

De-Risking Deals

Overview & Action Steps



Sterling Concord Partners



Dealmakers at Work

Insert Date
AIG Building Houston, Texas

Introduction of Sterling Concord Partners

Sterling Concord Partners is a Boutique Investment Bank

- ✓ Mergers & Acquisitions
- ✓ Mid-Market Focused, client revenues between \$25MM to \$150MM
- ✓ Multi-Industry Coverage

Focus on Sell-Side Transactions

- ✓ Relationships with Fortune 500 and Fortune 1000 Strategic purchasers, and numerous Financial investors including Private Equity, Family Offices both domestically and internationally



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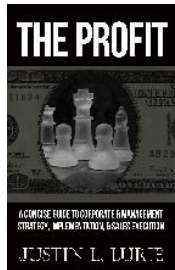
Author: *The Profit, Concise Guide to Corporate & Management Strategy*

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Master of International Business - University of Sydney, Australia

Bachelor of Arts - University of Michigan, Ann Arbor & Richmond College, London, England

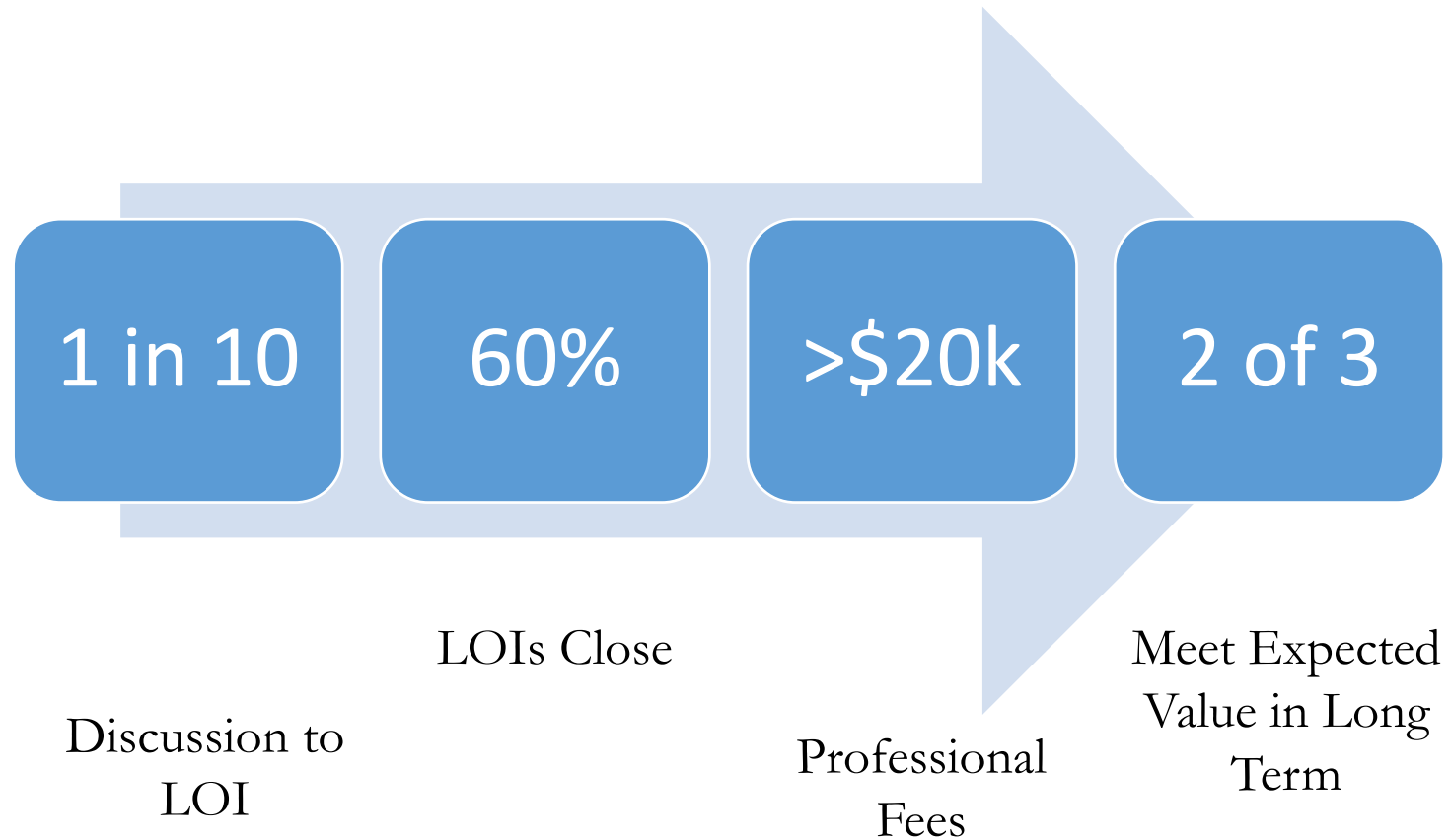


What we'll cover today:

Introduction	Rules of Thumb
	Building Blocks of M&A Preparation
Business Process & Fundamentals Risk	Risks for Buyers
	Is the Business Effective Without You?
	Management Holds Key to Value
	What is Hiding on the Balance Sheet?
Significantly De-Risk	Audits Eliminate Risk & Winning Math
	Projecting Reality
Quantitative Market Analysis	Transaction Time to Close
	Deals by Sector
	Cash Flow Multiples
	Middle Market Deal Flow



Rules of Thumb



‘We’re Not For Sale’

The building blocks of M&A Preparation



What are some of the
RISKS for Buyers?

Factual statements

Errors & Omissions

Business Continuity

Integration



Is the Business Process
Effective without You?

What is the Buyer really purchasing?

Are the written procedures effective?

Will the key customers remain?

How will employees and customers be effected by your exit?

Employee agreements, benefits, political hierarchy
Preferred customers, written customer contracts,
relationships



The Management Holds the Key to Value

Does management make independent and correct decisions?

Are they empowered to do so?

The more the current owner is involved, the less the company is worth



What is Hiding on the Balance Sheet?

Eliminate the Ugly

Unreconciled balances

Uncollectable receivables or excessive write-offs

Liabilities: lawsuits, problematic leases, underfunded retirement plan, etc.

Annual audits?



