

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

**April 13, 2021**

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

# Disclaimer

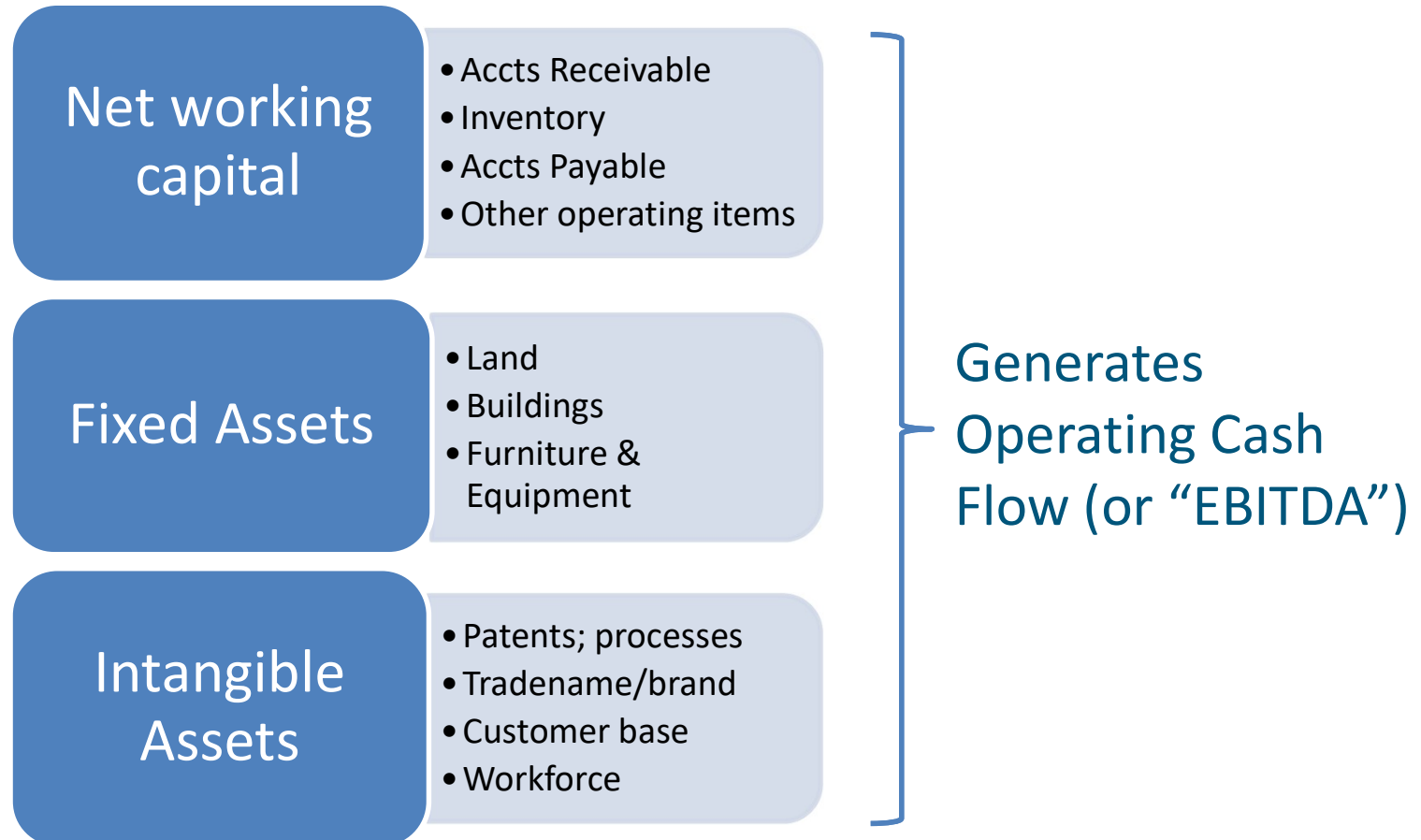
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# What are you Selling?

## Business Enterprise Components



# 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	
<hr/>	
Unadjusted EBITDA	
+/- Normalizing adjustments	
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Adj./Normalized EBITDA	

