



Preparing for the Sale of a
Closely Held Business
March 2024

M&A
Advisory

RESULTS *with*
INTEGRITY™

EdgePoint Capital

800-217-7139

www.edgepoint.com

FIRM OVERVIEW

Our unique perspective and knowledge provide
The **EdgePoint** Difference



A circular graphic divided into three segments: Experience (top left), Empathy (top right), and Results (bottom). Below the graphic, the word "EXPERIENCE" is written in bold. Underneath, three horizontal lines separate the following text: "M&A Expertise", "Industry Focus", and "Family Business".

EXPERIENCE

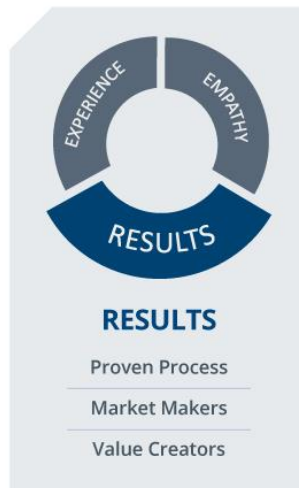
M&A Expertise
Industry Focus
Family Business



A circular graphic divided into three segments: Experience (top left), Empathy (top right), and Results (bottom). In the center of the circle is a stylized leaf icon. Below the graphic, the word "EMPATHY" is written in bold. Underneath, three horizontal lines separate the following text: "Trusted Advisors", "Client-Centric", and "Authentic Communicators".

EMPATHY

Trusted Advisors
Client-Centric
Authentic Communicators



A circular graphic divided into three segments: Experience (top left), Empathy (top right), and Results (bottom). Below the graphic, the word "RESULTS" is written in bold. Underneath, three horizontal lines separate the following text: "Proven Process", "Market Makers", and "Value Creators".

RESULTS

Proven Process
Market Makers
Value Creators

National **sell-side M&A advisors** for middle market companies (2000)

Senior-level attention drives an industry leading deal closing rate

Client-centered **unbiased advice** focused on extraordinary outcomes

International access from **connected market makers**

Dedicated to **driving value creation**

M&A Leadership Recognition



EXECUTION EXCELLENCE AND SECTOR EXPERIENCE

The completion of more than **250 transactions over 20 years**, combined with the multidisciplinary backgrounds of our professionals, has positioned EdgePoint with intimate knowledge of the dynamics driving trends in our chosen market focus.

EDGEPOINT INDUSTRY COVERAGE

Business Services



- Business Process Outsourcing
- Commercial & Facility Services
- Human Capital Management
- Industrial & Infrastructure
- Information Services & Software
- Marketing & Communication Services
- Professional Services

Industrials



- Aerospace & Defense
- Building Products
- Chemicals & Coatings
- Industrial Distribution
- Plastics & Polymers
- Precision Manufacturing

Healthcare



- Acute Care
- Ambulatory Care
- Behavioral Health
- Equipment & Supplies
- Managed Care
- Physician Practices
- Post-Acute Care
- Support Services

WHEN IS THE RIGHT TIME TO SELL YOUR BUSINESS?

We often look to three critical factors when advising a business owner on whether the time is right to consider selling their business:

