slate, CPA  
H&S Companies





- A. Generally speaking we hold tax considerations further down the process, preferring to have the economics of the deal frame-worked first.
  
- B. While often times, what is good for a seller, in terms of taxes, is bad for a purchaser that is not always the case.



## 1. Goodwill

(a) Capital gains – seller

(b) Amortizable: 15 years – buyer

- Business Goodwill – Excess earning
- Personal Goodwill – tool used with regard to C. Corporation Sales



## 2. Real Estate

(a) Generally capital gains – seller

(b) Land: non-depreciable/39 years for buildings – buyer

## 3. Covenants

(a) Ordinary income – seller

(b) Amortizable – 15 years, buyer





#### 4. Consulting

- (a) Ordinary income, plus SS – seller
- (b) Direct w/o – buyer
- (c) Retirement Options – Seller

#### 5. Equipment

- (a) Depreciation Recapture – seller
- (b) 3 - 7 years w/o – buyer



C. Installment Contracts – Often good for seller (both in terms of taxes and ROI) and buyer

D. Special Considerations

- 1) Super-size retirement contributions prior to selling – defined benefit plan?
- 2) Timing of sale – down payments near Y.E. or the following year
- 3) New Net Investment Income Tax (3.8%) – Capital gains/ investment income



- 4) Stock sales / asset sales – C. Corporations versus S. Corporations/Ptrs. or sole-proprietorships
- 5) Real Estate lease with business sale

Dan Slate, CPA

[dans@hscompanies.com](mailto:dans@hscompanies.com)