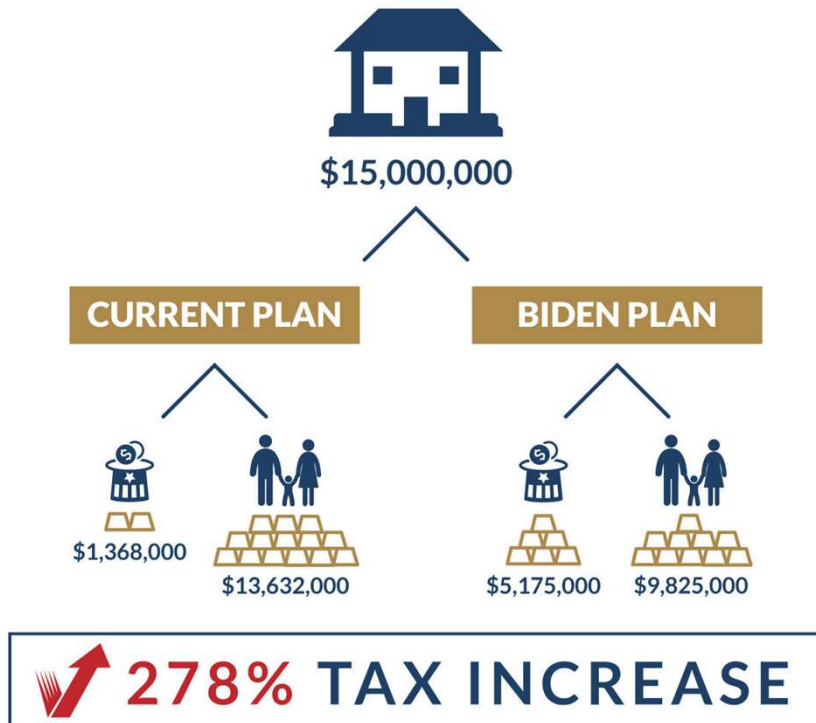
- Accounting adjustments
- Pro-forma adjustments
- Non-recurring items
- Non-operating income/expense
- Discretionary pay/bonuses
- Excess compensation
- Owner compensation
- Personal expenses
- Related party transactions
- Interim vs year end closing adjustments

# 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

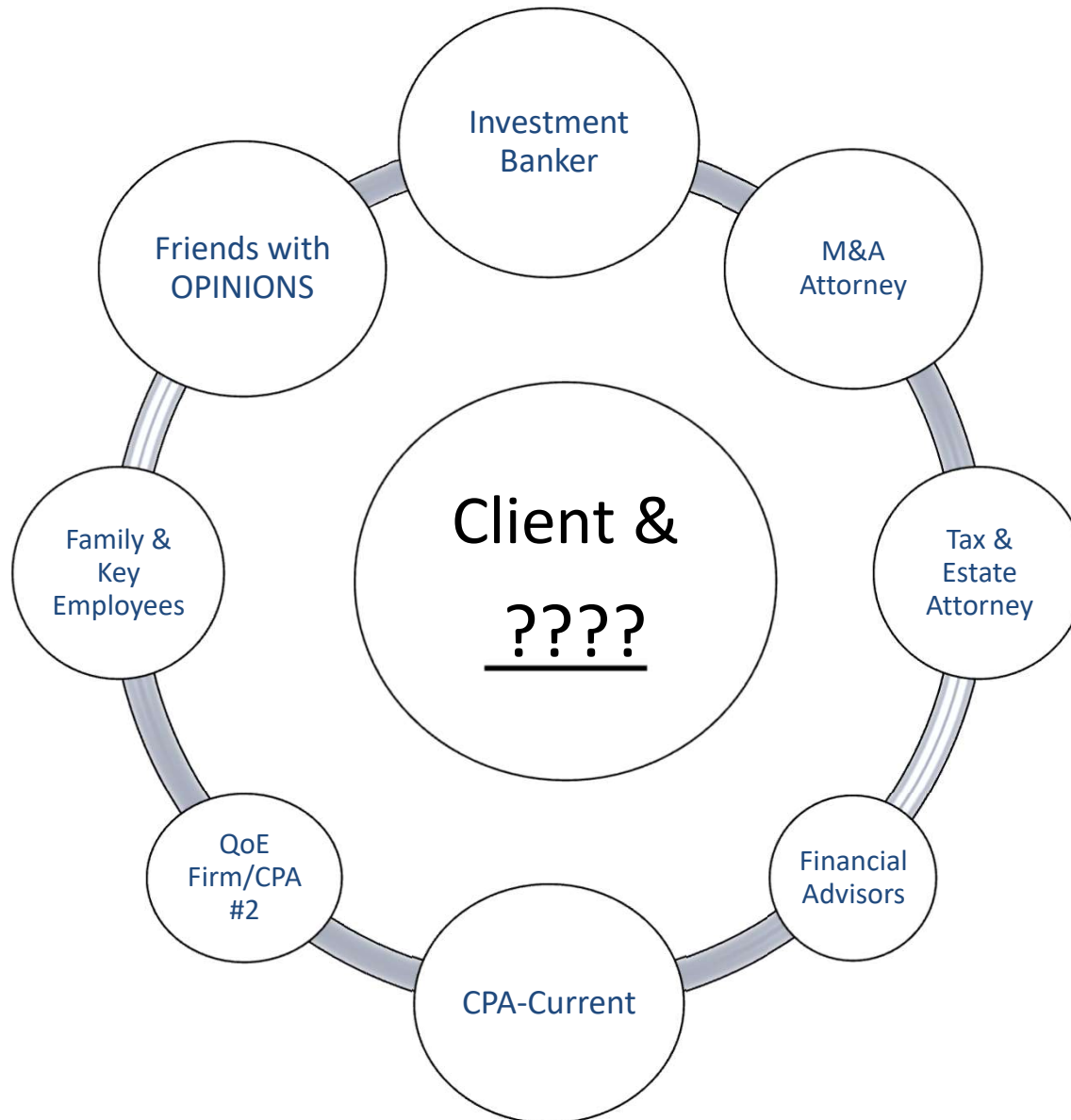
THIS IS THE IMPACT ON A \$15,000,000 ESTATE:



