



# Best Practices for Growing a Business to Effectively Manage or Exit

ACE Webinar  
*January 25, 2022*

**A commitment to deliver superior client service anywhere you need us.**



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# I. UHY Introduction

Presenter	Experience
 <p><b>ALEX J. CONTI</b> <b>MANAGING DIRECTOR</b> aconti@uhy-us.com</p>	<ul style="list-style-type: none"><li>▪ Extensive experience with delivering quantifiable benefits to clients including adjustments to reported EBITDA, purchase and sale agreement modifications, and working capital adjustment mechanisms</li><li>▪ Experience includes principal investing and investment banking experience with dozens of domestic and international transactions across a broad range of industries</li><li>▪ Sell-side and capital advisory services serving strategic and private equity clients engaged in divestitures, restructuring, carve-outs, private capital raising, and venture capital</li><li>▪ Solid track record of successfully selling companies to both strategic and private equity buyers including pre-sale positioning, market research, writing offering memoranda, executing robust marketing processes, managing company presentations, creating dynamic financial models, and negotiating deal terms</li></ul>
 <p><b>ALEX DIBARTOLOMEO</b> <b>SENIOR MANAGER</b> adibartolomeo@uhy-us.com</p>	<ul style="list-style-type: none"><li>▪ Considerable experience with delivering buy-side and sell-side financial due diligence investigations for public / private enterprises and private equity funds</li><li>▪ Conducts financial due diligence investigations focused on evaluating quality of earnings, quality of net assets, net working capital requirements, and the reasonableness of proposed adjustments to reported EBITDA</li><li>▪ Industries served primarily include automotive, aerospace, industrial product manufacturing and distribution, business and professional services, healthcare, and technology</li><li>▪ Licensed CPA in the State of Michigan</li></ul>
 <p><b>CAMERON KURZEJA</b> <b>MANAGER</b> ckurzeja@uhy-us.com</p>	<ul style="list-style-type: none"><li>▪ Performed 30+ buy-side and sell-side financial due diligence investigations on middle-market companies, focused on evaluating quality of earnings, net working capital requirements, quality of net assets, and the reasonableness of proposed adjustments to reported EBITDA</li><li>▪ Prepared calculations of value based on relative, intrinsic, and liquidation based methodologies to advise clients through the transaction process and the negotiation of the purchase and sales agreement</li><li>▪ Licensed CPA in the State of Michigan</li></ul>

## Firm Profile

### National Facts

- Offices across the U.S.
- 1,000 employees
- More than 50 years of experience
- Practice leaders with Wall Street and Big 4 experience and training
- Ranked one of the Top 10 fastest growing accounting firms by *INSIDE Public Accounting*

### Various Practice Areas

- Corporate Finance / Mergers & Acquisitions
- Tax
- Audit / Assurance
- Forensic, Litigation & Valuation
- Consulting
- International Focus

### Select U.S. Office Locations

- Albany, NY
- Ann Arbor, MI
- Atlanta, GA
- Catskill, NY
- Chicago, IL
- Columbia, MD
- Detroit, MI
- Farmington Hills, MI
- Frederick, MD
- Houston, TX
- Kansas City, MO
- Miami, FL
- New York, NY
- Norwalk, CT
- Orange County, CA
- Port Huron, MI
- Rye Brook, NY
- St. Louis, MO
- Sterling Heights, MI
- West Hartford, CT

**UHY Corporate Finance operations are based in Metro Detroit. We have extended team members stationed in offices around the country and routinely collaborate with our Corporate Finance colleagues around the world.**



## Global Reach – UHY International

**UHY is an international organization that meets clients’ global business needs with accounting, tax, and M&A expertise**