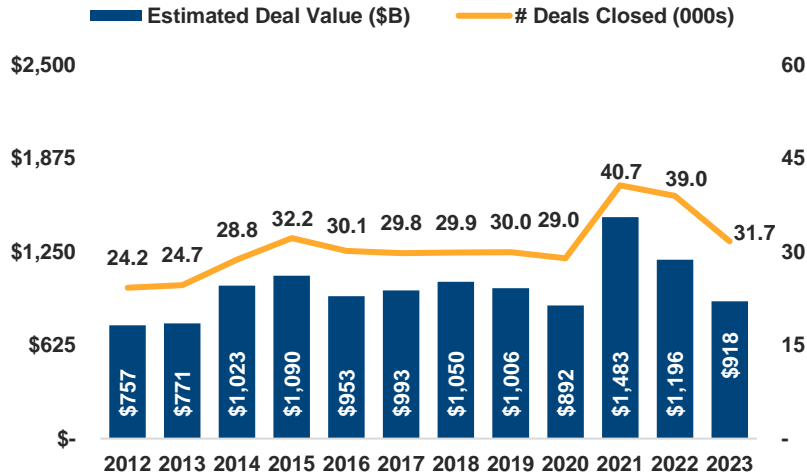




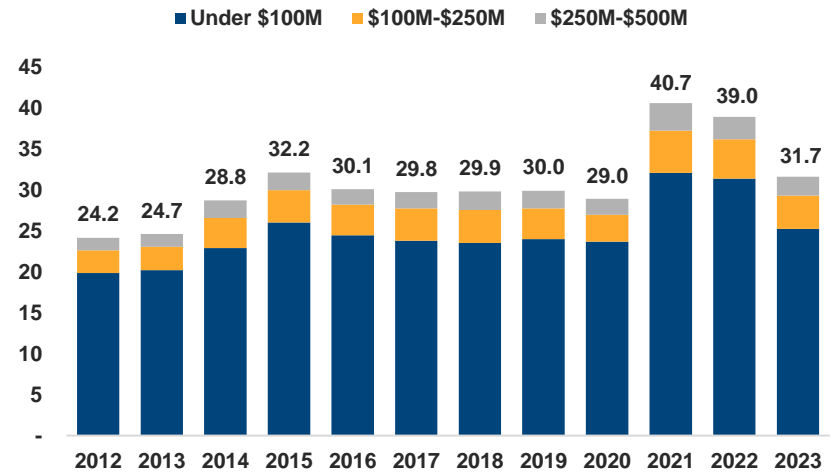
IS THE MARKET READY?

MIDDLE MARKET M&A UPDATE

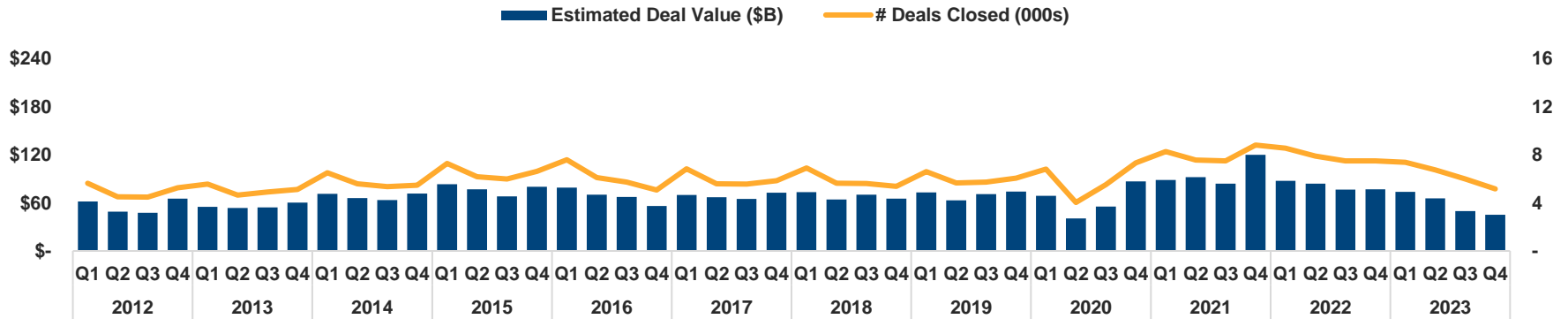
Global Middle Market Deal Flow



Global Middle Market Deal Flow by Size (000s of Deals)



Global Lower Middle Market Quarterly Deal Flow



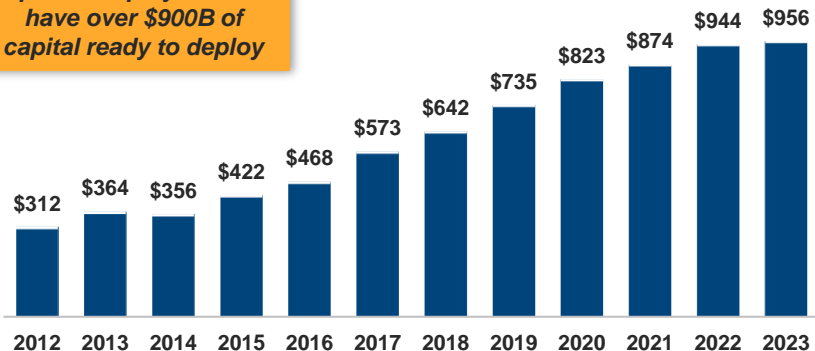
*Lower Middle Market refers to deals valued at \$100 million or less

Source: Pitchbook

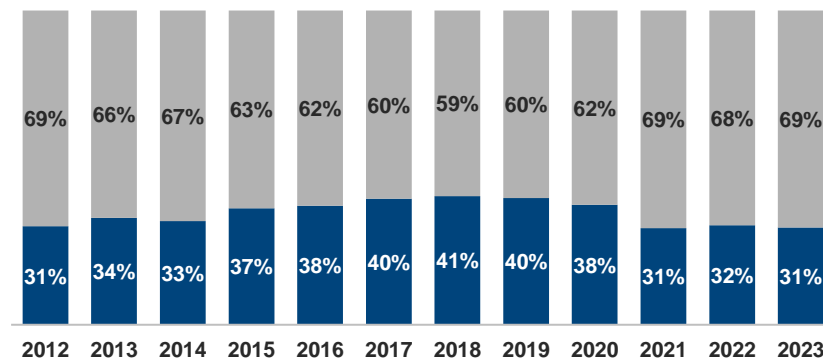
MIDDLE MARKET M&A UPDATE

The United States Private Equity Dry Powder (\$B)