Estate Planning

- Gifting
- Trusts
- Grats
- Etc...

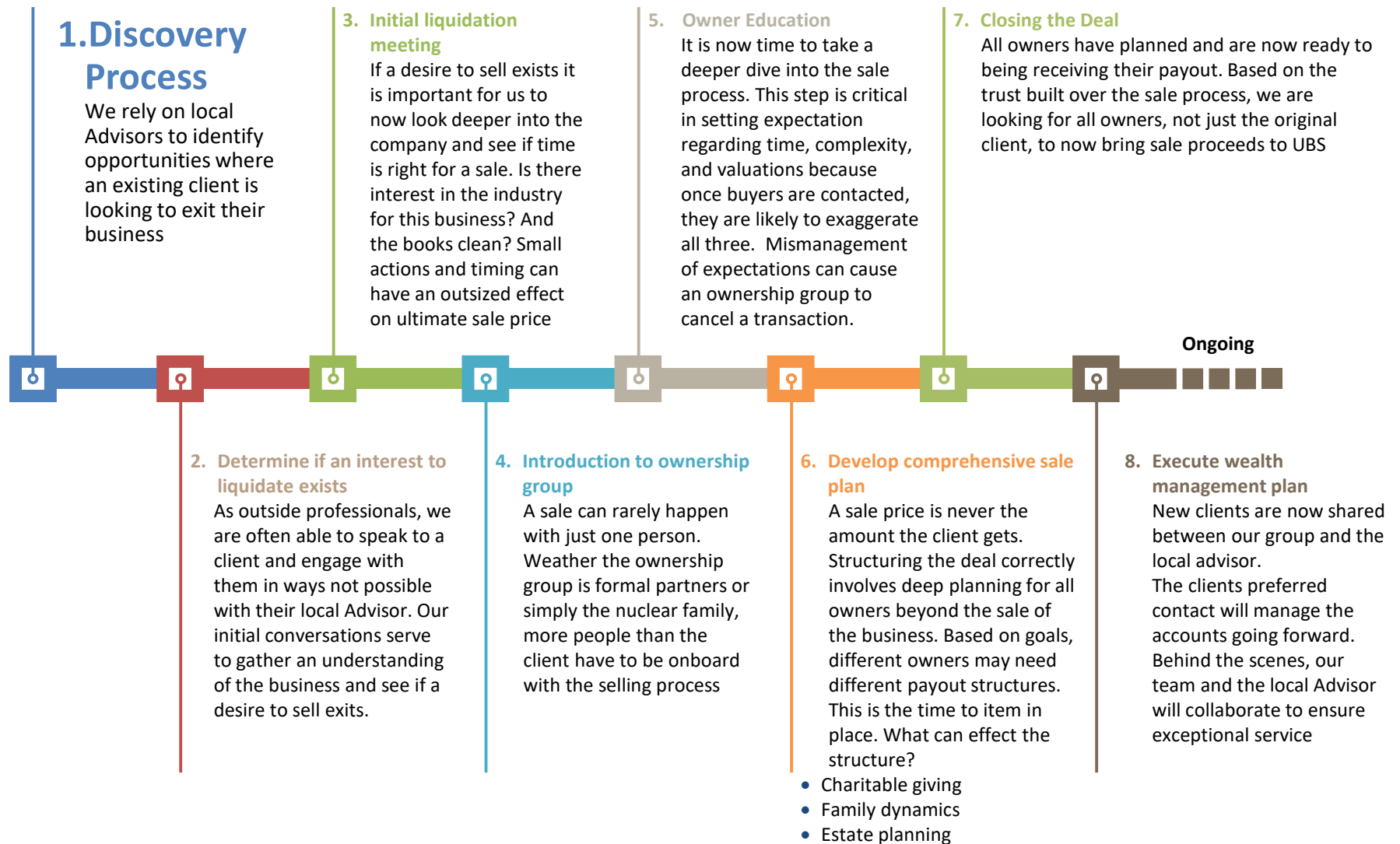
# Overwhelming Process





# A Disciplined Process Guides Our Relationships

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



# 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

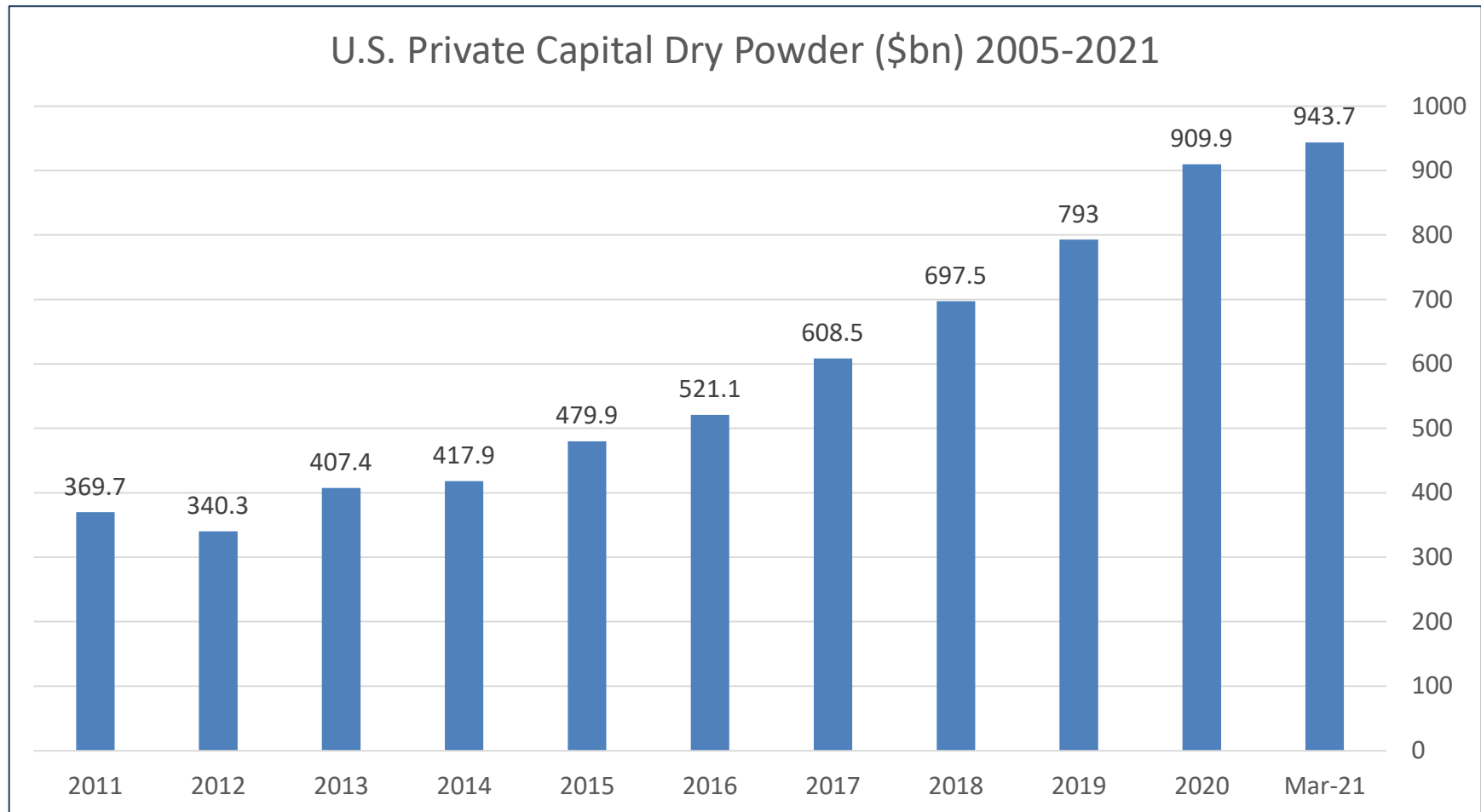
TEV	2003 -2015	2016	2017	2018	2019	2020	Total	N =
10-25	5.6	5.8	6.3	5.9	6.2	6.0	5.7	1475
25-50	6.2	6.4	6.6	6.9	6.9	6.9	6.4	1118
50-100	6.8	7.2	8.2	8.8	7.5	8.1	7.3	769
100-250	7.4	8.8	9.1	8.7	9.4	8.6	8.2	403
Total	6.2	6.7	7.2	7.2	7.1	7.1	6.5	
N =	2361	243	267	289	308	297		3765

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.