Audits Eliminate Risk

#s are Actually
Correct

Higher Multiples

E & O Insurance
Lowered

Buyer Confidence =
greater probability of
close

The Math states
everyone WINS



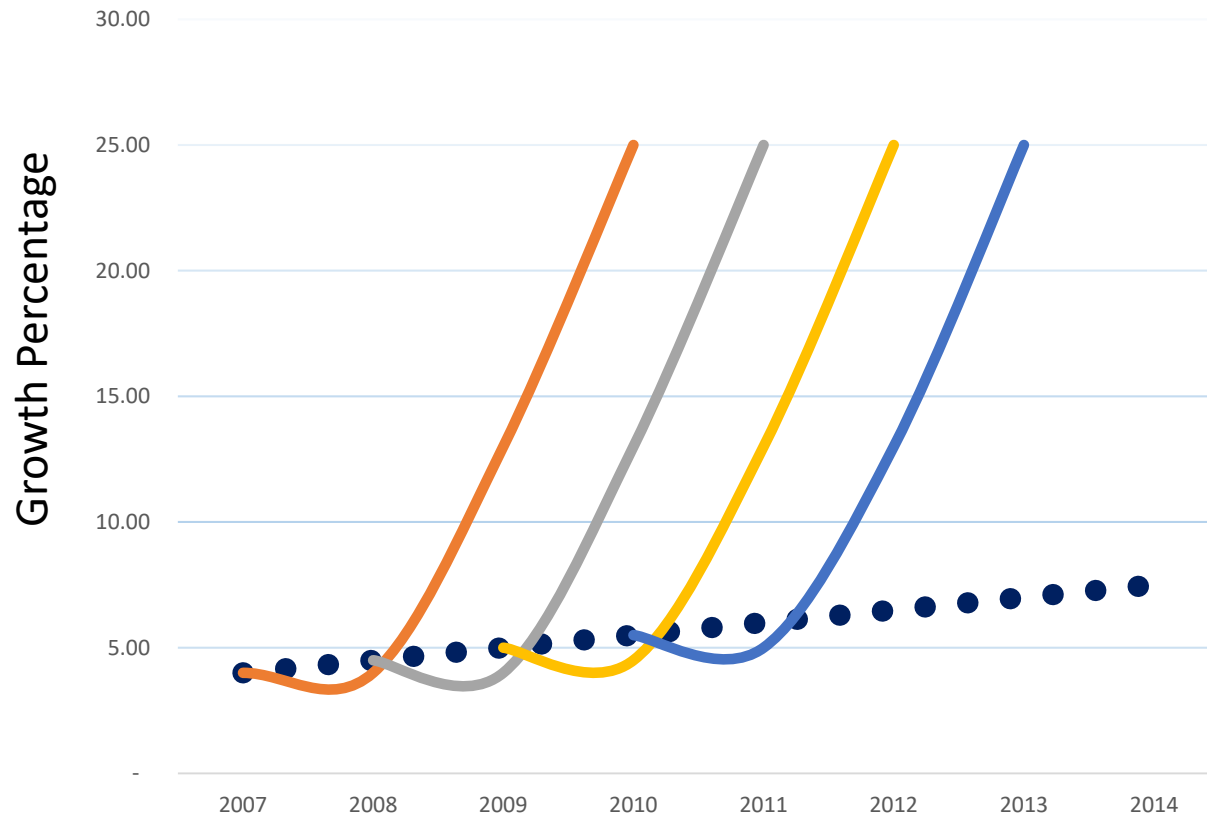
Reducing Risk: Winning Math

- Bob has a \$30MM revenue business. He is not planning on retiring or selling
- Bob is uninterested in Auditing.
- In 5 years, Bob decides he wants to step down and begin next chapter of his life
- Here is the plausible transaction WITHOUT auditing:
 - Assuming 10% EBITDA, and a 5 multiple ($\$3\text{MM} * 5 = \15MM transaction price)
- With auditing: 6 multiple is likely (assuming 5.5 for the example)
 - Transaction: $\$3\text{MM} * 5.5 = \16.5MM
 - Auditing cost: $\$30\text{k} * 5 \text{ years} = \150k
 - Net difference: $[(\$16.5\text{MM} - \$150\text{k}) - \$15\text{MM}] = \mathbf{\$1.35\text{MM net advantage}}$



Reducing Risk: Projecting Reality

Actual vs Projected Performance



- Hockey Stick Wishful Thinking
- 15% of companies re-review their projections
- What is your 'batting average'?
- How can you trust future performance if projections are meaningless?
- **Poor display of management skills & strategy**