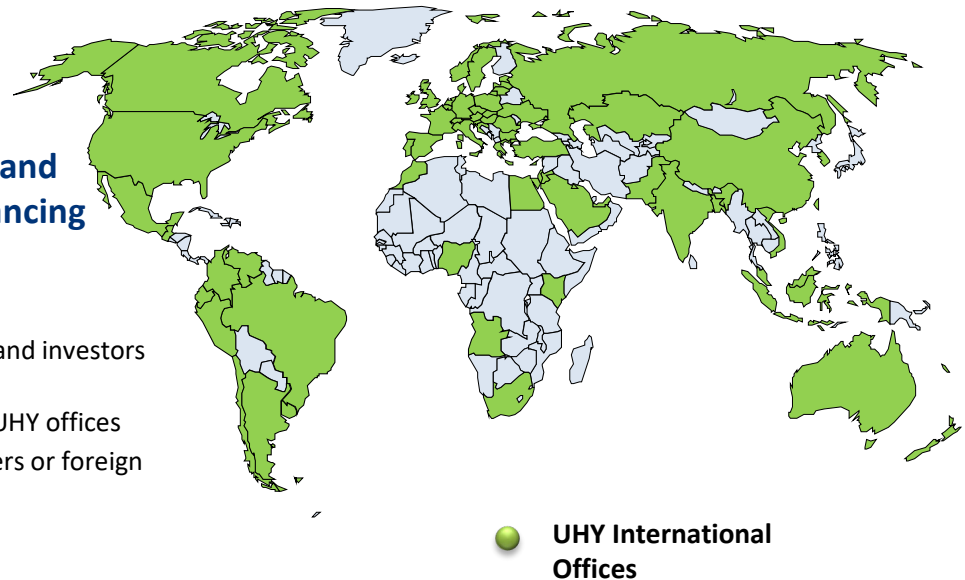
- Over 8,100 employees in more than 95 countries around the world

### Recognized for quality

- Forum of Firms
- International Accounting Standards Board
- International Federation of Accountants

### Unparalleled access to international buyers, sellers, and investors of middle market businesses and their financing sources

- “On the ground” presence in more than 95 countries
- Regular contact with foreign financial and strategic buyers, sellers, and investors in UHY’s primary industry sectors
- Currently executing several global mandates in tandem with other UHY offices
- Sourcing capital globally for private equity clients and financial buyers or foreign sell-side M&A clients
- Cultural and language challenges are eliminated





## Corporate Finance Service Offerings

Our Corporate Finance practice includes a full service offering of transaction advisory services

### M&A Advisory

- Private Equity Sales
- Strategic Sales
- Reverse Due Diligence
- Mezzanine Debt
- Buy Side Acquisitions

*Extensive execution capabilities, deep industry knowledge and broad market intelligence enable us to deliver tailored solutions*

### Buy-Side Transaction Services

- Quality of Earnings
- Quality of Net Assets
- Working Capital Calculations
- Negotiation Consulting
- Tax Due Diligence

*Offer a full range of global services that maximize your returns and minimize your risks at every stage along the deal continuum*

### Financial & Post-M&A Advisory

- Process Improvement
- Strategic Assessments
- Financial Modeling
- Valuations
- Fairness Opinions
- Post-Merger & Acquisition Integration and Optimization

### Representative Clients & Relationships



### Continually Recognized for Excellence by





## II. Best Practices



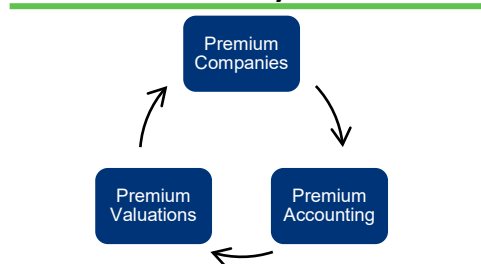
## Intersection between Strong Enterprises and Successful M&A Exits



### Financial

- Consider having an external CPA review or audit
- Regularly meet with tax professionals to understand tax position and exposures
- Does your Company meet to review results?
- Ensure “systems” don’t hold you back (e.g., ERP)
- Accounting and Finance Department sophistication matters

### Value Cycle



### Operational & Legal

- Contracts with customers, vendors, legal agreements, etc. are in order
- Does your Company review revenue and margin data? What drives your Company?
- Are your operations first-in class (e.g., Capex and IT)?



### Strategic

- Financial aspirations and goals are not strategies
- How do you compete (e.g., price, quality, speed)?
- How will you grow? Price, volume, mix? Organic vs. acquisitions? Compile a cohesive set of actions which complement each other

### Value Drivers

#### Quantitative

- Growing industries
  - Content creation
  - Industrial distribution
  - Technology / Ecommerce
- Diverse customer and vendor base
- High margins
- Predictable and stable recurring cash flows
- Low capital requirements paired with significant financial leverage

