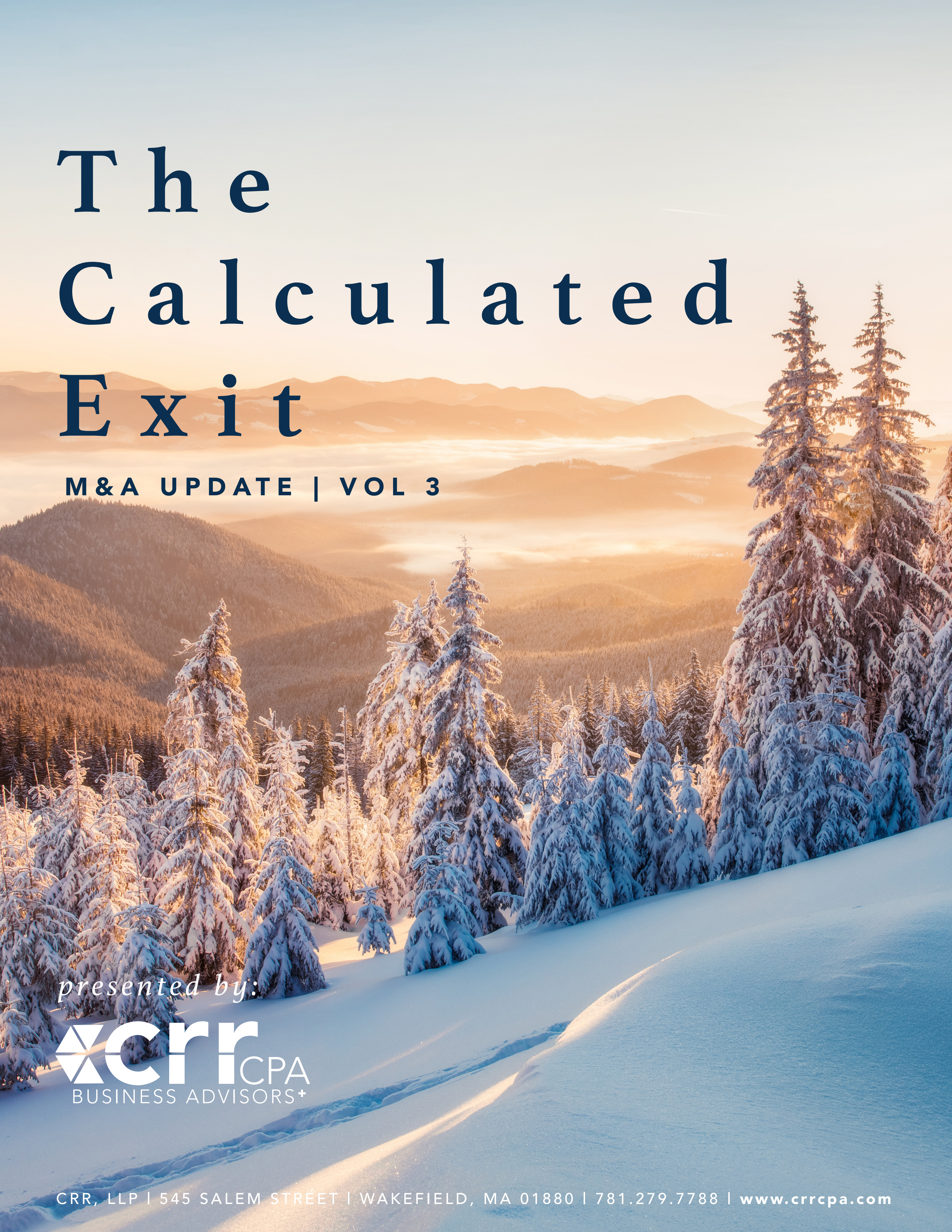


The Calculated Exit

M&A UPDATE | VOL 3

presented by:

CRR CPA BUSINESS ADVISORS+

CRR, LLP | 545 SALEM STREET | WAKEFIELD, MA 01880 | 781.279.7788 | **www.crrcpa.com**

ON TO 2022

Now that the pressure of closing by year-end is behind us, things must be relaxed in the M&A world, right? Not exactly. We have multiple deals that did not close in 2021 that are extremely active in early 2022. Private equity, professional advisors and internal resources were stretched very thin as year-end approached, and with the weakening of tax reform being evident, timing became less of a pressure. It seems less likely now that any major capital gain tax hikes will happen in 2022 than it did just a couple of months ago.

A lesson learned, or I should say a concept confirmed, is that rushing a transaction is never a good idea. This goes for rushing by a month or so, to rushing in general when not prepared for the acquisition process.

