

Making your business sale ready

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For thirty years, Bill Inman has served as a trusted advisor to hundreds of private companies throughout North America. His clients have included some of America's most prominent family businesses. He has experience in the business products and service industries, healthcare and medical device, information systems, retail, wholesale, distribution, manufacturing, construction, food and beverages, logistics, and personal service industries. He has served as a speaker for numerous trade, academic and executive groups on the subjects of mergers, acquisitions, strategic and family business planning and growing shareholder value.

Bill began his business career as a CPA and tax manager with a major accounting firm. He joined an investment banking firm in 1979 where he later became the majority partner and CEO. He formed The Inman Company in 1996. From 2005-09 he was a Partner in an international investment banking firm.

He has been featured in the *Atlanta Business Chronicle*, the *Florida Times Union*, and the *Jacksonville Business Journal*. His articles have been published in *Florida CEO*. He is a thirty-year member of Rotary International and an eighteen-year member of Vistage, an international organization for CEOs. He has served as a Director of several companies and is a founder of Springboard Capital, an early-stage Private Equity Fund. Bill attended the Georgia Institute of Technology and received a BBA in Accounting from Georgia State University. He resides in Atlanta and Ponte Vedra, FL.

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Demographics

- 65% to 75% of all small businesses will go up for sale in the next five to 10 years.
- A PricewaterhouseCoopers survey confirms that one out of every two company owners intend to sell their businesses within the next 10 years.
- In the next 12 to 15 years, in excess of 8,000,000 privately held businesses will be sold.
- 90% of all businesses with employees are family owned (30% are owned by individuals who are 55+ years old)
- Most business owners' exit plans do not take into consideration the supply/demand implications associated with the millions of businesses that will be placed on the market.

The Market Today

- Multiples of Earnings before interest, taxes depreciation and amortization, (EBITDA) for ALL businesses are down 30-50% from high-water mark in 2006-07. Current multiples for service businesses GENERALLY, 3-5X EBITDA.
- Multiples for public companies in your industry average also down.
- Multiples are expected to rise in the future, but only slightly.
- Most deals require seller financing of up to 50% of selling price.
- Increasing use of earn-outs.
- Recognize that the best buyers are often not actively seeking acquisitions.
- Capital gain rates projected to increase in 2011.

Define Objectives and Exit Strategy

- A significant percentage of business owners plan the exit from their businesses for less than six months resulting in a lower selling price.
- They **should** begin process 24-36 months **before** anticipated sale.
- Important to communicate objectives to key employees, family, advisors, etc.
- Prepare **WRITTEN** business plan, including financial projections, and update annually.

Understand Your Industry and Current Economic Conditions

- The Electronic Repair Services industry is considered by some to be in the decline stage of its life cycle.
- The number of industry establishments has been on a steady decline. Consolidation expected to increase as larger operators gain higher percentage of market.
- Service groups within this industry are clearly segmented and increasingly specialized.
- Industry value added has grown at a slower pace than the general economy
- Meltdown in credit markets anticipated in 2012
- Inflation expected to return within 3-4 years with increased pressure on earnings

Understand Your Business

- Perform SWOT analysis
- Demand complete, accurate, timely financials
- Understand Value Drivers
- Use Dashboards to measure performance every day!
- Make operating decisions based upon building **VALUE.**
- Understand relationship between Earnings Before Interest, Taxes, Depreciation and Amortization (**EBITDA**) and Shareholder Value

When is the Time to Sell?