The United States private equity funds have over \$900B of capital ready to deploy

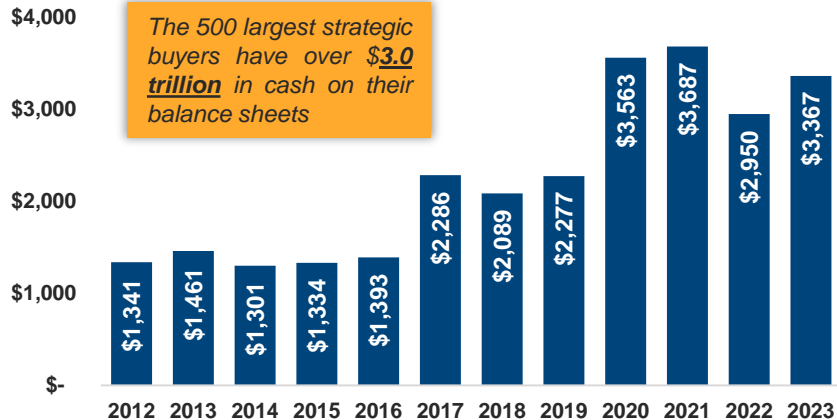


■ Dry powder ■ Remaining Value



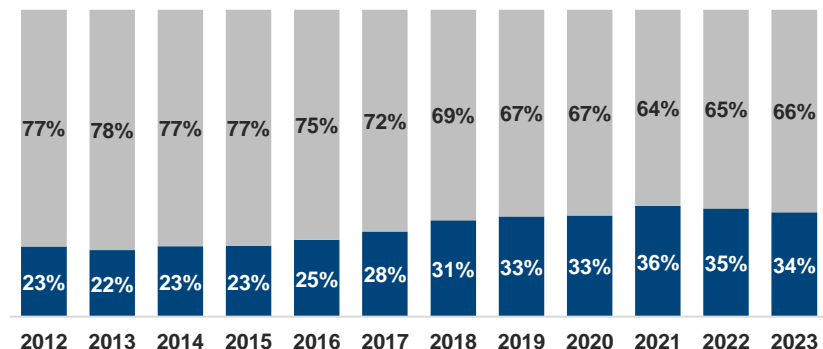
S&P 500 Cash Balances (\$B)

The 500 largest strategic buyers have over \$3.0 trillion in cash on their balance sheets



Buyer Segmentation

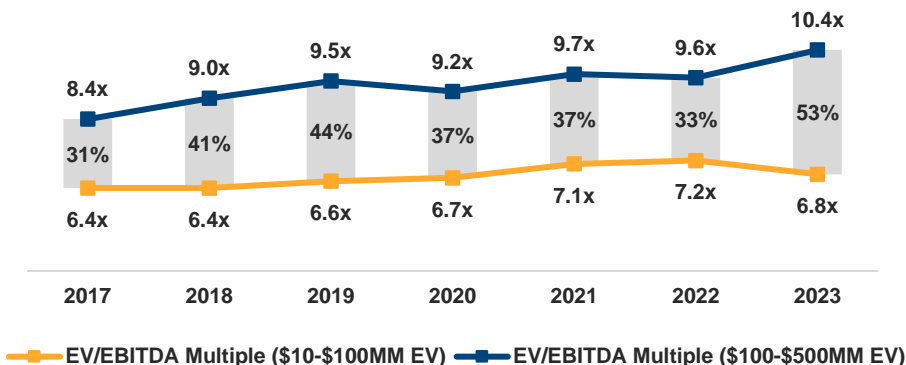
■ Private Equity ■ Strategic (Corporate)