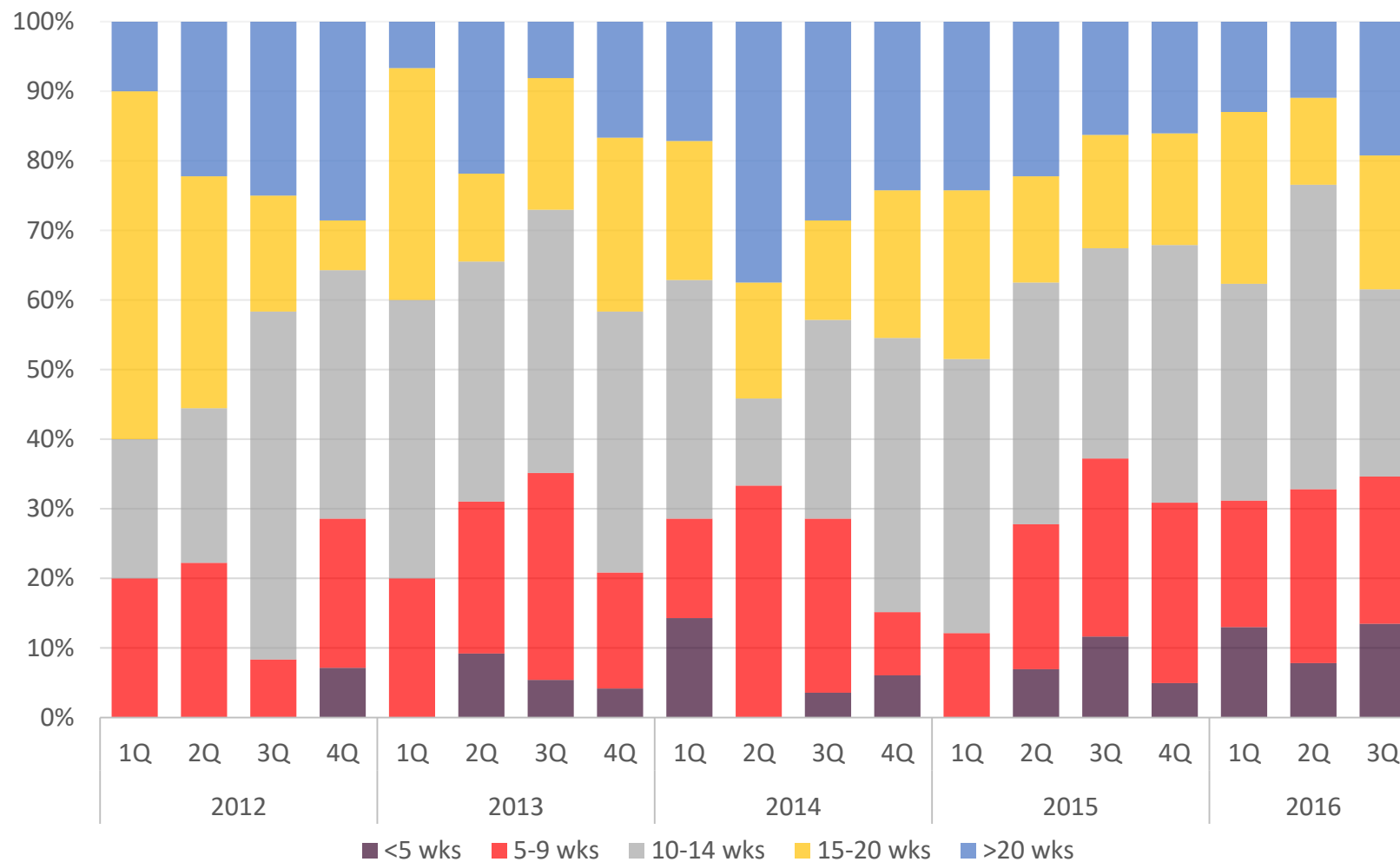


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