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**METZ LEWIS
BRODMAN MUST O'KEEFE**

*SELLING YOUR BUSINESS:
HOW TO PREPARE FOR AND EXECUTE THE TRANSACTION*

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SELLING YOUR BUSINESS: HOW TO PREPARE FOR AND EXECUTE THE TRANSACTION

AGENDA

- 1. Introduction**
- 2. Sale Readiness**
- 3. Purchase Price**
- 4. Key Deal Points**
- 5. Advisors**
- 6. Q&A**

INTRODUCTION
CHRIS BRODMAN/PERSONAL



INTRODUCTION

METZ LEWIS BRODMAN MUST O'KEEFE LLC

- Founded 1998
- MM business law firm
- 50 lawyers
- Single office in Pittsburgh
- M&A
 - 10 M&A lawyers/specialists
 - Driver
 - 43 deals in 2023



INTRODUCTION

CHRIS BRODMAN/PROFESSIONAL

- CEPA
- AM&AA
- Vistage
- Private company boards
- Alzheimer's Association of Greater Pennsylvania
- Schoolhouse Lane Capital

INTRODUCTION

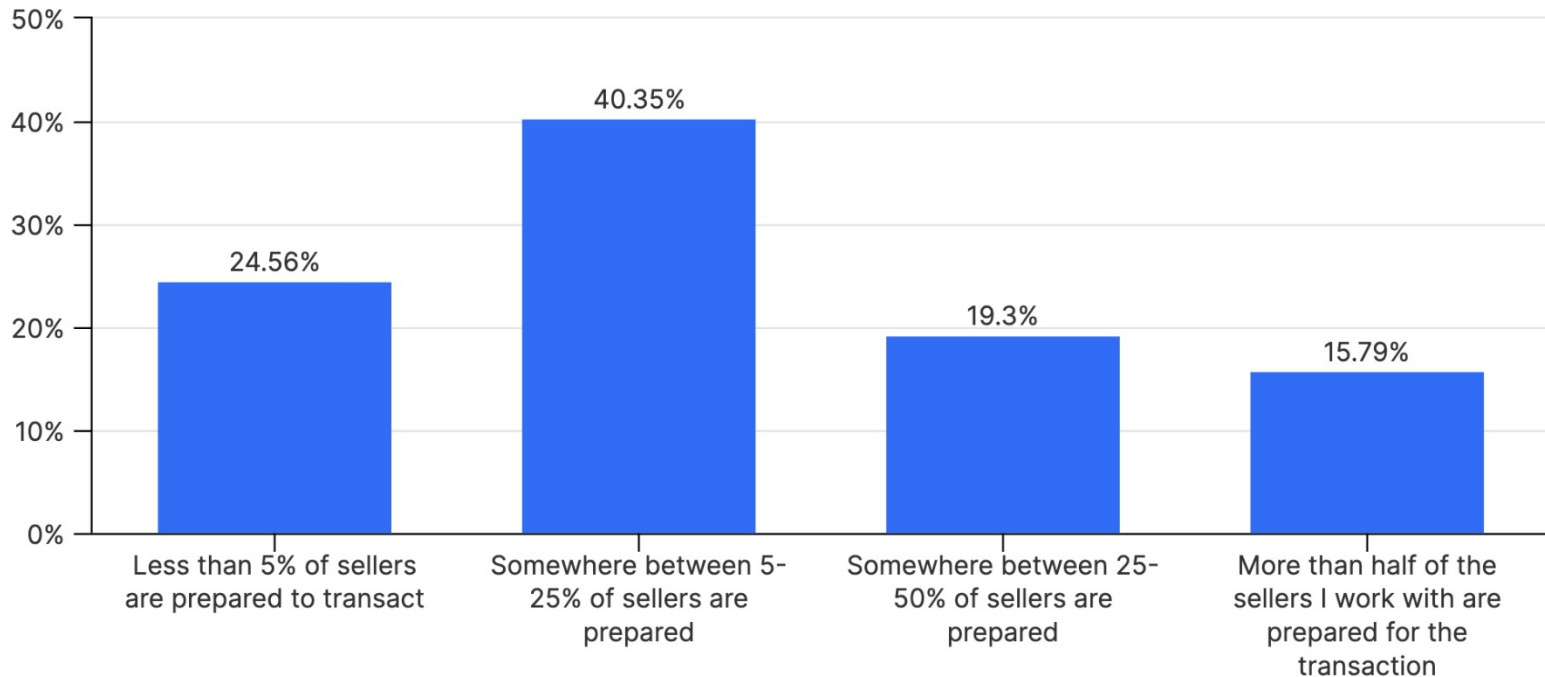
GOAL FOR TODAY

At least one meaningful takeaway to better prepare your company for sale.

