



Center for Private Company Excellence Webinar
Walking Through an M&A Deal

Brian J. Sharkey, CVA, CEPA
Director-in-Charge
Business Advisory Group

Michael L. Lipschutz, CPA
Manager
Transaction Advisory
Services

www.kmco.com

Center
for Private
Company
Excellence®



A Kreischer Miller Knowledge Venture

**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

Agenda

1. Understanding the stages of a deal
2. Preparation
3. Due diligence considerations
4. Understanding the buyer's mindset



Stages of a Deal



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Decision to Sell

- Assess your personal motives and frame of mind
- Owner accord
- Select your trusted advisors or experts
 - Investment bankers
 - Sell side due diligence team
 - Tax experts
 - Legal
- Is the timing right?



A Kreischer Miller Knowledge Venture

Kreischer
Miller

PEOPLE | IDEAS | SOLUTIONS

POLLING QUESTION



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Preparing the Business

- Management team
- Quality of financial information
- Reverse due diligence
- Sell-side Quality of Earnings (QoE)
- Identify future road-blocks or “deal-breakers”
- Confidential Information Memorandum (CIM)



A Kreischer Miller Knowledge Venture

Kreischer
Miller

PEOPLE | IDEAS | SOLUTIONS

Quality of Financial Information

- Consider the availability, consistency and validity of financial data
 - Audited or reviewed financial statements
 - Monthly management reports
 - Tax returns
- Consider how long it takes to receive the data
 - If requests take a long time, is there a reason?
- Integrity on Information:
 - Can the numbers be reconciled to internal or audited statements
 - Can the information be provided in accordance with GAAP or the buyers reporting standards
 - Can historical reports be provided or are they time sensitive
 - Unvalidated information



A Kreischer Miller Knowledge Venture PEOPLE | IDEAS | SOLUTIONS



Sell-Side or Reverse Due Diligence

- Sell-Side Quality of Earnings (QoE)
- Find the problems before a buyer does
- Flatten road bumps
- Deals falls through for minor complications
- Identify and disclose issue early to avoid transaction derailment



A Kreischer Miller Knowledge Venture

Kreischer
Miller

PEOPLE | IDEAS | SOLUTIONS

Illustrative Quality of Earnings Schedule

	FY20	FY21	TTM22
Net Revenues, as reported	XXX	XXX	XXX
Net Income, as reported	XXX	XXX	XXX
Interest income	XXX	XXX	XXX
Depreciation	XXX	XXX	XXX
Reported EBITDA	XXX	XXX	XXX
Management Adjustments:			
A Discretionary bonuses	XXX	XXX	XXX
B Owner's compensation	XXX	XXX	XXX
C Change in product lines	XXX	XXX	XXX
Total management adjustments	XXX	XXX	XXX
Management adjusted EBITDA	XXX	XXX	XXX
Diligence Adjustments:			
1 Related party rent	XXX	XXX	XXX
2 Bad debt expense	XXX	XXX	XXX
3 Inventory reserve	XXX	XXX	XXX
4 Non-recurring expenses	XXX	XXX	XXX
5 PPP Income	XXX	XXX	XXX
6 Omitted accruals	XXX	XXX	XXX
Total Diligence Adjustments	XXX	XXX	XXX
Adjusted EBITDA	XXX	XXX	XXX

- Sell-side quality of earnings (QOE)
 - Adjusted sustainable earnings
 - Income statement analysis
 - Balance sheet analysis
 - Estimates and reserves
 - Understanding of accounting policies
 - Identify potential deal issues
- Working capital analysis
 - Current assets less current liabilities



A Kreischer Miller Knowledge Venture PEOPLE | IDEAS | SOLUTIONS

POLLING QUESTION



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Going Out To Market

- Company Teaser
 - Create some interest
 - Description of services or products
 - Financial metrics
 - Revenue
 - EBITDA
 - Other industry metrics
 - Major historical milestones
 - Confidentiality



A Kreischer Miller Knowledge Venture

Kreischer
Miller

PEOPLE | IDEAS | SOLUTIONS

Buyers Identified

- Indications of Interest (IOI)
- Narrow the field
 - Focus on series buyers
 - Seller's personal motives/preferences come into play
 - Quantitative and qualitative factors
- Non-Disclosure Agreement (NDA)
- Confidential Information Memorandum (CIM)
- Timelines established



