

Let's Play the "Value Game"

Learn What Impacts the Value of a Septic Business



Your Game Show Hosts

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Senior Partners



Golden Circle Advisors
SELL SMART, BUY SMART

Your Game Show Hosts

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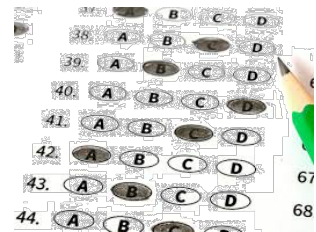
Fred G. Manuel
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Golden Circle Advisors is a business brokerage firm that has built a specialty supporting the Septic Pumping & Portable Restroom Rental industry. We recently successfully sold...



How to Play the “Value Game”

- Answer each question using the Answer Sheet provided.
- Answer Sheets will be collected at the end of the presentation.
- The individual with the highest score will **WIN** a free Business Valuation, a \$2,500 value. If there is a tie, a Winner will be randomly selected.
- The **WINNER** will be contacted after the conference to schedule the Business Valuation.
- Please respect the “**Honor System**” in recording your answers prior to the answers are shown.



#1

Someone contacts you to purchase your business or claims to have a buyer for your business, what should you do?

50:50



A. Believe what they are saying and ask for an offer.

B. Hang up on them

C. Have some skepticism and be prepared to seek professional assistance.

D. Tell your employees that you intend to sell the business.

#1

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Recently Reported Instances by MSTA Members

- Someone off the street stopped in asking for the owner to see if the business was for sale...offered the owner a *price significantly below appraised value* and employees became concerned the owner was planning to sell their business.
- Owner receives an unsolicited call from someone claiming to have a buyer for their business, to discover he had no buyer but was trying to secure a listing for their real estate firm.
- Members have received mail solicitations from someone stating they have experience working with septage companies. Later the owner discovers they have not sold any and they do not understand the uniqueness of this industry, including licensing.

#2

What type of "Buyer" will most likely pay the most for your business?

50:50



A. Financial Buyer

B. Strategic Buyer

C. Key Employee or Family Member

D. Private Buyer

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Value in the eye of the beholder



- External
 - Individual / Lifestyle
 - Financial Buyer / Private Equity
 - Strategic Buyer
 - Related Parties
- Internal
 - Family
 - Key Employees
 - ESOP

Making the choice for the best buyer

| | Pros | Cons |
|--------------------------------|--|--|
| Transfer to Third Parties | <ul style="list-style-type: none"> • Cash at closing • Eliminate financial risk • No family succession issues • Speed of exit • Potentially higher price for owners if sold to a strategic acquirer | <ul style="list-style-type: none"> • Time to locate a buyer can be prolonged • Emotional exhaustion for negotiations and due diligence • Higher fees in selling the business • Can cause distraction from running the business • Market timing dependence |
| Transfer to Family or Insiders | <ul style="list-style-type: none"> • The buyer understands the business • Can be structured to minimize taxes & fees • Owner can remain active with the business during & after the sale • Can serve as a reward for employees & management • Can provide a means of multi-generational wealth building • Owner can maintain control during the transition period • Allows for the successor to be mentored by the owner during the transition | <ul style="list-style-type: none"> • The transition may require owner to remain involved with the business • Sales proceeds will likely be dependent on future success of the business • The structure may require owner to receive proceeds over a period of time • Complex personal dynamics with multiple family members or employees can create challenges • Could create ill will among family • Is normally funded through through 3rd party debt or seller financing which can inhibit the company's growth potential |

#3

Who is best to determine the right asking price for your business?

50:50



A. Your Banker

B. A Realtor

C. Your CPA

D. Someone with one of these certifications: ASA, CBA, ABV, CVA, BCA

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Business Valuations

Types of Valuations

- Price Opinion
 - Based upon broad “rules of thumb”
 - For the “curiosity seeker”
- Business Valuation
 - “Most Probable Selling Price”
 - Multi-dimensional analysis
 - Information for planning and control & decision making
- Fair Market Value Appraisal
 - Tax, litigation, refinance

Professional Associations

American Institute of Certified Public Accountants (AICPA)
CPA, ABV, CFF

American Society of Appraisers (ASA)
AM, ASA, FASA

The Institute of Business Appraisers (IBA)
CBA, MCBA, FIBA

National Association of Certified Valuation Analysts (NACVA)
AVA, CVA

International Society of Business Appraisers
BCA



*Select a professional who can best understand the industry
and find the value builders and detractors*

Why do a Business Valuation?

- Provides valuable data for planning your Exit from the business
- Provides a baseline for business value and should be done regularly as part of your business planning
- Allows you to monitor progress toward your stated objectives.
- Identifies what is being sold
 - Inventory, Equipment, Real Estate, Stock
- Establishes profitability & cash flow
- Assesses risk
- Identifies value drivers & distractors
- Scans marketplace to see how you are performing compared to competition
- Establishes relationship between earnings and value

Financial Adjustments

- Unusual or non-recurring items
 - One-off transactions that do not reflect normal business operations
 - Gains or losses from the sale of capital assets
 - Legal fees incurred arising from a lawsuit
- Non-business expenses
 - Personal meals, entertainment or personal travel expenses
 - Expenses that do not contribute to the company's operations
- Discretionary expenses
 - Costs incurred by the business not essential for the company to operate
 - Donations
 - Bonuses to shareholders
- Non-operating assets, liabilities, income and expenses
- Owner salary & benefits, with market rate for owner compensation
- Rent paid above or below market rates



#4

When a business owner is ready to sell their business, the owner usually...