Not a Seller? The goal is the same: A sale-ready company is a better, stronger, more valuable company.

SALE READINESS

66% of Investment Bankers say that less than 25% of Sellers are prepared to sell before hiring them. **TOO LATE!**

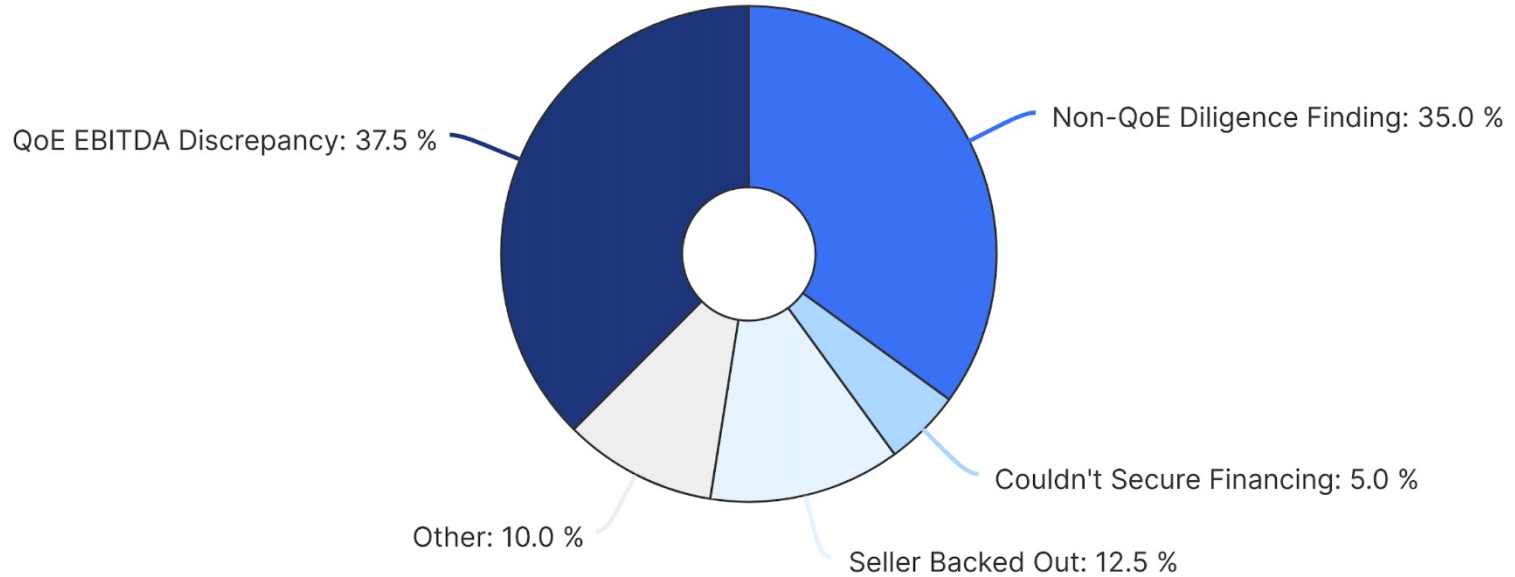


AXIAL SURVEY: November 16, 2023

SALE READINESS

FAILED EXITS

70% of Failed Exits are Due Diligence Related



SALE READINESS

WHAT IS SALE READINESS?