#### Qualitative

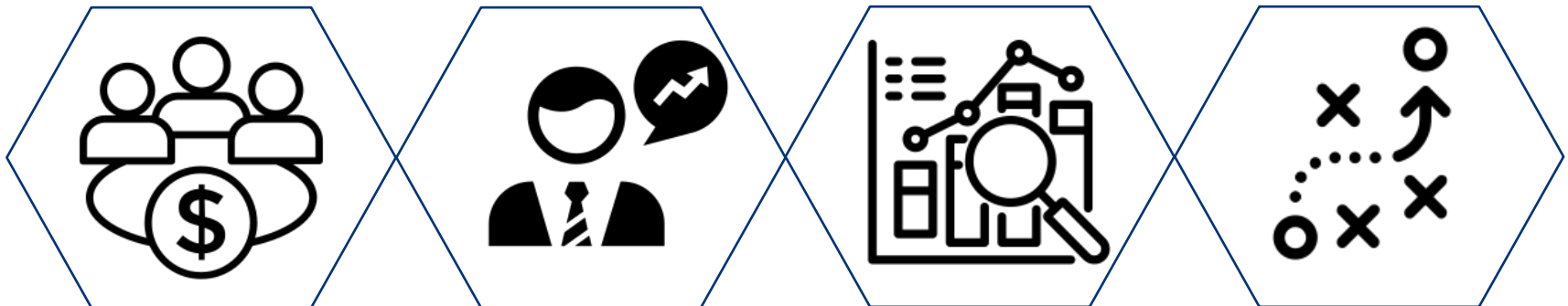
- Strong Management teams
- Great corporate governance
- Competitive advantage & market position
- Pathway to growth / value levers
  - Centralization of back-office infrastructure
  - Cross selling between portfolio companies
  - Vendor & customer contract negotiation (price changes, rebates, discounts)



## **III. Exiting through an M&A Event**

Exiting a business is often a once-in-a-lifetime event, *treat it accordingly.*

- Meet with stakeholders to align on the commitment
- Interview and select advisors to understand the process and build your team
- Review the market to understand the value of your business
- Execute on strategy



## Provisional Transaction Timeline

Month 1							Month 2							Month 3							Month 4							Month 5							Month 6							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	
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27	28	29	30	31	24	25	26	27	28	29	30	29	30	31	26	27	28	29	30	24	25	26	27	28	29	30	31	28	29	30	31											



**Phase One**

- Organizational meeting
- Conduct thorough due diligence
- Develop marketing strategy and create approved investor list
- Finalize confidential information memorandum and / or pitch deck
- Contact qualified financial investors
- Deliver confidential memoranda
- Request preliminary indications of interest

**Weeks 1 through 8**

**Phase Two**

- Finalize management presentation
- Select investors for management presentations
- Online data room review, if applicable
- Management presentations
- Support investor due diligence
- Deliver purchase agreement and request mark-up
- Obtain final offers (LOIs)

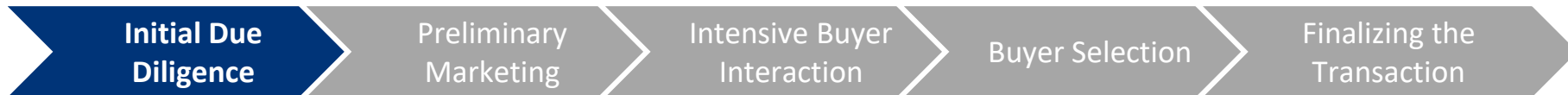
**Weeks 9 through 15**

**Phase Three**

- Select investor
- Grant exclusivity period
- Detailed due diligence & support of key seller positions
- Negotiate final purchase agreement
- Seek regulatory approvals, if applicable
- Close transaction
- Post-close working capital adjustments
- Monitor status of any earn-outs, notes, or indemnity obligations

**Weeks 16 through 24(+)**

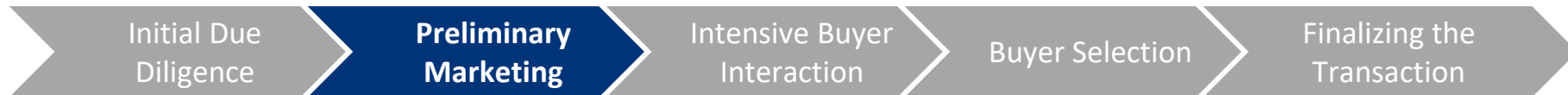
## Initial Due Diligence



UHY conducts thorough due diligence to identify and understand all key positioning points