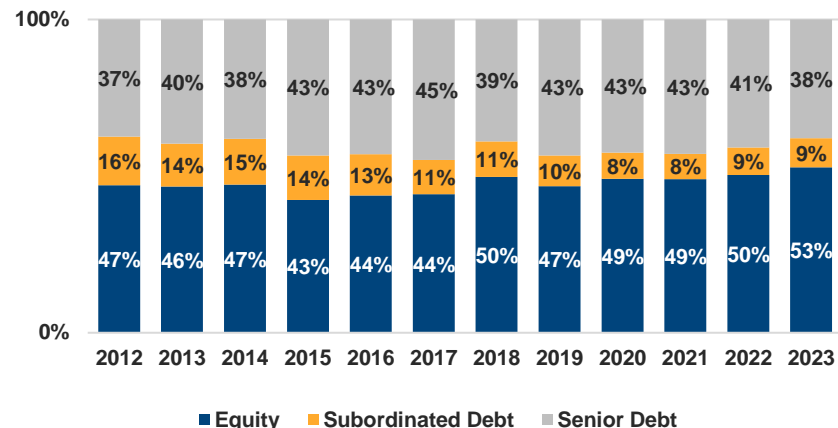
Source: Pitchbook, S&P Capital IQ

CAPITAL MARKETS UPDATE (CONTINUED)

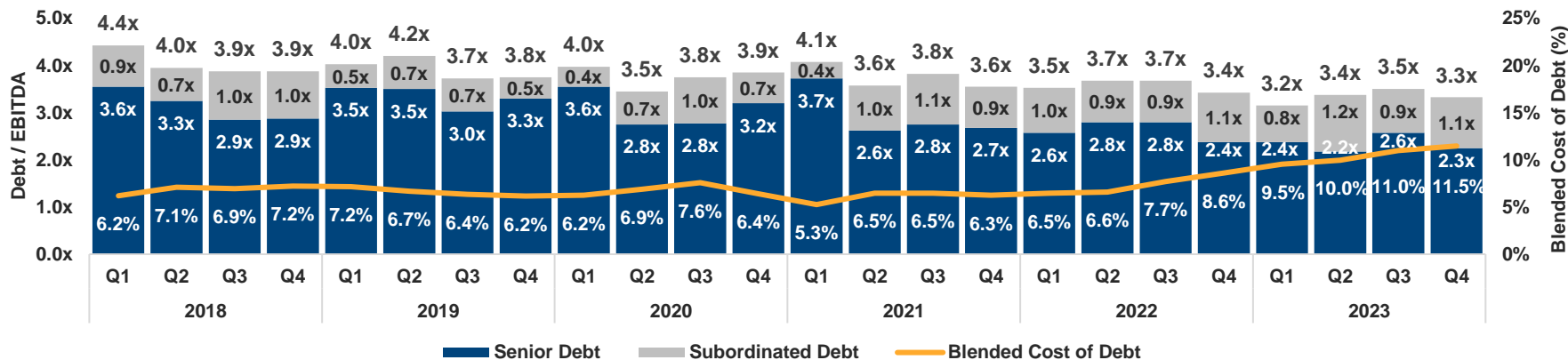
Size Premiums Across All Industries



Annual Debt and Equity Contributions



Middle Market Quarterly Leverage Ratios



Includes deals under \$250 million
Source: GF Data

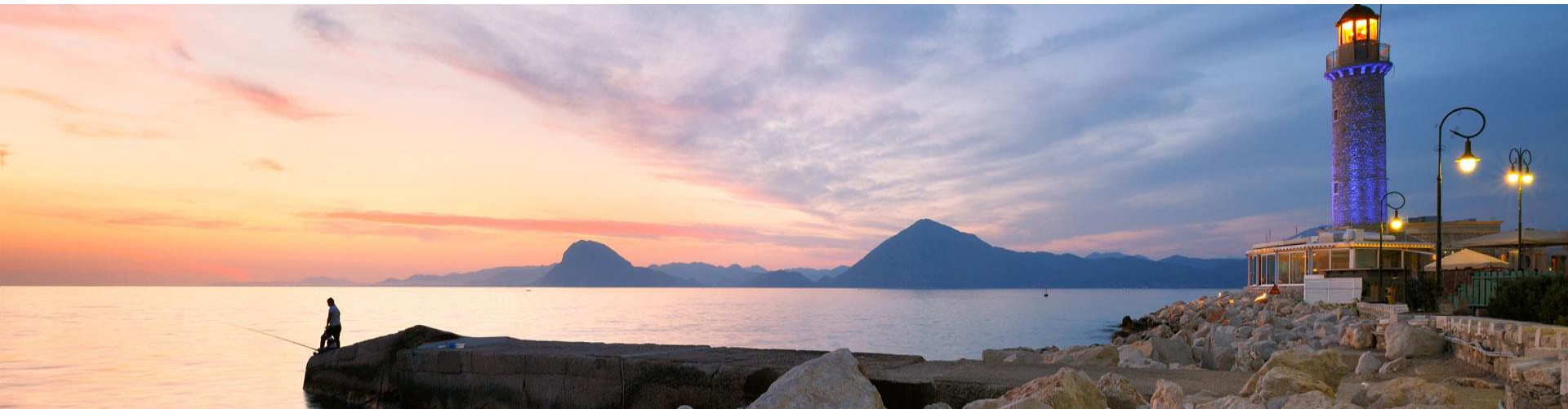
IS THE MARKET READY?