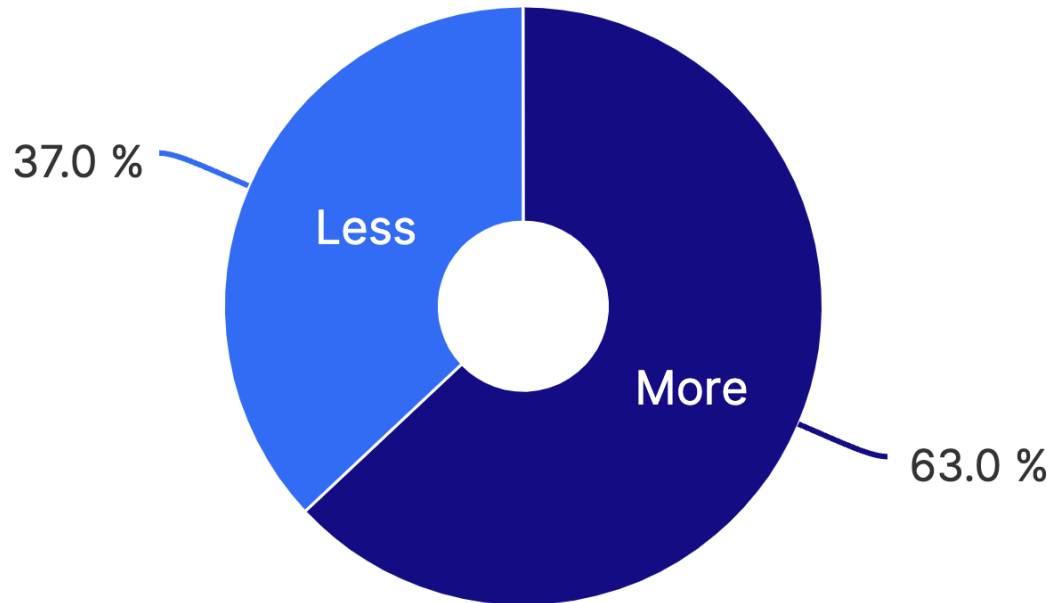
- 1. Seller Wealth Gap**
- 2. Due Diligence Process and Discoveries**
- 3. Business Underperformance During the Sale Process**
- 4. Seller Unreasonable Expectations (Price and Terms)**

MUCH OF THIS IS IN YOUR CONTROL.

SALE READINESS

BUYERS VALUATION EXPECTATIONS

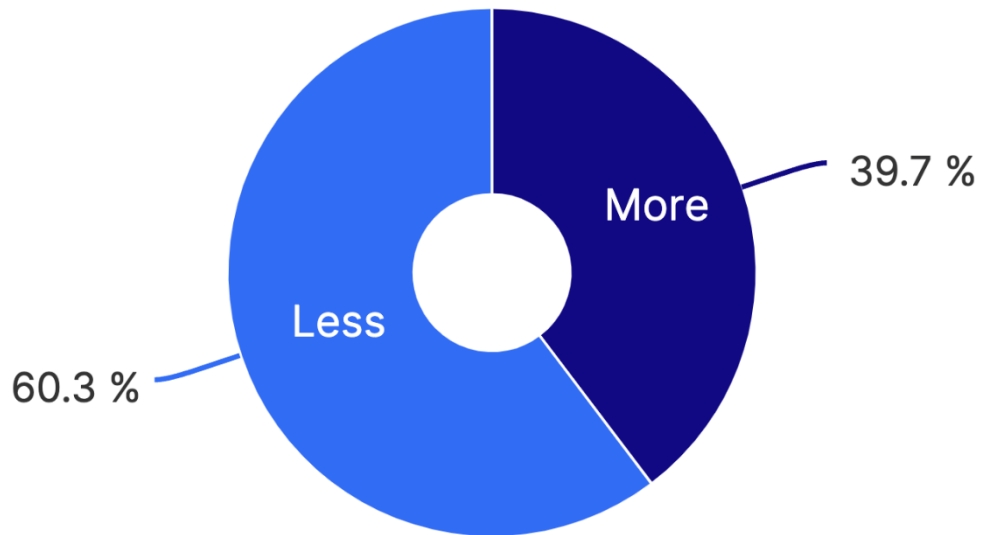
In your experience, have Buyers had more or less realistic valuation expectations in 2023?