ARE YOU EVER TRULY READY?

Preparation and early planning generally help substantially increase the overall value of the deal and the ease of the transaction process. However, there is always the "why didn't we think of this" moment in every deal. The pre-transaction preparation process is meant to limit those moments and clear the hurdles that can exist from the signing of a letter of intent to execution of a definitive agreement. Get prepared, feel ready, but just know that some mental fortitude will be needed as you are coming down the stretch of buyer due diligence and the final close.

DO THE MARKETS MATTER?

In a private transaction (not publicly traded stock), should the stock market really matter to me as a seller? Good question. While we are not economists or investment advisors, we can speculate that the market does matter. The market generally moves based on certain forces. Inflation, interest rates, and world events can all create swings in the market. Its apparent that 2022 will be impacted by both inflation and interest rates at a minimum, and maybe even world events.

WHAT IS INFLATION'S POSSIBLE IMPACT?

Inflation can have a positive effect on your earnings, assuming you are keeping up with pricing increases and mitigating your own operating costs and costs of goods sold. Obviously, the complete opposite can happen if you are not able to react to the market conditions and adjust your selling prices. I have seen many businesses begin to reap the benefits of inflation as they are keeping a step ahead of their own cost increases. This yields higher margins, higher earnings and can also yield higher deal pricing if sustainable in the end. The big question is whether or not the price increases are sustainable. That will vary by industry and by product, but will certainly be on a buyer's mind. Be ready to support your assumptions.

"A lesson learned —or should I say, a concept confirmed— is that rushing a transaction is never a good idea."

WHAT IF INTEREST RATES GO UP?

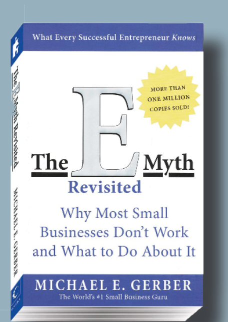
Unfortunately, rising interest rates lead to lower valuations. The cost of capital becomes greater in a rising interest rate market. A leveraged buyout for instance requires debt to fund the acquisition. The rate of return required on the acquired asset increases as the interest rate on the acquisition debt increases. Therefore, a leveraged buyer must look for better rates of return in order to justify the valuation. This tends to put pressure on the value and therefore lower it in the eyes of an acquirer using debt.

Even cash buyers can feel the pressure of rising interest rates. Where they can invest their cash at higher returns in more stable securities, it begins to put more pressure on private investments to yield higher returns. This creates similar results to that of a leveraged transaction in some cases, depending on the acquirer of course. However, the good news is that rates tend to increase gradually over time as to not shock the system.

WELL, WHAT CAN I CONTROL THEN?

You can control how ready you, your team and your business truly are for a transaction event. Run your business with the intent to sell it someday. Never lose sight of that objective. Picture your business without you, and wherever possible, create ways that will allow it to continue to thrive. A business that has the ability to thrive with little owner hand holding is a business that you can scale and ultimately sell. A business that requires daily handholding and supervision is not called a business, it's called a job. I'll give credit to Michael Gerber and *"The E-Myth Revisited"* for articulating this in a masterful way and I encourage you to give his book a read. As the owner of a small business myself, it once helped bring to focus what truly matters.

RECOMMENDED READING



The E-Myth Revisited
by Michael E. Gerber
Available on Amazon

START THE DISCUSSIONS NOW

Don't be too busy being busy. Start talking about what the end game looks like and how to best arrive at that point with your business. I speak with business owners daily on these topics. If you own a business and you don't know what TTM (LTM), Adjusted EBITDA and Net Working Capital mean, then you aren't having the right conversations with the right people.

MEET THE EXPERT.

David has been a member of the firm since inception and has been practicing in public accounting for more than 30 years. As the head of the firm's Transaction Advisory Group, he regularly advises CRR clients in buying and selling their businesses, as well as mergers, acquisitions, and joint ventures.

David's skill set is valuable throughout all stages of the transaction process, and through early involvement he is able to help maximize the financial results for his clients. His tactical approach to buyer and seller due diligence enables a smooth transaction process, with a focus on facilitating a well-organized transition for both sides. He also frequently speaks and writes on these topics and hosts transaction related seminars and workshops.

THINKING OF SELLING YOUR BUSINESS?

Selling your business is a process, not an event. Determining the right time to sell, and finding the right buyer to sell to, can be fundamental keys to your success. There are legal and tax issues to consider, and negotiations can be complex and lengthy. We can help.

DAVID J.
RICHARDS
MANAGING PARTNER
CRR, LLP

direct dial: 781.835.2160
main: 781.279.7788
mobile: 617.285.0418
david.richards@crrcpa.com