- Market Readiness Pre-COVID-19 was the most settled aspect of the sale timing equation (plenty of capital + way more buyers than sellers + cheap bank financing = robust deal activity)
- Fundraising for private equity remained solid during 2021-2023
- Public company balance sheets flush with cash
- Most businesses settling into a post-COVID “normal”
 - Strong backlogs & pipelines
- Cautious optimism – Activity Strong in Q124

BUT.....

Clouds Are On The Horizon?

- Buyers/investors desire **certainty and predictability** which will ensure their return on investment
- Early-stage and venture capital deals and **fundraising significantly declined** in 2023
- Federal Reserve interest **rate increases** result in higher borrowing costs which **affects purchase price** (purchase price proceeds come from three sources – equity, banks, seller) When will rates come down?
- Increased use of **seller financing** and **earnouts**
- **Other factors** affecting the market include:
 - Labor shortages
 - Supply chain constraints – lessened during 2023
 - Geo-political uncertainty (Ukraine, Taiwan, South America, Middle East)
 - Increased speculation of a recession? “Soft Landing” – Inflation pressures
 - Silicon Valley Bank crisis
 - U.S. Presidential Election
- **Deeper diligence** and buyer scrutiny



IS THE OWNER READY?

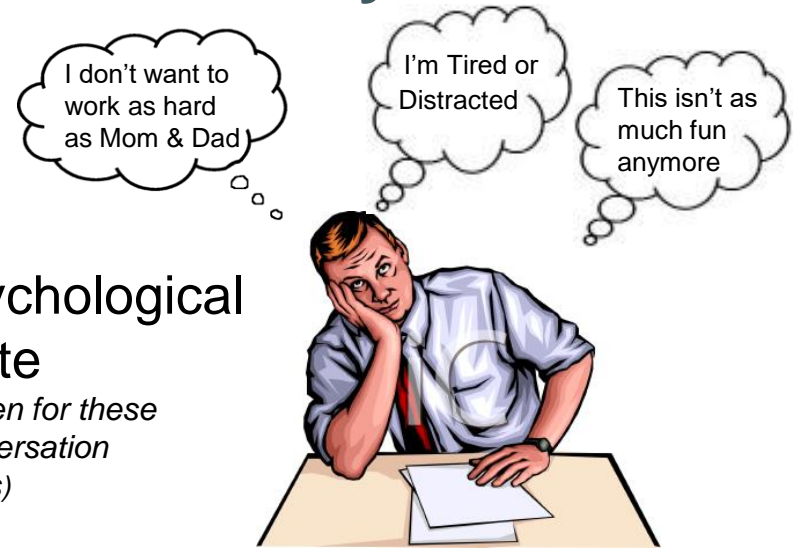
How do you know your client is ready to sell?

Age

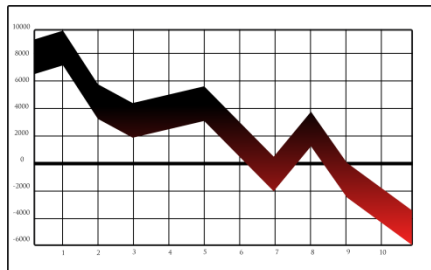


Psychological State

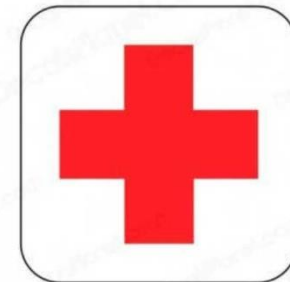
(Listen for these conversation clues)



Industry Pressures



Health Issues
(owner or spouse)

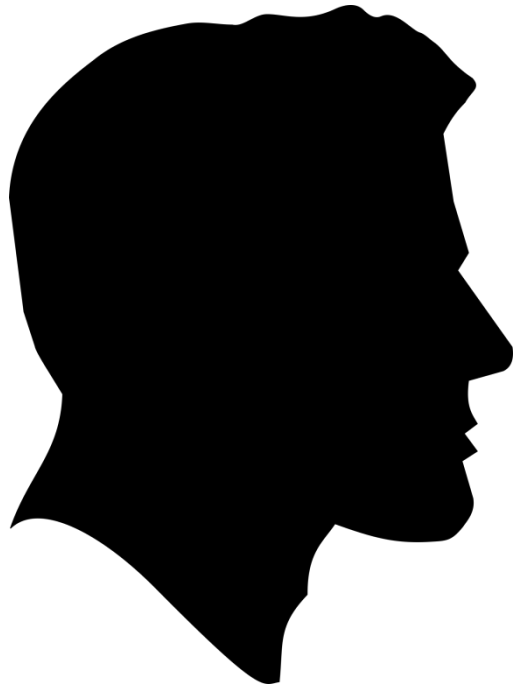


Are qualitative factors driving decision and timing?