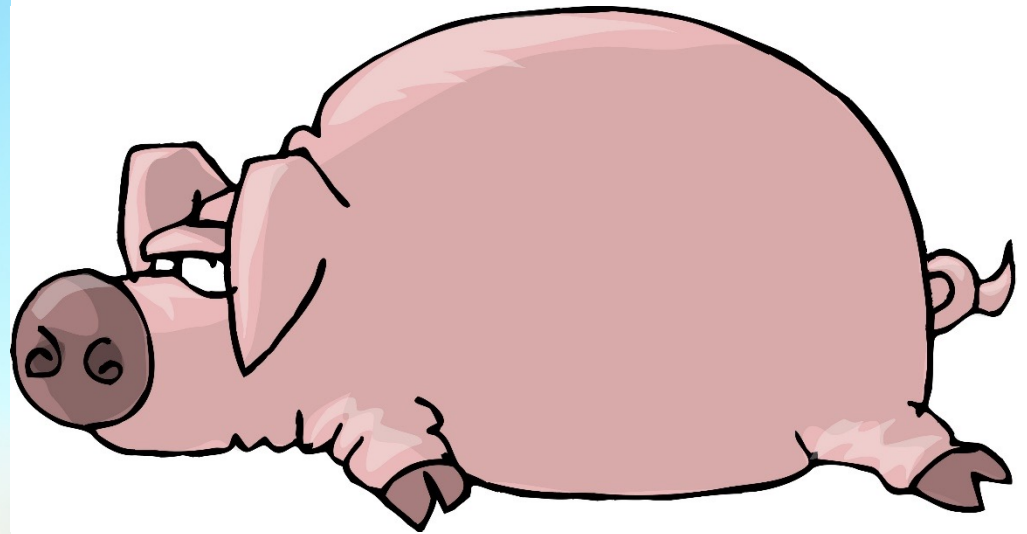
SALE READINESS

SELLERS VALUATION EXPECTATIONS

In your experience, have Sellers had more or less realistic valuation expectations in 2023?



JUST REMEMBER, PIGS EAT BUT HOGS GET SLAUGHTERED



PURCHASE PRICE

ENTERPRISE VALUE

1. WHAT

Enterprise Value (EV) means:

the sum of a company's market value
including debt but exclusive of cash

or

TOTAL FAIR MARKET VALUE

2. WHY

LMM M&A – Starting point for Purchase Price

- Purchase Price = EV +/- working capital adjustment, +/- CAP EX adjustments, (+) contingent payments

3. HOW

TTM Adjusted EBITDA x MULTIPLE – the standard

PURCHASE PRICE
ENTERPRISE VALUE
EBITDA

E - EARNINGS
B - before
I - interest
T - taxes
D - depreciation
A - amortization

- The E is tricky.

PURCHASE PRICE
ENTERPRISE VALUE
ADJUSTED EBITDA

- Earnings is not off the Income Statement
- Starting point, but adjustments are made to normalize EBITDA
- Purpose of adjusting to “normalize” is to establish what the earnings would be if the company were owned by a third party without extraordinary or non-recurring expenses. It’s the EBITDA that the Buyer is acquiring.

PURCHASE PRICE
ENTERPRISE VALUE
ADJUSTED EBITDA

- Adjustments (positive and negative)
 - Owner's compensation (family) (+)
 - Owner's discretionary spending (+)
 - Extraordinary, non-recurring expenses (+)
 - Missing people (-)
 - Insurance package (-)
 - Rent (+/-)
 - IT (-)
 - Operational earnings adjustments such as price increases, R&D, expansion, supply chain issues, expanded look-back period (+/-)
 - Run Rate
- Synergies – Buyer's benefit

PURCHASE PRICE
ENTERPRISE VALUE
PRACTICE POINTERS

1. Understand EV – work with someone who knows (Q of E accountant)
2. Track EV
 - *“You can’t improve on what you don’t measure”* Peter Drucker
3. Run the business as if keeping it, except be careful with:
 - ERP
4. Pigs eat, hogs get slaughtered
 - Less is more with add-backs
 - Credibility matters
5. **Focus** on growing earnings

PURCHASE PRICE

ENTERPRISE VALUE

INDUSTRY MULTIPLES

Total Enterprise Value / EBITDA (All Manufacturing)

TEV (\$M)	2003-2018	2019	2020	2021	2022	Q3 YTD 2023	Total	N =
10-25	5.6	5.6	5.9	6.0	6.2	5.7	5.7	754
25-50	6.0	6.3	6.6	6.8	7.2	7.0	6.2	578
50-100	6.9	6.9	7.7	8.0	8.2	7.0	7.2	413
100-250	7.5	8.7	7.4	8.5	9.0	9.7	7.9	188
Total	6.2	6.5	6.7	7.1	7.3	7.0	6.4	
N =	1,355	134	125	184	110	25		1,933

Source: GF Data

REASONS (Risk and Growth)

- Highly profitable growth/scalable
 - Growth rate, WC, CAP EX, few people, small plant, recurring revenue, high margins
- Less risk
 - IP/Proprietary
 - Market need
 - Recession proof
 - Barriers to entry

PURCHASE PRICE
ENTERPRISE VALUE
COMPANY SPECIFIC MULTIPLE

- Size/Earnings
- Accounting
- Customer concentration
- Supplier risk
- Documentation/Confidentiality
- Systems
- Facilities/equipment
- Management team
- Employee retention/tie-ups
- Insurance
- Legal compliance (safety, environment
FLSA, sales tax)
- High margins
- Sticky revenue
- Recurring revenue
 - Parts
 - Service
 - Contracts
 - Other
- Differentiator/something proprietary