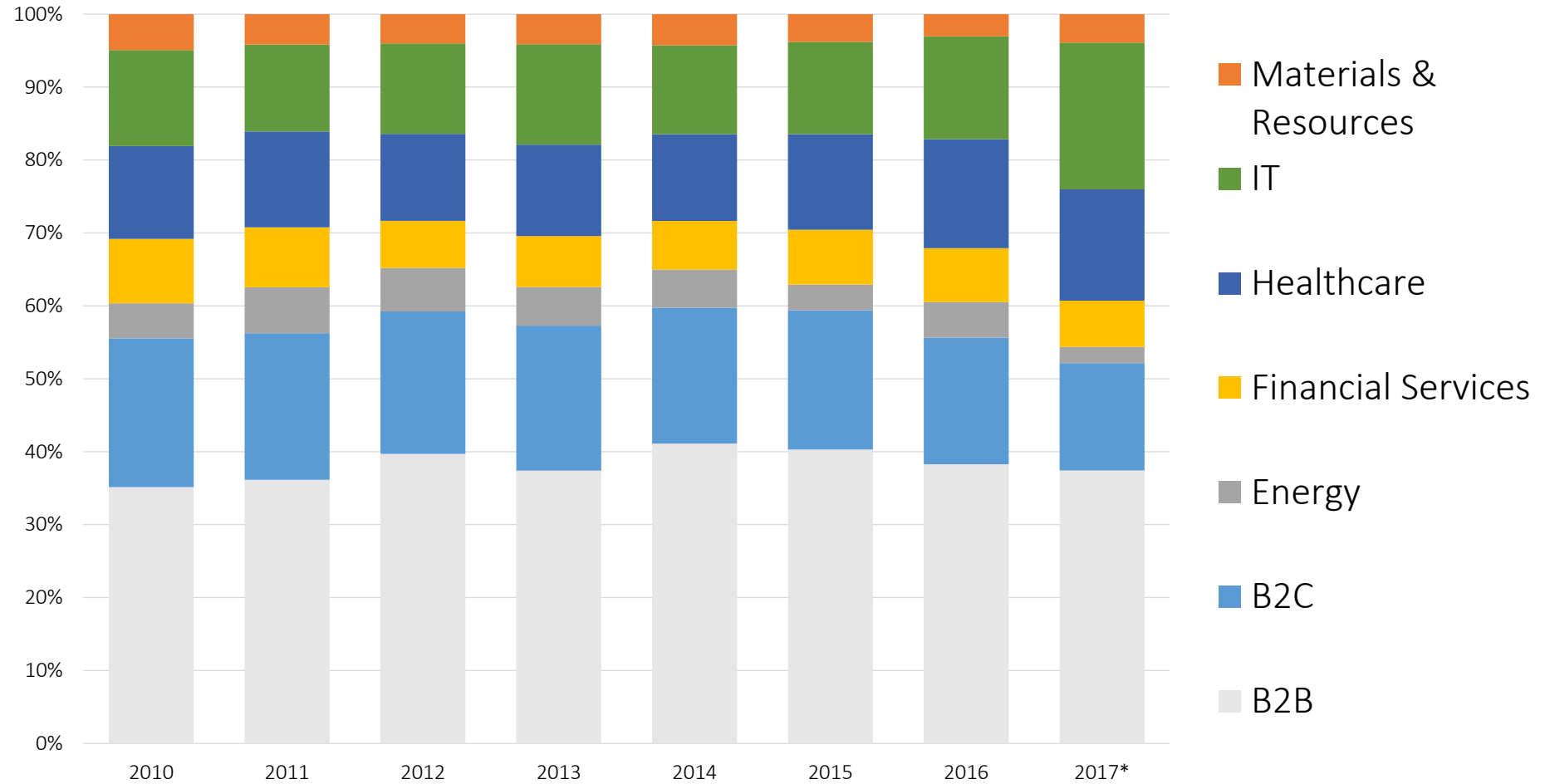
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Transaction Time – Weeks to Close