- Conduct interviews with management
- Develop marketing strategy
- Prepare Confidential Information Memorandum (“CIM”):
  - Analyze information received during due diligence to optimize the Company’s positioning in the market
  - Include verifiable add-backs and pro forma adjustments
  - Highlight strengths and mitigate any potential weaknesses
  - Management and shareholders review the CIM; highly-confidential information is withheld
- Develop Buyers List:
  - UHY identifies and pre-screens a select group of potential buyers
  - Shareholders review and approve the list of buyers
  - UHY, shareholders, and management develop a strategy for contacting buyers, including any direct competitors
- Prepare “Teaser” and Confidentiality Agreement:
  - One-page, non-descript summary of the opportunity
  - Two-year agreement to maintain confidentiality and refrain from soliciting employees
- Approach lenders (if needed):
  - Share abbreviated memorandum
  - Solicit financing interest and proposed terms
  - Utilize feedback with financial buyers to drive valuation

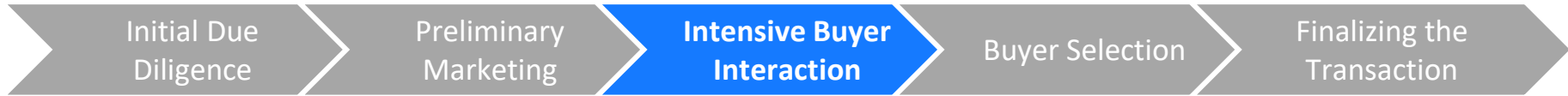
## Preliminary Marketing



### UHY has direct and confidential contact with interested and financially capable buyers

- Contact and qualify buyers:
  - Contact senior-level executive for each buyer in a confidential manner
  - Describe opportunity in general terms and discuss acquisition rationale without disclosing any specifics, including name
  - Confirm each buyer’s interest and financial capability
  - Obtain signed confidentiality agreements from interested parties
- Distribute confidential memoranda
- Finalize term sheets and lender proposals (if needed):
  - “Paper-clipped” financing finalized and presented to investors in advance of management presentations and Letters of Intent
- Prepare Management Presentation:
  - Overview of the Company delivered by management to buyers who submit an acceptable preliminary indication of interest
  - Prepare in light of feedback garnered from the marketing process
- Request Preliminary Indications of Interest:
  - Short, non-binding letter indicating a buyer’s interest in making the acquisition, a preliminary valuation range, the anticipated transaction structure, and the anticipated source(s) of financing

## Intensive Buyer Interaction

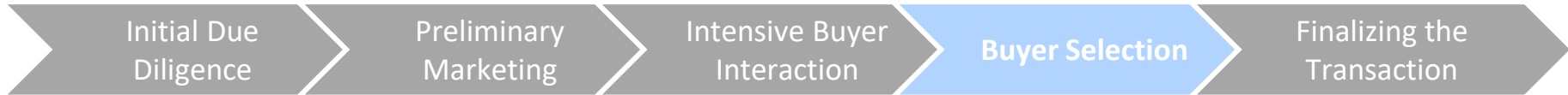


Management showcases the Company's operations and the strongest buyers are identified

- Select buyers to meet with management:
  - Finalize management presentation
  - Select optimal number and mix of interested parties
  - Finish gathering due diligence items for online data room
- Conduct Management Presentations:
  - Preparation of management (initial and ongoing) is key
  - Introduce potential buyers to key management involved with the transaction
  - Provide a forum for management to highlight strengths of the Company and address potential issues
  - Conduct facility tours, as appropriate
  - Deliver purchase agreement prepared by client counsel (with assistance from UHY)
- Support buyer due diligence:
  - Provide access to additional information, as appropriate
  - Volunteer follow-up calls or meetings with management
- Request Purchase Agreement mark-ups / LOIs:
  - Non-binding but firm offers that include a “final” valuation and outline all key terms



## Buyer Selection



UHY drives a highly-competitive process to achieve the most attractive price and terms

- Evaluate Purchase Agreement mark-ups / LOIs:
  - Interact with shareholders and counsel
  - Review and compare all valuations and key terms
  - Review and compare all financing arrangements
  - Review and compare all timetables and contingencies
- Negotiate final value and terms:
  - UHY contacts those parties that have submitted the most attractive proposals and encourages them to outbid each other on both value and terms
  - Anticipate and address key deal issues
  - Maintain a competitive process and gather as much information as possible to enable an educated decision
- Select preferred buyer:
  - UHY and shareholders choose the buyer(s) that has offered the most attractive financial and non-financial terms, can close the transaction in a reasonable period of time, and has the highest probability of financing and closing the transaction on the terms offered

## Finalizing the Transaction



UHY and legal counsel aggressively manage the transaction throughout the documentation phase