- **Personal Considerations**
 - Age/Health
 - Succession Plan or lack thereof
 - Shareholder conflicts or different agendas
 - Other Interests
- **Business Considerations**
 - Industry Changes, Loss of key accounts, consolidation, etc.
 - Declining revenues/earnings
 - Competitive Factors
 - Economic Conditions in General
- **Tax Considerations**
 - Capital Gain/Income Tax Rates (Both anticipated to increase)
 - Estate Taxes

Exit Alternatives

(Advantages and disadvantages to each)

- Sale to Strategic Buyer
 - Public
 - Private
- Sale to Financial Buyer
 - Individuals
 - Private Equity Firms (often with management)
 - Roll-up Firms
- Sale to Family/Employees
 - ESOPS
- Other
 - Liquidation

Key Business Ratios and Definitions

- Operating Margin - $REV/EBITDA$
- Debt/Equity
- Book Value
- Working Capital - Current Assets less Current Liabilities
- Working Capital Ratio - CA/CL
- Return on Investment - $Net\ Income/Cash\ Investment$
- Debt Coverage - $EBITDA/Debt\ Service$
- Valuation Ratio - $Enterprise\ Value/EBITDA$

Basic Business Valuation Model (000's)

Earnings before interest, taxes, depreciation, amortization (EBITDA) 3 yr weighted avg.	\$2,000
Multiple (Example only)	<u>X 5</u>
“Enterprise Value”	\$10,000
Plus: Cash, equivalents, excess assets	2,000
Less: Long-term debt	<u>(1,000)</u>
Business Fair Market Value	\$11,000

Managing for Value - Maximizing EBITDA

- Run the business professionally
- Focus on core competencies, avoid new ventures where you have little knowledge or experience
- Establish minimum returns on investment for new product lines, services, acquisitions, ventures, etc.
- Benchmark against industry and peers (SIA, RMA, etc.)
- Avoid short-term revenue gain vs. long-term value creation
- Deflationary period - Re-negotiate terms on existing agreements (leases, etc.)
- Prepare budget - insist on monthly measurability and accountability. Manage on a line-by-line basis. Use “Dashboards” for measuring results

Other Recommendations

- INSIST on annual REVIEWED financials prepared by CPA
- Resolve shareholder issues
- Avoid litigation
- Pay down debt
- Avoid extravagant company perks (boats, hunting lodges, tickets, etc.)
- Adopt incentive compensation plan(s) that aligns the financial interest of employees with owners (phantom stock, etc)
- Clean up legal, regulatory matters
- Lead through example. Become a TQM company
- Select a bank and professional advisors who understand your business and who view themselves as your partner

Professional Advisors

- **CPA** – to prepare annual financials, income tax returns and advise on internal controls
- **Attorney** - to advise on legal matters, review and prepare agreements
- **M&A Advisor** – to prepare business plan, offer opinion of value, advise on timing for sale, etc. (An experienced M&A intermediary can add an average a 20% in the purchase price and significantly enhance the probability a transaction will close successfully.)



The Inman Company Recent Engagements

- Initiated and negotiated the recapitalization of a \$50 Million business-to-business outsourcing business with a Private Equity Group.
- Advised a \$2 Billion Private Food Company in the acquisition of a strategic target.
- Advised a \$15 Million Housewares firm in the acquisition of THREE strategic targets.
- Advised one of America's most prominent families in the sale of their \$65 Million Logistics business to a NYSE company.
- Initiated the recapitalization of the nation's premiere frozen hamburger manufacturer in a \$3 Million placement of private equity.
- Initiated a \$6 Million private equity raise for a rapidly growing medical device company.
- Advised an early stage cardiac device/Telemedical service company in a \$20 Million sale to a public company.
- Advised the shareholder of a \$20 Million grinding tool machine manufacturer in a sale to a financial buyer.
- Advised a \$70 Million dealer of logging equipment in a sale to a Private Equity Group.
- Advised a major NYSE US Food manufacturer in an acquisition of a Caribbean beverage Company.
- Advised an architectural firm in a sale to a strategic acquirer.
- Advised a \$20 Million software firm in the sale to a strategic buyer.
- Assisted a \$50 Million family-owned construction company in an intra-family transfer of ownership.

For More information

- See or Email us at dawne@inmanco.com. for the following:
 - The IBISWORLD© report on the Electronic and Computer Service Industry
 - Mr Inman’s presentation on “Growing Your Business through acquisition”
 - Factors to consider when hiring an investment banker
 - An example of a dashboard
 - A copy of this presentation
 - Multiples for public companies in your industry
 - Recent transactions in your industry (where available)