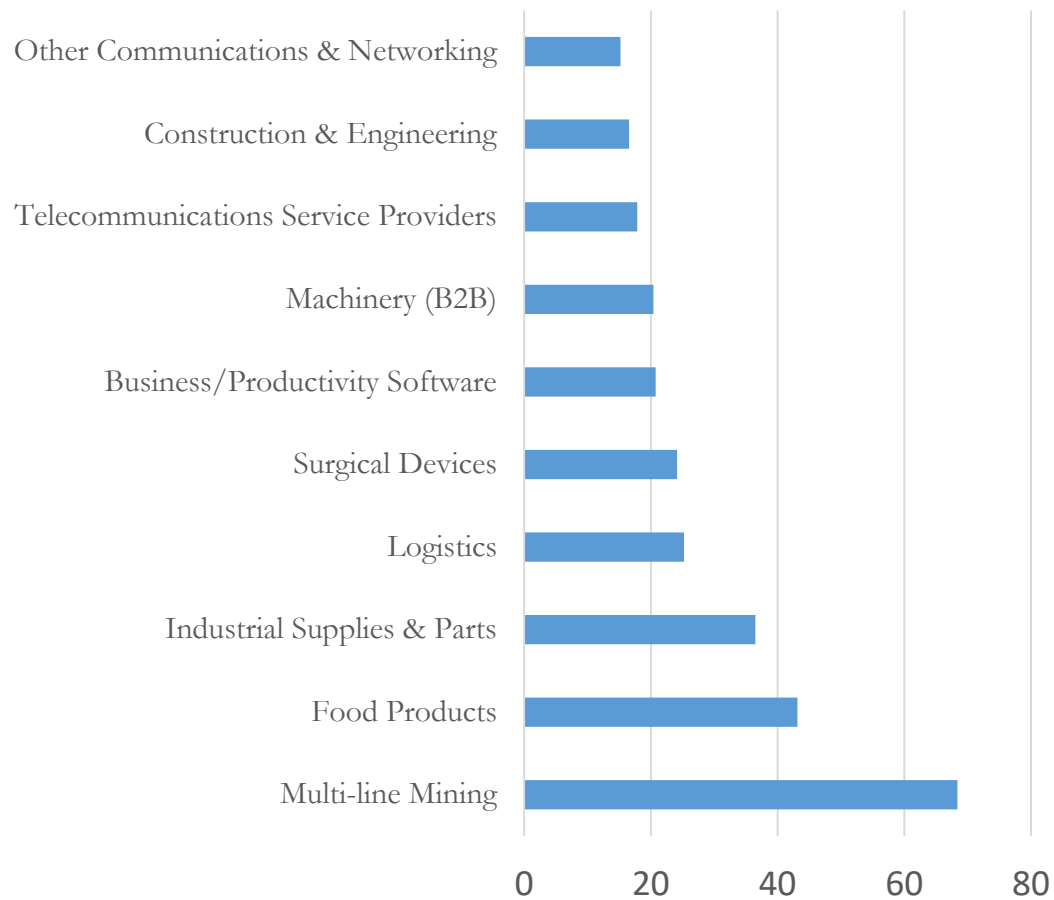


Deal Data: Deals by Sector

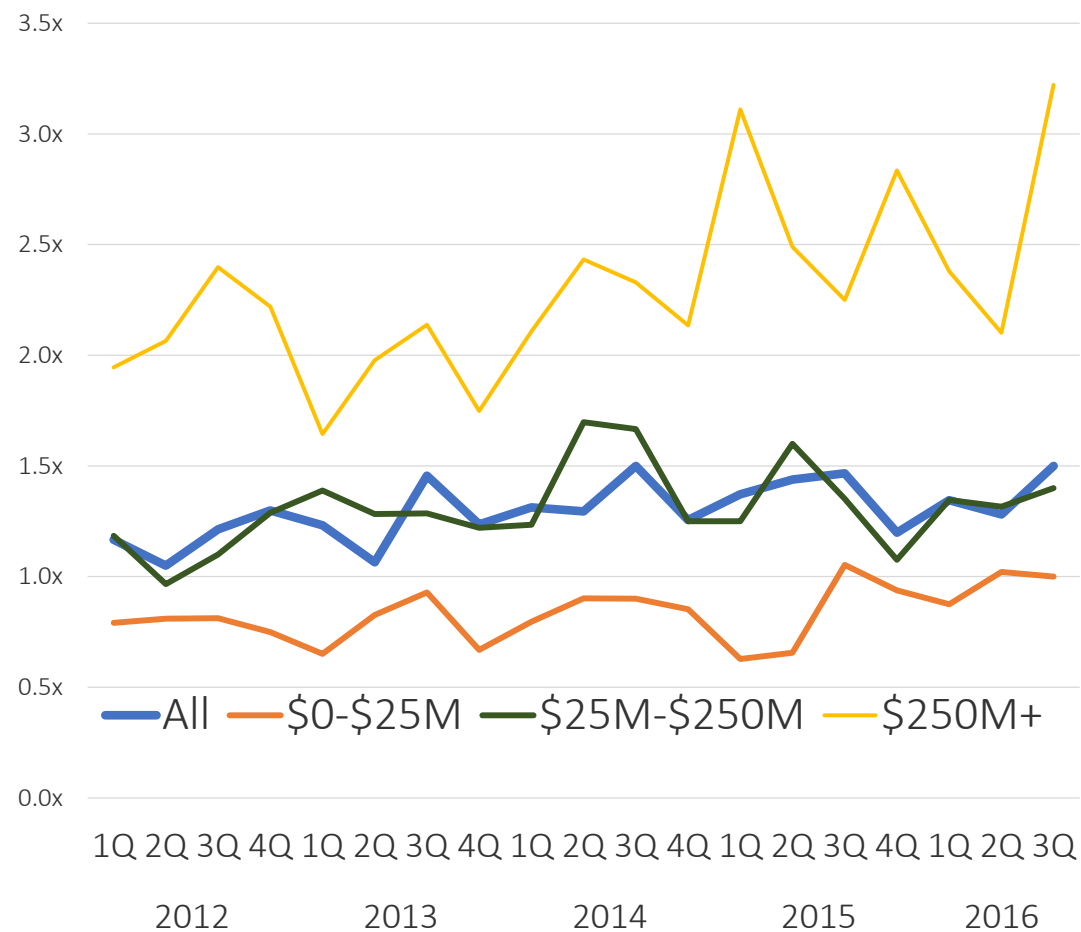


Deal Data: Cash Flow Multiples