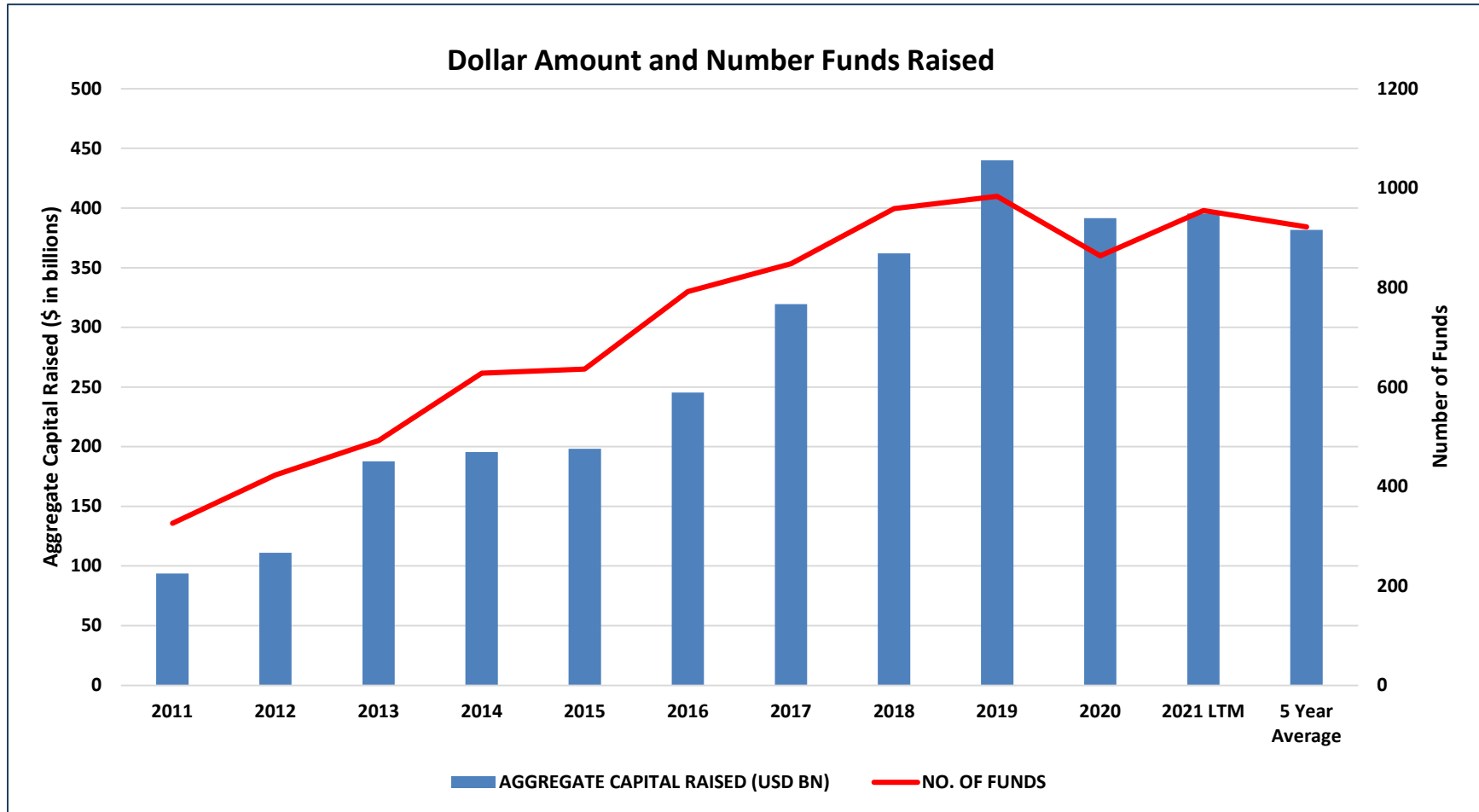
# Money, Money, Money



Source: Preqin as of March 31, 2021

# Market Dynamics

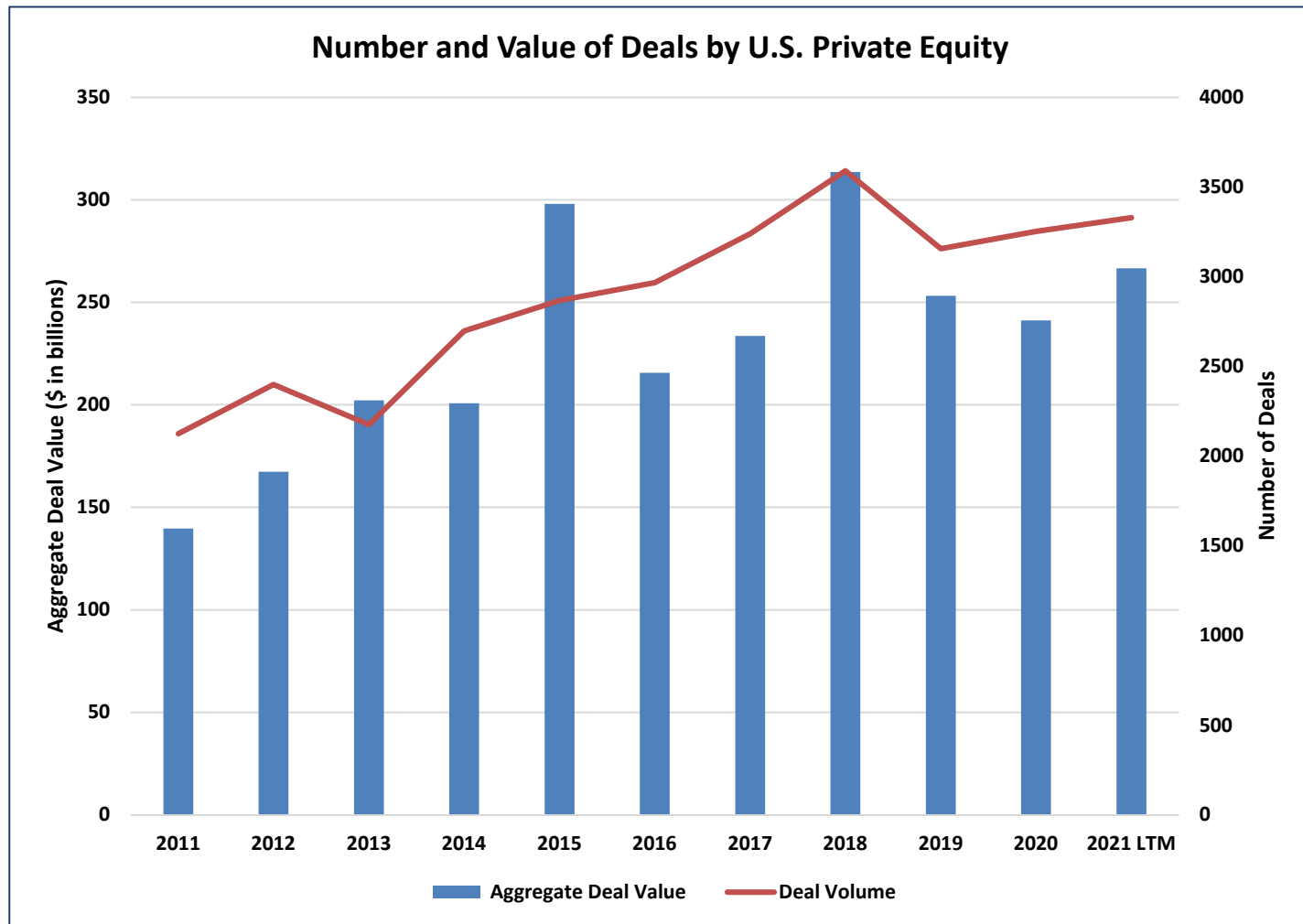
## *Private Equity Trends*



Source: Preqin as of March 31, 2021