- Buyer conducts final due diligence:
  - Grant buyer full access to information including financials, customers, contracts, patents, etc.
  - Monitor progress and maintain constant communication with senior decision makers
- Negotiate definitive Purchase Agreement:
  - Maximize client’s position regarding representations and warranties, particularly use of “materiality” and “knowledge” qualifiers
  - Limit indemnification terms, such as survivability, caps, and baskets to appropriate lengths and dollar amounts
  - Limit conditions to closing to only necessary conditions, such as consents or HSR clearance
- Submit necessary regulatory filings
- Close transaction:
  - Complete documentation, including definitive schedules
  - Confirm regulatory approval
  - Execute definitive purchase agreement
  - Receive sale proceeds and distribute as appropriate



## **IV. Enduring Due Diligence**

## What is Financial Due Diligence?

Financial Due Diligence is a confirmatory financial exercise which intends to accomplish 3 main goals:

1. Normalize the historical cash flows of the business (namely Adjusted EBITDA) by (i) eliminating the impact of non-recurring, extraordinary, excessive, one-time, non-cash, and out-of-period items as well as (ii) adjust for known changes in the cost structure / operations (e.g., related-party rent, shareholder compensation, COVID-19);
2. Determine a normalized level of working capital to be delivered at close;
3. Prepare a schedule of on and off-balance sheet indebtedness to be satisfied by the seller prior to close

In \$000's	Ref	FY19	FY20	TTM21
<b>Revenue</b>		<b>10,000</b>	<b>8,750</b>	<b>15,000</b>
<b>EBITDA, reported</b>		<b>1,900</b>	<b>550</b>	<b>3,250</b>
% revenue		19.0%	6.3%	21.7%
<b>Management adjustments</b>				
Owner compensation	<b>1</b>	400	400	400
Discretionary expenditures	<b>2</b>	85	105	40
<b>Management adjustments</b>		<b>485</b>	<b>505</b>	<b>440</b>
<b>EBITDA, management adjusted</b>		<b>2,385</b>	<b>1,055</b>	<b>3,690</b>
% revenue		23.9%	12.1%	24.6%
<b>Due diligence adjustments</b>				
Reversal: Owner compensation	<b>3</b>	(200)	(200)	(200)
COVID-19	<b>4</b>	-	1,250	-
PPP loan forgiveness	<b>5</b>	-	(300)	(300)
<b>Due diligence adjustments</b>		<b>(200)</b>	<b>750</b>	<b>(500)</b>
<b>Adjusted EBITDA</b>		<b>2,185</b>	<b>1,805</b>	<b>3,190</b>
% revenue		21.9%	20.6%	21.3%

In \$000's	Purchase Price
<b>Adjusted EBITDA</b>	<b>3,190</b>
Multiple	4.5
<b>Enterprise Value</b>	<b>14,355</b>
Plus: Cash	425
Less: Debt & Debt-like Items	(1,750)
Plus / Minus: Net Working Capital Adj	50
<b>Net Purchase Price</b>	<b>13,080</b>

**It is important to understand the function and utility of adjustments to EBITDA!**

*Example: Owner compensation. What role does the Owner play in the day-to-day operations of the business? Do they hold critical customer or vendor relationships?*

## Enduring Due Diligence

- Reasonableness of significant accounting methodologies (e.g., revenue recognition, reserve policies, etc.)
- Understanding and succinctly explaining historical trends in financial results
- Robustness of the target's financial function (e.g., frequency of closing, differences between monthly, quarterly, and annual close procedures, ability to appropriately analyze financial results to make operations decisions, etc.)
  - Cash vs. accrual items (e.g. prepaid expenses, payroll related accruals, etc.)
- Accounting for tax liabilities and understanding tax considerations
- Reasonableness of revenue and cost assumptions used in financial projections as compared to historical trends
- Carve-out considerations (e.g., reasonableness of allocations, stand-alone cost assessment, supply and shared services arrangements)
- Inventory valuation (excess, obsolete and slow-moving reserves, standard cost variances, etc.)
- Accounting for employee benefit programs (vacation, post-employment benefits, assumed liabilities)
- Accounting for unrecorded liabilities (union issues, multi-employer pension plans) and other contingent liabilities (e.g., warranty)

### Keys for Ensuring Smooth Due Diligence

- Agree on timelines between both parties.
- Ensure there is proper support to address items that arise during due diligence – it often can be a full-time job.
- Ensure there is a clear, complete and organized dataroom.
- Utilize central communication tools such as request lists, data room Q&A, etc. to track actionable items and progress.
- Prepare and review responses with advisors.
- Explain simply and succinctly.



## V. Q&A



**UHY** Corporate  
Finance