# Selling or Recapitalizing Your Business: Why Now? Who's Playing? What Do You Need to Know?

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Investment banking services offered through Chaffe Securities, Inc., member FINRA/SiPC

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#### What are you Selling?

#### **Business Enterprise Components**

Net working capital

- Accts Receivable
- Inventory
- Accts Payable
- Other operating items

**Fixed Assets** 

- Land
- Buildings
- Furniture & Equipment

Intangible Assets

- Patents; processes
- Tradename/brand
- Customer base
- Workforce

Generates
Operating Cash
Flow (or "EBITDA")

#### **Valuation Formula**

#### **EBITDA**

- "Earnings b/f interest taxes depreciation and amortization"
- Proxy for operating cash flow
- Normalized
- Trailing twelve months



#### **MULTIPLE**

- Based on required rate of return
- Adjusted for risk
- Risk and multiple are inversely related
- Start with comparable sales if available

#### **Calculation of EBITDA**

Net Income

- + Tax Expense
- + Interest Expense
- + Depreciation Expense
- + Amortization Expense

**Unadjusted EBITDA** 

+/- Normalizing adjustments

Adj./Normalized EBITDA

- Accounting adjustments
- Pro-forma adjustments
- Non-recurring items
- Non-operating income/expense
- Discretionary pay/bonuses
- Excess compensation
- Owner compensation
- Personal expenses
- Related party transactions
- Interim vs year end closing adjustments

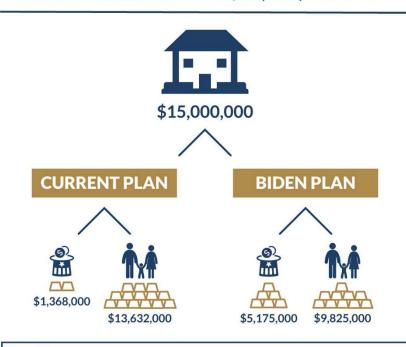
#### Risk Factors that Affect Multiple

- Size
- > Industry
- Customer concentrations
- Stability of earnings
- Quality of accounting info
- Dependence on key personnel
- Supplier concentrations
- Contingent liabilities

- Product diversification
- Equipment obsolescence
- Technology
- Management depth
- Barriers to entry
- Product substitution
- > Intellectual capital
- Intangible assets

#### **Proposed Estate Tax Increase**

#### THIS IS THE IMPACT ON A \$15,000,000 ESTATE:

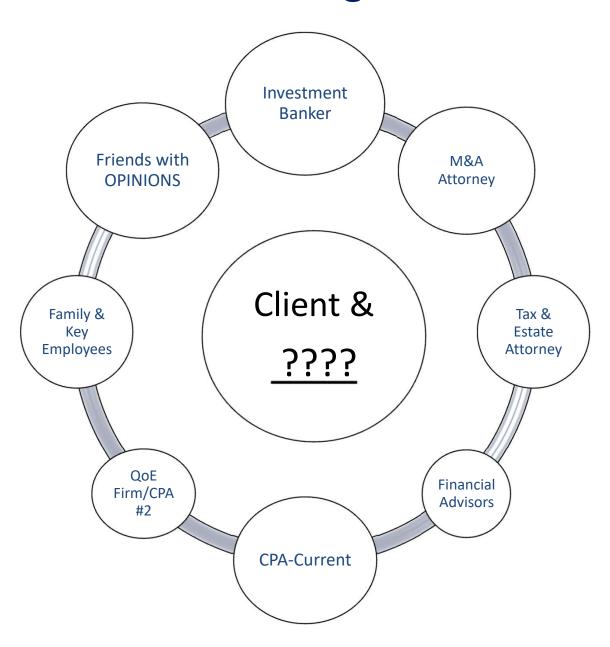


**278% TAX INCREASE** 

#### **Estate Planning**

- ➤ Gifting
- > Trusts
- > Grats
- > Etc...

### **Overwhelming Process**



#### **A Disciplined Process Guides Our Relationships**

We have a clear process to understand your goals and develop appropriate advice.

# 1.Discovery Process

We rely on local Advisors to identify opportunities where an existing client is looking to exit their business

#### 3. Initial liquidation meeting

If a desire to sell exists it is important for us to now look deeper into the company and see if time is right for a sale. Is there interest in the industry for this business? And the books clean? Small actions and timing can have an outsized effect on ultimate sale price

#### 5. Owner Education

It is now time to take a deeper dive into the sale process. This step is critical in setting expectation regarding time, complexity, and valuations because once buyers are contacted, they are likely to exaggerate all three. Mismanagement of expectations can cause an ownership group to cancel a transaction.

#### 7. Closing the Deal

All owners have planned and are now ready to being receiving their payout. Based on the trust built over the sale process, we are looking for all owners, not just the original client, to now bring sale proceeds to UBS

#### Ongoing

P

#### 2. Determine if an interest to liquidate exists

As outside professionals, we are often able to speak to a client and engage with them in ways not possible with their local Advisor. Our initial conversations serve to gather an understanding of the business and see if a desire to sell exits.