# Market Dynamics Driving High Valuations

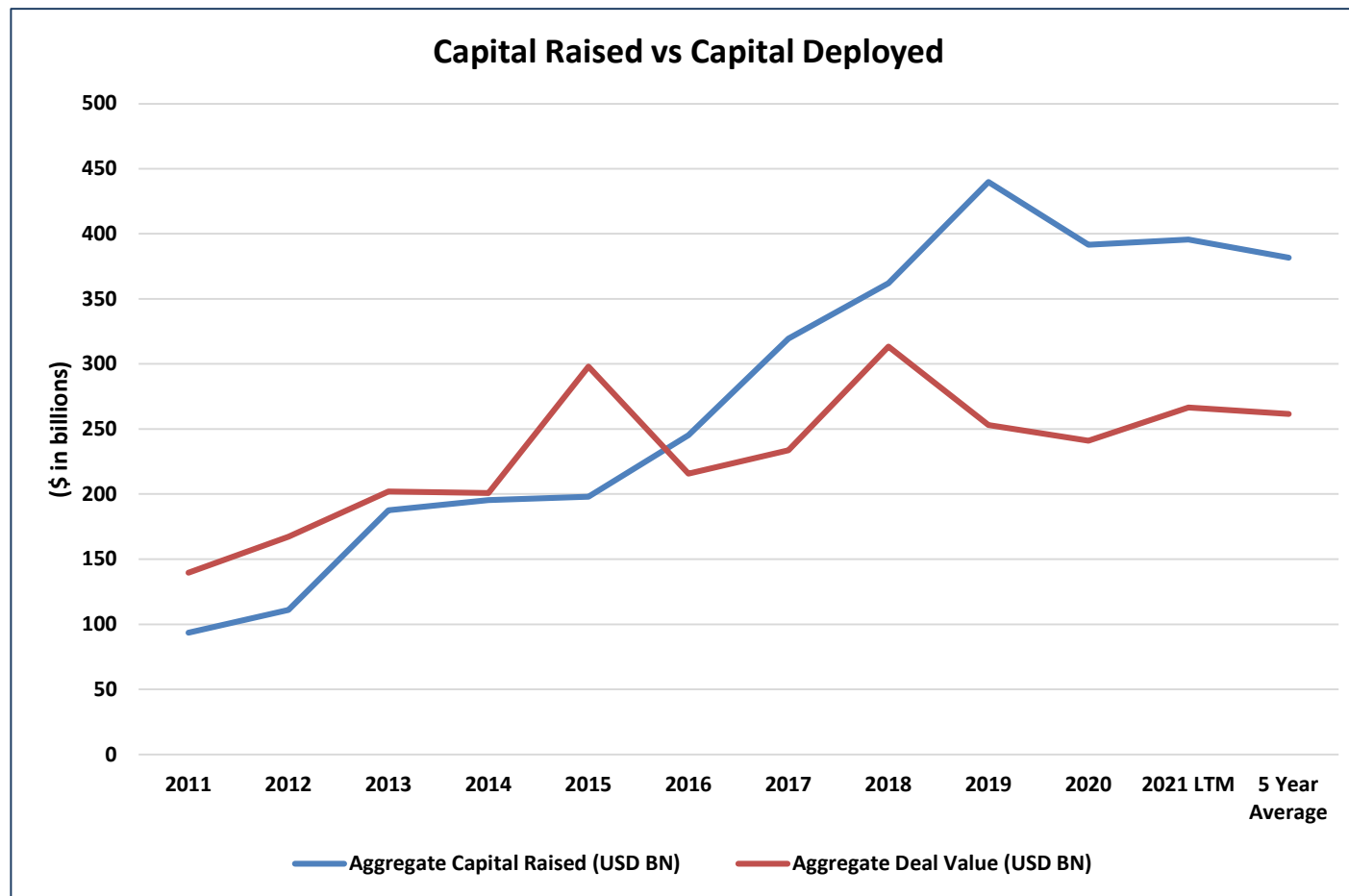
*Too much money & too few deals*



Source: Preqin as of March 31, 2021