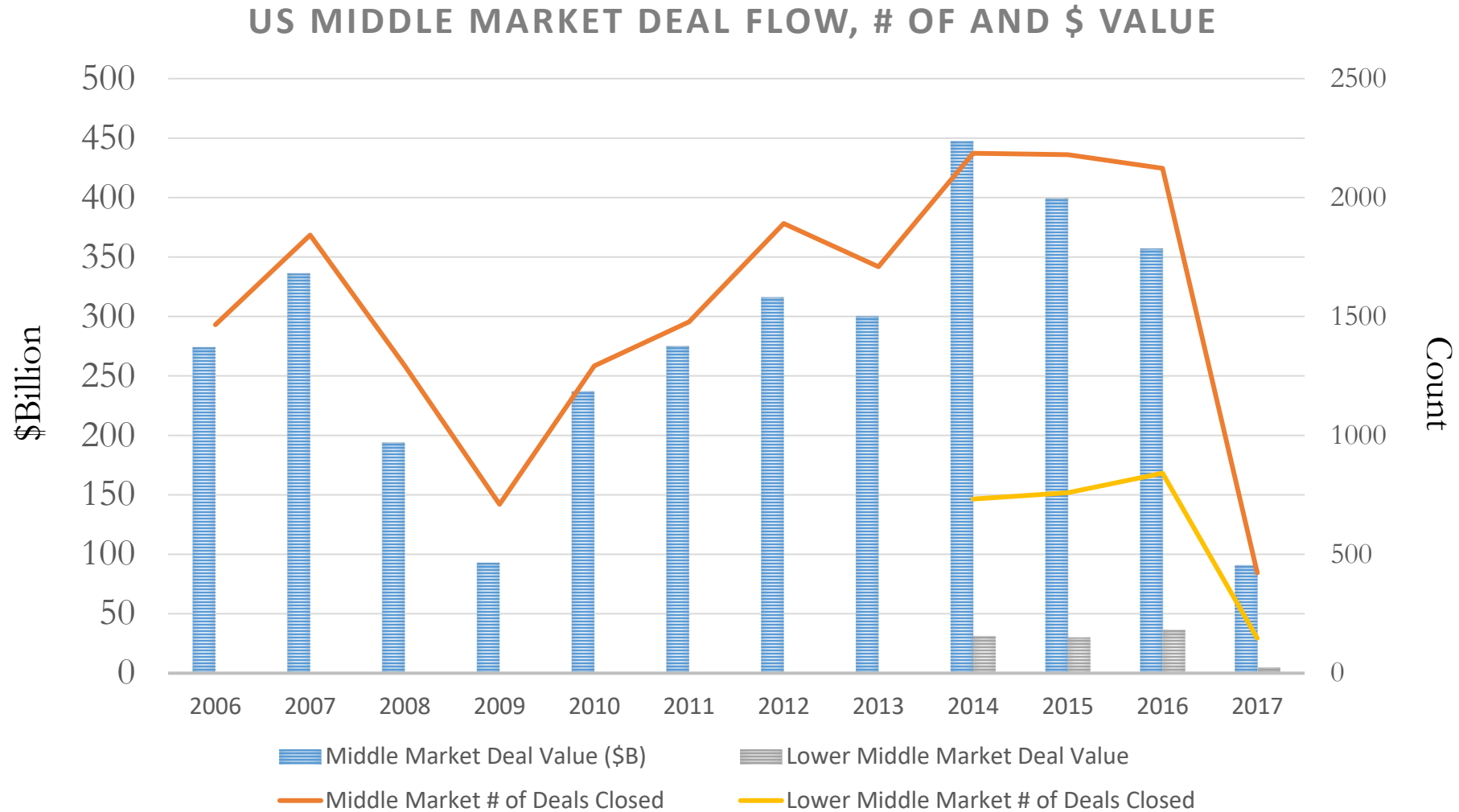
Top 10 Deal Size to Cash Flow Median Multiples, 2013 to 2017



Median Revenue Multiples by Transaction Size Bucket



Deal Data: Deal Flow, Middle Market(s)



Thank You!

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Thank You for Listening

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