#### 4. Introduction to ownership group

A sale can rarely happen with just one person.
Weather the ownership group is formal partners or simply the nuclear family, more people than the client have to be onboard with the selling process

#### 6. Develop comprehensive sale plan

A sale price is never the amount the client gets.
Structuring the deal correctly involves deep planning for all owners beyond the sale of the business. Based on goals, different owners may need different payout structures. This is the time to item in place. What can effect the structure?

- Charitable giving
- Family dynamics
- Estate planning

#### 8. Execute wealth management plan

New clients are now shared between our group and the local advisor.
The clients preferred contact will manage the accounts going forward.
Behind the scenes, our team and the local Advisor will collaborate to ensure exceptional service

#### Deja Vu All Over Again

- > Seller's market continues into its sixth year
- > Supply/demand imbalance: too much money chasing too few **GOOD**/**GREAT** companies
- Great companies = very high EBITDA multiples

#### TOTAL ENTERPRISE VALUE (TEV)/EBITDA

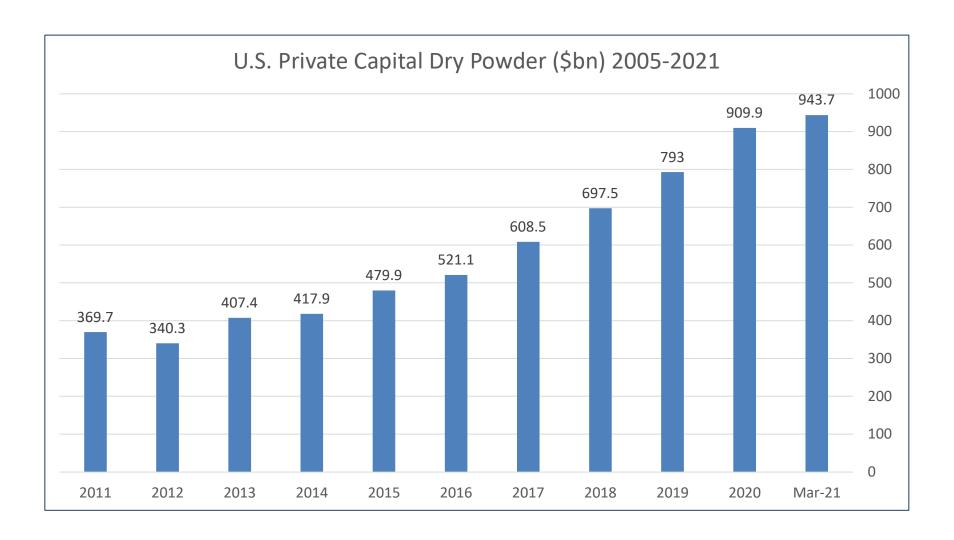
TEV	2003 -2015	2016	2017	2018	2019	2020	Total	N =
10-25	5.6	5.8	6.3	5.9	6.2	6.0	5.7	1475
25-50	6.2	6.4	6.6	6.9	6.9	6.9	6.4	1118
50-100	6.8	7.2	8.2	8.8	7.5	8.1	7.3	769
100-250	7.4	8.8	9.1	8.7	9.4	8.6	8.2	403
Total	6.2	6.7	7.2	7.2	7.1	7.1	6.5	
N =	2361	243	267	289	308	297		3765

Please note that N for 2003-15 encompasses thirteen years of activity.

Source: GF Data

GF data's multiples are averages with (TEV)/EBITDA multiples ranging between 3-15x trailing twelve months adjusted EBITDA. Individual transactions have unique circumstances and variables that influence the outcome of valuation and deal terms. Past performance is not indicative of future results.