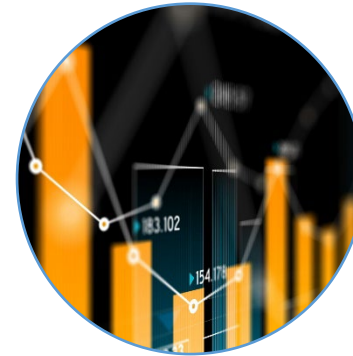
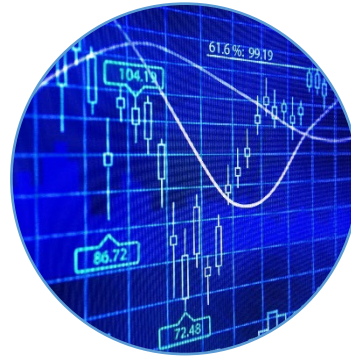
A Kreischer Miller Knowledge Venture

Kreischer
Miller

PEOPLE | IDEAS | SOLUTIONS

Understanding the Buyer Mindset

- Financial Buyers
 - Include private equity firms, hedge funds, family offices and high net worth individuals.
 - Look for ways to make a return on their investment within 5-7 years with a sale or IPO.
 - Focus on cash generation and earnings before interest taxes, depreciation and amortization (EBITDA).
 - Revenue and margin trends, working capital and comparison to industry



Understanding the Buyer Mindset

- Strategic Buyers
 - Operating Companies that are often a competitor, supplier or customer
 - Focus on financial metrics, and any synergies the two Companies can bring together
 - Would the transaction be accretive to EPS?
 - Have all the significant synergies or cost savings been identified?
 - What impact will this transaction have to our existing and future business?
 - Are these synergies achievable and how?
 - Plan to keep targets on a long-term basis



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

POLLING QUESTION



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Letter of Intent (LOI)

- Offers are received and evaluated
 - Quantitative and qualitative analysis performed
- Common items addressed:
 - Structure of the transaction
 - Payment terms
 - Holdback or escrow period
 - Seller retention or employment agreements
 - Related party lease agreements
 - Confidentiality provisions
 - Diligence and closing timeline
- Executed letter of intent after offer evaluated



A Kreischer Miller Knowledge Venture PEOPLE | IDEAS | SOLUTIONS



Buy-Side Diligence

- Financial due diligence
- Tax
- Legal
- Interviews with management
- Understanding of internal policies
- Understanding of significant contracts and relationships
- Cyber advisory services



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Purchase Agreement



- After buyer diligence has been completed a purchase agreement is drafted
- Agreement will contain closing mechanisms and key terms
- Representations, warranties, guarantees and other protections
- After much review and negotiations, a purchase agreement is executed

POLLING QUESTION



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Post Deal Close

- Integration planning
 - How long will it take
 - Who will be involved
 - What processes and IT will be required
- Daily transaction considerations
 - Payables, receivables, payroll
- Financial reporting/purchase price allocation
- Working capital
- Earnout



A Kreischer Miller Knowledge Venture PEOPLE | IDEAS | SOLUTIONS



Illustrative Timeline



Note: Above timeline can vary depending on the type of business as well as various other factors.

** Preparation stage may take months to years

Thank You!

- Please complete the survey
- Let us know if you would like to learn more about specific phases
- Please reach out to us with any questions!



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

Contact the Presenters



Brian J. Sharkey, CVA, CEPA
Director-in-Charge
Business Advisory Group
bsharkey@kmco.com



Michael L. Lipschutz, CPA
Manager
Transaction Advisory Services
mlipschutz@kmco.com



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS

About Kreischer Miller

Kreischer Miller is an accounting, tax, and business advisory firm that has been serving clients since 1975. We've built our firm to respond to the unique needs of growth-oriented private companies, helping you smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with need to be able to quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge—always looking at the road ahead, not in the rear-view mirror.

Learn more at www.kmco.com.



A Kreischer Miller Knowledge Venture



PEOPLE | IDEAS | SOLUTIONS