Most common qualitative factors impacting privately held business owners:

- **Family involvement** in business adding complexity to decisions
- Ownership with different expectations and **transition timelines**
- Shareholders lack of **clarity of valuation desires** and financial plans
- **Leadership gaps** or key management approaching retirement
- Ownership desires to spend **less time working in the business**
- Financial and **business pressures** from recessions, competitors, and employees
- Lack of clarity of **what's next for an owner after sale**
- **Fear of the process** of selling a business is complex and filled with unknowns

What Does Our Client Look Like?



What is their Average Age?

IS THE OWNER READY?



54 Years Old!!!



32



85



Business owners of every age are candidates for this conversation!

What are your priorities?

Every business owner has a different priority for their transition. What is important to you?

I have dedicated my life to building my company and I want the **highest price**

Highest Price

My employees helped build the business. I want my **employees to share in the success** and preserve their jobs

Employee Friendly

The company is very important to my family and/or community and **my legacy**

Preserve Legacy

Most Confidential

Keeping the sale of my business **confidential** is critical to me

How Is Value Determined?

- The sale of a business is typically the largest economic event in a business owner's lifetime. Determining value is critically important.
- Value Calculation:
 - One common financial metric Buyers use to value a business is a multiple of Earnings Before Interest Taxes Depreciation and Amortization (EBITDA). This is typically expressed as range of value (5-7X EBITDA) although size matters.
 - EBITDA is often adjusted to reflect discretionary owner expenses and one-time non-recurring costs, and is usually based on the prior twelve-month operating period (can also be an average of multiple years of EBITDA, or occasionally revenue/sales).
- **Buyers like steady, predictable, recurring, and growing EBITDA trends and reward companies with this profile.**

How do you get the highest price?

The following are a few factors that positively impact value:

Growth: Strong growth story with continued opportunity

Acquisitions: Opportunities to acquire business for growth

Predictable Revenue: Revenue is recurring and predictable

Long Term Contracts: Customers have long term relationships

Leadership: Strong management team

Proprietary: Patented and proprietary products/ services

Defensible Niche: Product is unique and has barriers to entry

Low Customer Concentration: Top customers (less than 25%)

Quality Data: Ability to support financials and segmentation

Competition: Competition drives highest price





IS THE BUSINESS READY?

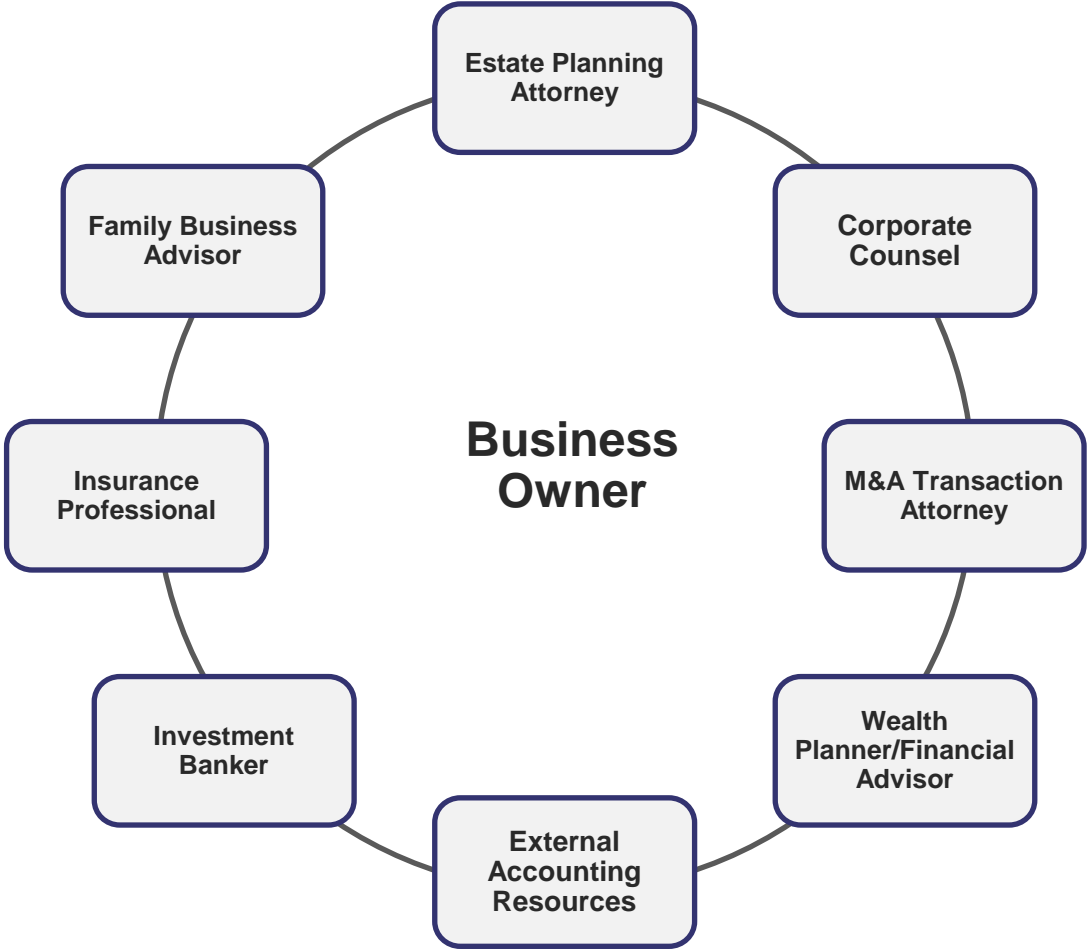
IS THE BUSINESS READY?

