

# Selling Your Contracting Business

From Establishing Value to Negotiating the Sale

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March 26, 2010

## Presentation Overview

- M&A overview for the contracting industry
- Preparing for the Sale
- Valuation and How to maximize it.
- The Step by Step process of Selling your business
- Due Diligence
- Conclusions
- Questions

## Mergers and Acquisitions Overview

- Recent surveys suggest that 50% of the privately owned businesses in Canada (those not listed on a stock exchange) will be sold in the next 10 years and two thirds of those will be sold in the next 5 years. This is mostly the baby boom effect.
- In view of these statistics, it is advisable to sell your business sooner rather than later with this many companies coming to market.
- Stock market meltdown made deals slower and lowered valuations. Less debt available to finance a purchase. This is now improving.
- Contracting industry is ideal for industry consolidation (also called a rollup)
- Recurring customers and difficulty to acquire new customers and new, qualified technicians.
- There are lots of active buyers in the industry.
- This is especially true for companies focused on commercial and industrial customers. The most attractive size to buyers today is with companies that have anywhere from \$1 million to \$10 million of EBITDA (to be defined shortly).
- Interest rates are low, stock market is buoyant, mood is more positive

## Preparing for the Sale

- Small Business Capital Gains Tax Exemption \$750,000 each shareholder
- Unanimous Shareholder Approval? Minority shareholders?
- Debtholder approvals, customer approvals, sale restrictions
- Simplify the share structure and the sale approval process – e.g. separate classes of shares and special shareholder rights
- Management involvement
- No one wants to buy a company that depends on one person to run it
- All sales are affected by profitability therefore watch Normalizations
- Files and records preparation (due diligence prep.)
- Systems and processes – scheduling, reporting, accounting, billing
- Shares versus Assets
- Questions or Comments?

## Valuation and how to Maximize it.

- NPV, DCF, IRR, Payback methods used by business valuers
- These academic valuations are used for estate freezes, shareholder or spousal litigation
- Their shortcomings: projections, discount rates, assumptions
- Value = Highest price someone is willing to pay for the business.
- All valuations are based on what buyers think they can make owning the business going forward
- Best indicator of future profitability is past profitability
- EBITDA – Earnings before Interest, Taxes, Depreciation and Amortization
- Valuation is a multiple of EBITDA (2 to 6 times)
- Any long term debt is subtracted from the multiple X EBITDA because the buyer assumes the debt
- How do you increase the multiple? i.e. Price

## Valuation and how to Maximize it (Cont'd)

### **Factors affecting the multiple:**

- Recurring Revenue – dependable, year in, year out
- Quality of customers (commercial vs. residential)
- Barriers to entry
- Geography, brand value
- Synergies – cost savings post acquisition
- Strong positive sales and earnings trends
- Profitability compared to the industry average
- Professional management
- Information and process systems - Scheduling systems, reporting systems, enterprise resource planning, accounting and billing systems all add to the value of the business.
- Organized and computerized files – procedures manuals, customer files, safety manual, employee records, information systems
- Other ... suggestions?

## **The Process of Selling Your Business**

- After accounting and legal advisors have been consulted then:
- Preparation, Preparation, Preparation
- Will take 2 to 6 months depending on the company
- Make sure all your records are in order and ready for due diligence
- Advisors will help by preparing a CIM
- Legal, accounting, tax, banking, HR – employee lists and benefits, employment contracts, customer files, health and safety, information systems, real estate, shareholders, material contracts, environmental, fixed assets and equipment, intellectual property, suppliers, insurance

## **The Process of Selling Your Business (Cont'd.)**

- Step 1 – Estimate Valuation
- Step 2 – Prepare a Confidential Information Memorandum
- Step 3 – Make an approved List of Prospective Buyers
- Step 4 – Contact prospects and send NDA with 1 pager
- Step 5 – Send out CIM and respond to Buyers' questions
- Step 6 – Meet with prospective buyers
- Step 7 – Receipt of Letters of Intent
- Step 8 – Negotiation of LOI's
- Step 9 – Choose exclusive counterparty
- Step 10 – Due Diligence
- Step 11 – Legal Documentation
- Step 12 – The Closing

## The Process of Selling Your Business (Cont'd.)

- **Step 1 – Estimate Valuation**



## The Process of Selling Your Business (Cont'd.)

- Step 1 – Estimate Valuation
- **Step 2 – Prepare a Confidential Information Memorandum**



## The Process of Selling Your Business (Cont'd.)

- Step 1 – Estimate Valuation
- Step 2 – Prepare a Confidential Information Memorandum
- **Step 3 – Make an approved List of Prospective Buyers**

### *Who are they?*

- *Strategic: Competitors, Suppliers, Related industries*
- *Private equity*

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– Confidentiality**

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- **Step 5 – Send out CIM and respond to Buyers' questions**



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- **Step 6 – Meet with prospective buyers**

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- **Step 10 – Due Diligence**

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## Due Diligence

- Once an agreement in principle has been reached (LOI) the buyer will need to verify information
- Usually the buyer will send a long generic list of due diligence documentation they would like to see
- This should be negotiated and edited before responding
- Information will include: Material contracts (leases, customer contracts, employees files and agreements, suppliers contracts), legal records, accounting records, tax records, aged payable and receivable listing, banking records, human resources info, health and safety, information systems, insurance records, real estate and truck leases.
- Other info will include outstanding litigation, environmental issues, product / supplier information, customer information.
- Accountants and lawyers get involved

## Conclusions

- There will be a lot of companies for sale in next 5 years
- Being at the front of that line improves your prospects
- Inside your business or outside your business? (management and / or offspring)
- Voluntary or Involuntary?
- Selling when you are sick will decrease value.
- Selling when you are dead will decrease value further.
- The economy is healthy and there are keen buyers.
- HPAC articles at the entrance

## Sales Pitch

- If you are thinking of selling
- If you know someone who is thinking of selling
- If you are thinking of buying
- If you know someone who is thinking of buying

Please contact Mark

A.I.M has sold 2 HVAC contracting companies and looking to sell more.

## Contact

Please do not hesitate to contact us if you would like to learn more about the firm or the services we offer.

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