FOCUS ON THESE THINGS TO INCREASE EV

PURCHASE PRICE

CAP EX

EV IS ONLY THE STARTING POINT FOR PURCHASE PRICE

- Cap Ex impacts EBITDA (+/-) if improperly characterized
- Cap Ex could still impact purchase price even if properly characterized
 - Facility expansion (+)
 - New equipment (+)
 - Defective/insufficient FFE (-)

PURCHASE PRICE

PRACTICE POINTERS

- **Focus** on the growth and risk factors that you can control (Earnings/Company Specific Multiple factors)
- Start early so that your TTM EBITDA has time to grow past the costs – YES, IT'S LIKELY TO COST YOU
- IT IS NOT EASY
 - Don't dabble – be committed, not merely interested

KEY DEAL POINTS

1. Adequate net working capital
2. Cash free/debt free
3. Escrows
4. Rollover
5. Earnouts
6. Seller Paper
7. Tax
8. Clean Company

KEY DEAL POINTS

NET WORKING CAPITAL

Current assets that a business has available after all current liabilities are accounted for:

- Exclude cash/debt for M&A purposes

Here is how WC works in a typical deal:

STEP 1 – Establish NWC Target – not easy

STEP 2 – Estimate closing date NWC

STEP 3 – Estimate closing date adjustment

- Collar
- Escrow

STEP 4 – Buyer’s closing statement

STEP 5 – Finalize by agreement or arbitration

STEP 6 – True-up the payment

Keys:

- no windfall
- consistent accounting principles

KEY DEAL POINTS
NET WORKING CAPITAL
PRACTICE POINTERS

- Do not keep excess cash in the company – liability risk; WC questions even in cash free deal
- Do not carry inflated inventory because it's difficult to ignore when negotiating Target Working Capital

KEY DEAL POINTS

CLEAN COMPANY

- PA will have R&Ws
- Generally, Seller indemnifies for damages to Buyer resulting from breached R&Ws
- Basic Representations and Warranties
 - Organization
 - Authority
 - No conflicts
 - Consents
 - Financial statements
 - Undisclosed liabilities
 - Tax
 - Compliance with laws
 - Claims
 - Environmental
 - ERISA
 - FLSA
 - Title
 - Sufficiency and adequacy
 - Contracts
 - Customers and suppliers
 - Cyber/privacy
 - Real estate

KEY DEAL POINTS

INDEMNITY

- Knowledge
- Limitations
 - Joint and several
 - Losses definition
 - Individual limits
 - Basket
 - Cap
 - Fundamental reps
 - Tax benefit
 - Insurance first
 - Sandbagging
 - Exclusive remedy
- RWI

You must have the right lawyer.

DEAL PREPARATION

PRACTICE POINTERS

1. Diligence yourself (particularly the hot spots)
2. VDR now
3. Keep a Buyer list
4. Audited statements
5. Sell-side Q of E – early, even a light version
6. Know your desired deal structure/impact – ASK FOR IT
 - Asset vs. Equity
 - Tax – run the numbers
7. Net proceeds analysis
8. Wealth advisor needs analysis
9. Identify the wealth gap

ADVISORS

1. M&A Intermediary

- #1 question
- Cons
 - Time/distraction
 - Confidentiality
 - Fees (composition/tail)
- Pros
 - Advice/experience
 - Negotiate
 - COMPETITIVE PROCESS
 - It's worth what someone pays!
 - Statistics
- Exclusivity

- How to select
 - Interview several
 - Generalist or specialist
 - Capacity
 - Team
 - Results/experience
 - Fit

2. Lawyer

3. CPA

4. Wealth Advisor

5. CEPA/Advisory Board

ADVISORS

ALL **ADVISORS** ARE NOT CREATED EQUAL!

KEY TAKEAWAYS

- You can control your destiny – **Focus** on growth and de-risking
- **Focus** is in red for a reason
 - Identify your objectives – clearly
 - Identify the few most important things that you can control to reach your objectives
 - LASER **focus** on those things
- There is significant risk for the Buyer as well as the Seller – empathize
- What are your takeaways?

Q & A

Q & A

- Should I sell stock or assets?

Q & A

- What's typical process for a deal?

Q & A

- What's PE Buyer experience like?

Q & A

- What's the difference between a broker and an investment banker?

Q & A

- What's the M&A market like? Is there an ideal time to sell?