Critical areas of considerations when preparing your business for exit



IS THE BUSINESS READY?

The process of selling your business will involve many advisors. It is critical to have a few key advisors that lead the coordination of the preparation and sale process.



Tax/Legal Housekeeping – “Good Corporate Hygiene”

- Locate/Update corporate governance books and records to prepare for legal due diligence:
 - Share certificates with any restrictions
 - Remote/unrelated shareholders and trusts
 - Meetings and resolutions
 - Buy/Sell agreements
- Review corporate entity structure and assess tax scenarios in anticipation of a sale
- Confirm tax filings and other licenses/certifications are current
- Prepare in advance for pre-sale charitable donation of closely-held stock (Be wary of IRS rules for timing and pre-LOI appraisals)
- Understand and be prepared to address family/ownership dynamics in advance of a sale

Additional Items to Consider

- Should the owner invest in new machinery, facilities, or key management/employees?
- Work with accounting professionals to ensure historical and projected financial materials are credible and accurate
- Review and understand your cash flow cycle (inventory, payables, cost analysis, etc.)
- Many companies today are getting a sell side Quality of Earnings (QofE) to validate EBITDA and avoid surprises
- Don't forget potential environmental issues

WHY HIRE AN INVESTMENT BANKER?

- Bankers create **leverage** and **momentum** to increase deal certainty
- Owners need to be **focused on profitably operating their business** and not assume role as “deal maker”
- Consultative process helps create alignment and **clarity of transition** goals and objectives
- A collaborative advisory team can greatly **increase the value** of the business with proper preparation
- Skilled investment bankers have access to and **relationships with premium financial and strategic buyers**
- Experienced deal makers increase likelihood of securing best price and terms from buyers through **skilled negotiation**
- Ability to anticipate deal issues and lessen emotions during a transaction **increases likelihood of a successful closing**
- By combining process with deal timing, a skilled investment banker **preserves confidentiality**

Independent Study

*A study conducted by the University of Alabama which involved 4,468 transactions over a 20-year period, estimated that **sellers who hired investment bankers received valuation premiums of 25%***