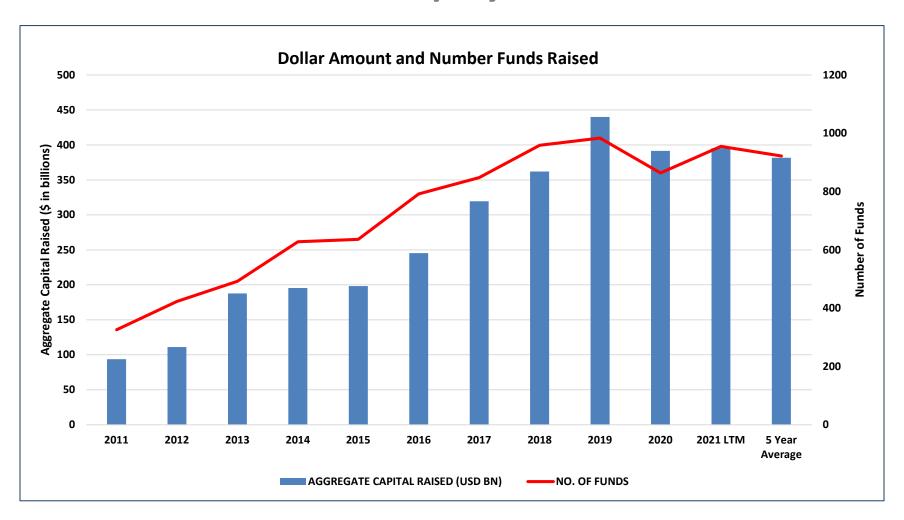
#### Money, Money, Money



Source: Preqin as of March 31, 2021

#### **Market Dynamics**

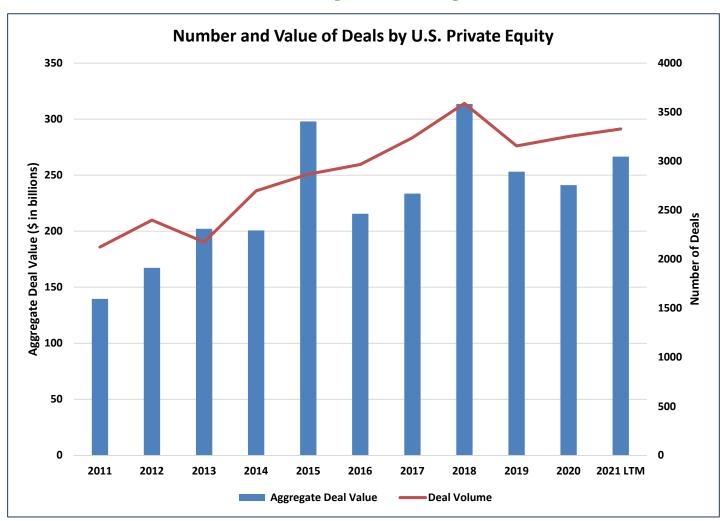
## **Private Equity Trends**



Source: Pregin as of March 31, 2021

## **Market Dynamics Driving High Valuations**

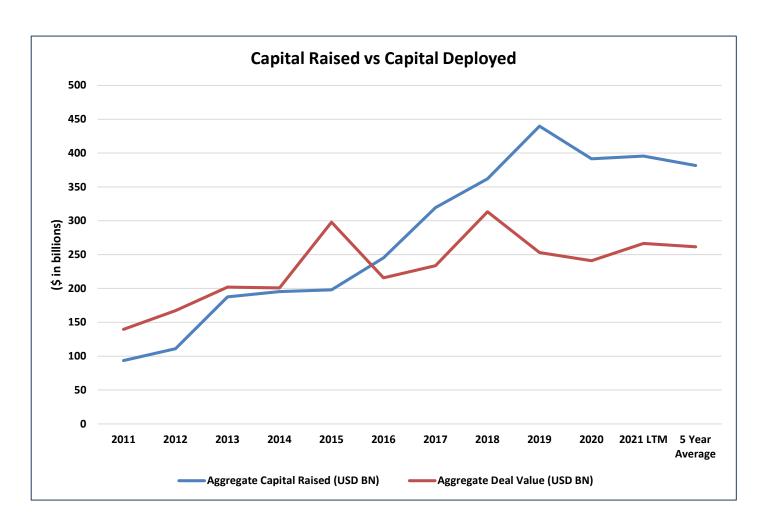
#### Too much money & too few deals



Source: Pregin as of March 31, 2021

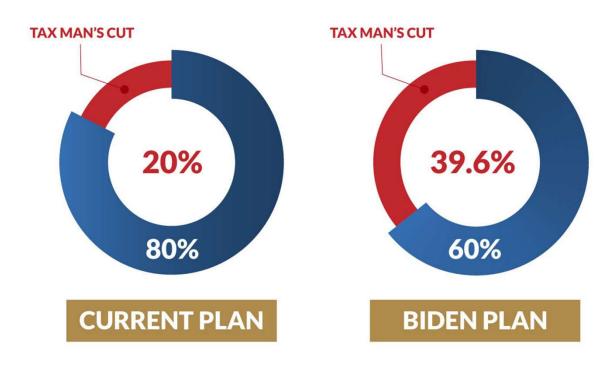
### **Market Dynamics Driving High Valuations**

#### Too much money & too few deals



Source: Pregin as of March 31, 2021

# Proposed Capital Gains Tax Increase ...In case you need another reason



- This requires a 32% higher price for business owners to achieve the same net proceeds.
- Tax rate arbitrage opportunity, take a multiple of EBITDA now taxed as capital gains... Or over a period of years taxed at ordinary income rates.

# Maximizing Value The Transaction Process

**Definitive** Agreement Negotiate **Definitive** Close **Letter of Agreement** Intent (LOI): **Marketing:** Confirmatory Evaluate bids diligence Contact buyers **Preparation:** Select buyers Regulatory & **NDAs** CIM contractual Due diligence Distribute CIM Sell side Q of E approvals Financing Select buyers commitments Final proposals 15 - 26 Weeks

#### **Recap of Key Concepts**

- ➤ We are in the sixth year of a seller's market. Obviously, it is a great time to sell or recapitalize your business.
- > Potential for higher taxes in the future.
- ➤ Never enter into one off negotiations or sign an exclusive agreement with an unsolicited buyer.
- > Run a professional marketing process to obtain the best valuation and deal terms.
- Assemble a team of experts to assist you navigate complexities of this once in a lifetime endeavor.

# **Questions & Answers**

Please type questions into Zoom chat directed to Chaffe M & A Department

#### **Speakers Contact Information**



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