# Market Dynamics Driving High Valuations

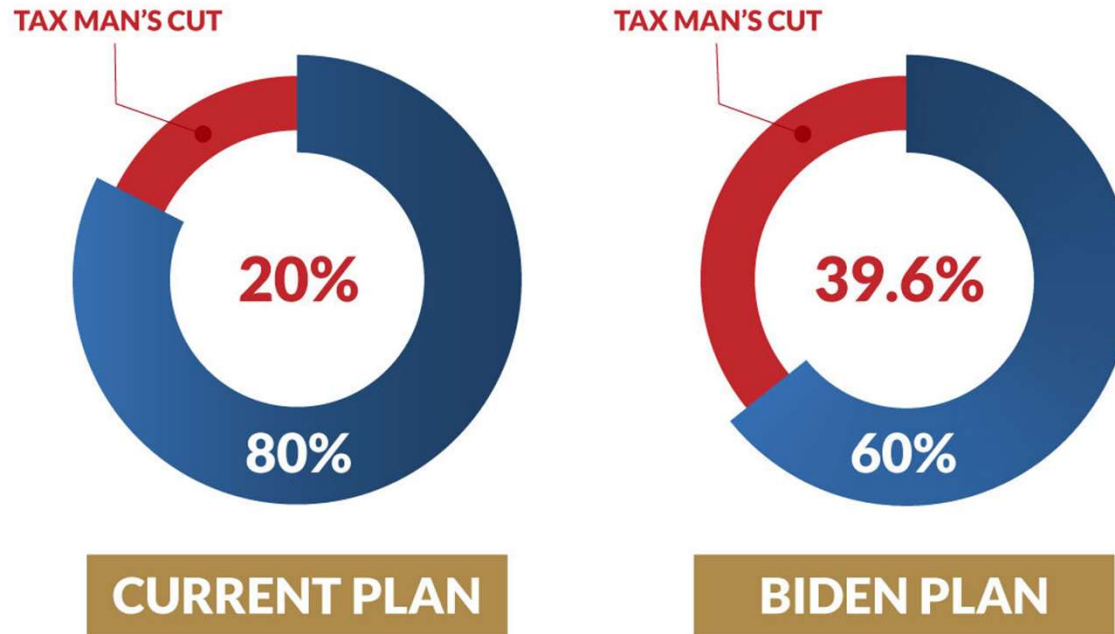
*Too much money & too few deals*



Source: Preqin as of March 31, 2021

# Proposed Capital Gains Tax Increase

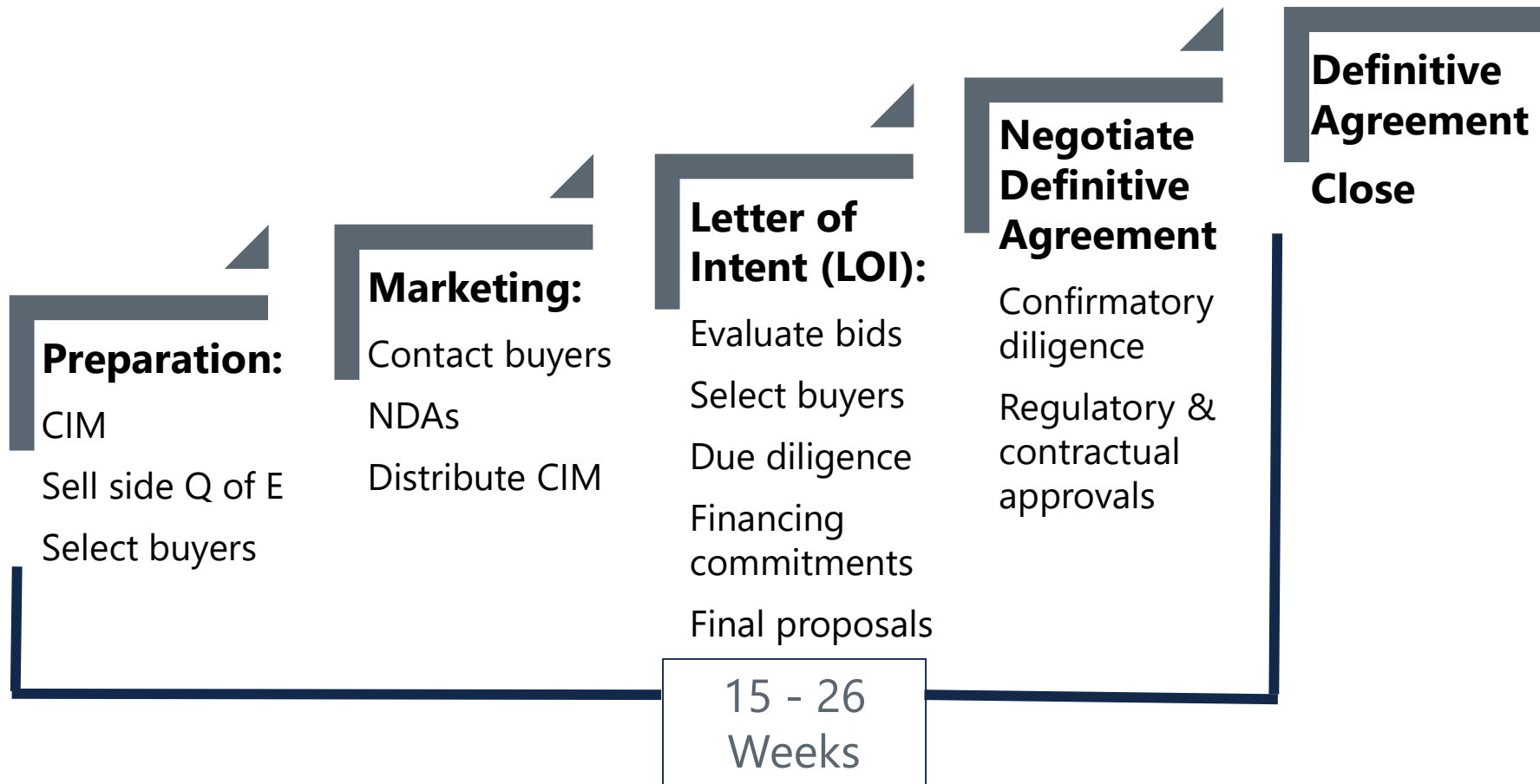
*...In case you need another reason*



- 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





## 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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