Source: The Quarterly Journal of Finance March 2023

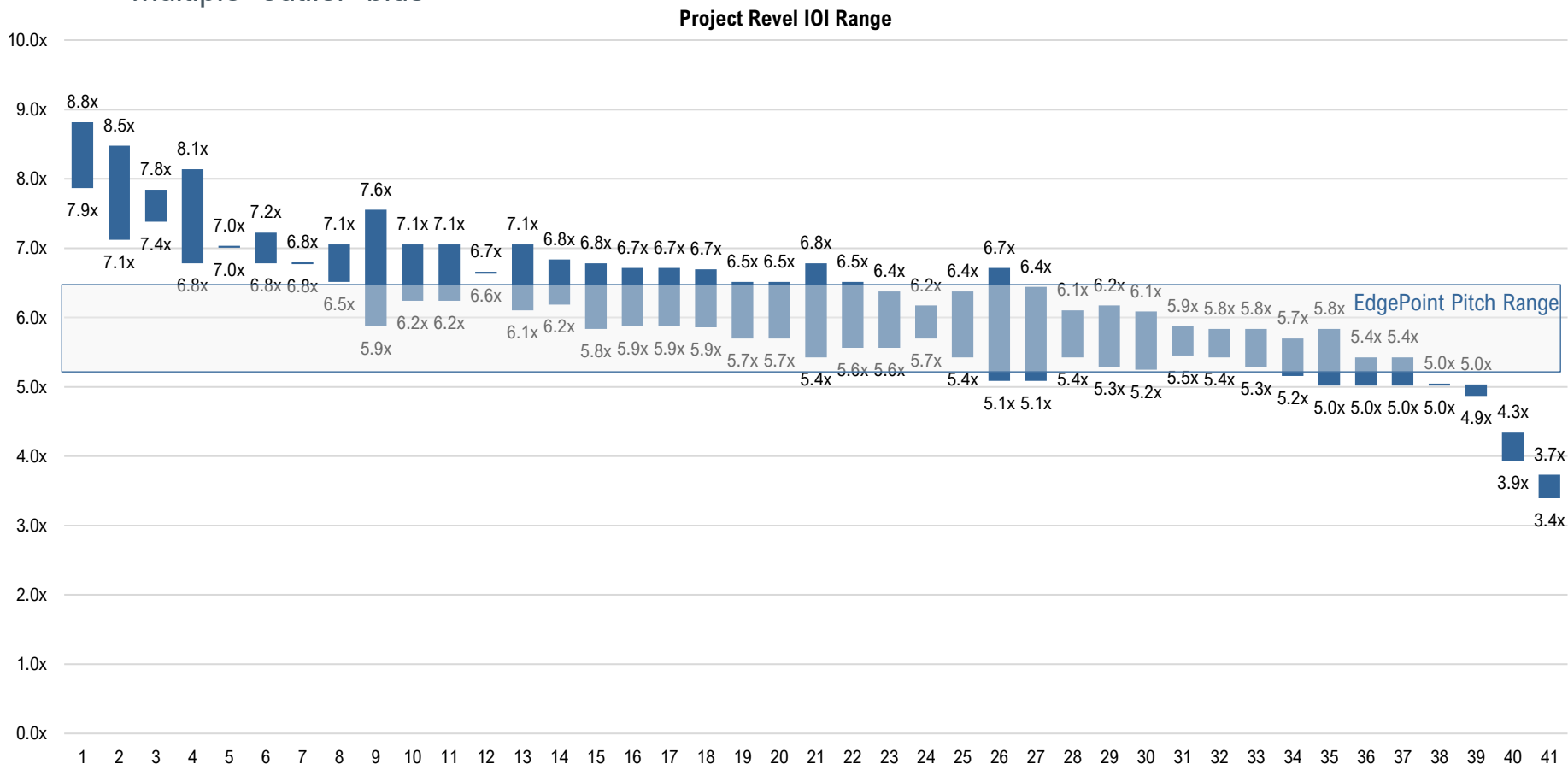
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PREMIUM VALUE THROUGH PROCESS: PROJECT REVEL CASE STUDY

EdgePoint recently closed on the sale of an outsourced field services provider in the utility services / vegetation management sector.

The business received significant interest from Private Equity and Strategic Buyers

- Median initial bid value was consistent with our pitch range – but a competitive process sourced multiple “outlier” bids



MANAGED SALE PROCESS TIMELINE

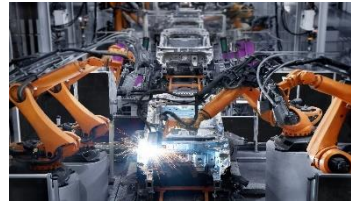


HOT SUBSECTORS FOR M&A ACTIVITY

Industrials



Aging Water Infrastructure



Industrial Automation



Industrial Distribution

Business Services



Commercial Facility Services



Environmental Services



Early Childhood Education

Healthcare



Home Healthcare & Hospice



Specialty Physician Services



Revenue Cycle Management

WHAT'S NEXT – 2024 AND BEYOND

- Good companies will always stand-out – so **well-prepared owners** and companies in favorable markets **will still be attractive** to a broad range of buyers
- Companies focused in the nearer term on re-shoring and on-shoring will be more attractive
- Recession-proof and/or recession-resistant companies will also remain attractive regardless of external conditions
- **Cautious optimism** that 2024 will still be a relatively robust M&A market

Thorough planning, communication, and collaboration between a closely held business owner, stakeholders, and advisors will help insure successfully achieving their personal and financial goals and objectives.

CONTACT

A uniquely-focused investment banking firm serving the **merger and acquisition needs** of middle market businesses

John Herubin

Managing Director (216) 342-5865

jherubin@edgepoint.com



2000 Auburn Drive, Suite 330
Beachwood, OH 44122
(216) 831-2430

www.edgepoint.com