50:50



A. Over values the business

B. Under values the business

C. Knows the value of the business

D. Ready to give the business away

#4

When a business owner is ready to sell their business, the owner usually...

50:50



A. Over values the business

B. Under values the business


C. Knows the value of the business

D. Ready to give the business away

Sad But True...

- Business owners **NOT ready** to sell their business usually will **OVER Value** the business
- Business owners **READY** to sell their business usually will **UNDER Value** the business
- Some recent examples across all industries:

| Difference Between Expected Value & Selling Price | % Difference |
|---|--------------|
| \$1,700,000 | 170% |
| \$402,000 | 134% |
| \$2,500,000 | 83% |
| \$705,000 | 47% |



**108.5%
Average
Difference**

#5

What possible multiples should be considered for selling a business?



A. EBITDA

B. Revenue

C. SDE

D. All of the above

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Valuation Most Common Multiples

- **Revenue** = Sales



- **EBITDA** =

Earnings Before Interest, Taxes, Depreciation & Amortization

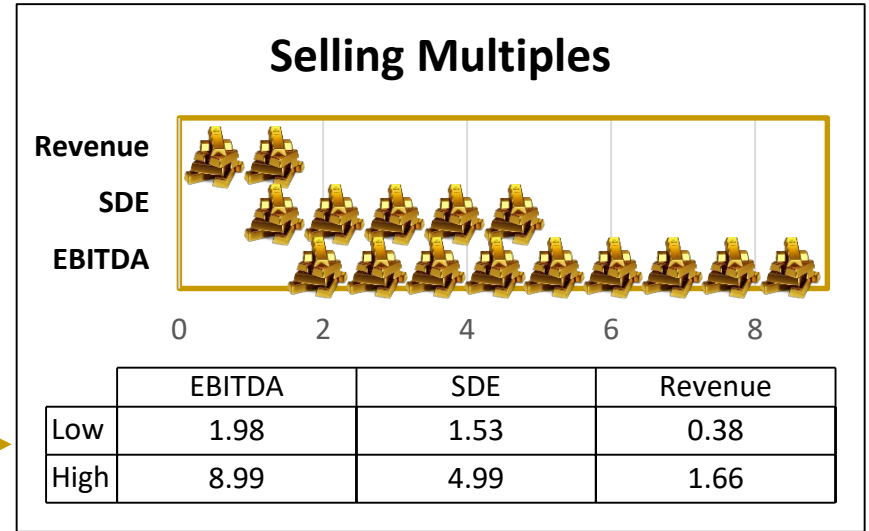
- **SDE** =

Seller's Discretionary Earnings = EBITDA + Owner's Compensation

Earnings is by far the most important measurement in determining the business value

How much is my Septic/Portables business worth?

- Not making any money?
 - Worth the Fair Market Value of the assets
- Making money?
 - It depends on the Drivers & Detractors
 - Higher earning, the more valuable the business is
 - Ballpark value



Sample of GCA Deals

| Deal | Sales Multiple | EBITDA Multiple | SDE Multiple |
|-------------------------------------|----------------|-----------------|--------------|
| Septic Pumping & Portable Restrooms | 1.73 | - | 4.41 |
| Septic Pumping & Portable Restrooms | 1.63 | 4.94 | 4.49 |
| Septic Pumping & Portable Restrooms | 2.02 | 4.30 | 3.73 |
| Septic Pumping | 0.81 | 4.66 | 3.43 |
| Septic Pumping & Portable Restrooms | 1.48 | 5.34 | 4.52 |
| Septic Pumping & Portable Restrooms | 0.64 | 5.05 | 3.40 |

#6

Which is NOT a common requirement of a Buyer securing an SBA (Small Business Administration) loan to purchase a business?

50:50



A. A down payment

B. Some Seller Financing

C. No record of bankruptcy on the Buyers credit report

D. Seller Financing "Hold Back Period" terms on the loan

#6

Which is NOT a common requirement of a Buyer securing an SBA (Small Business Administration) loan to purchase a business?

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A. A down payment

B. Some Seller Financing

C. No record of bankruptcy on the Buyers credit report

D. Seller Financing "Standby Period" terms on the loan

Common SBA & Bank Financing Terms

- Down payments are usually 15% to 20% of the Purchase Price
 - Can be a combination of both Buyer Cash & Seller Financing
- Seller Financing Typical Terms
 - Market interest rate
 - Usually term of 84 months
 - 24 Month Standby – No payments, but will accrue interest
 - 60 Month Payback Period – Principal & Interest
 - Recommend to keep amount no more than 10%, but have seen deals up to 32% to make the deal happen
 - To get the highest price for the business, the owner should expect to offer some level of Seller Financing
- Debt Service Coverage Ratio (DSCR)
 - SBA requires 1.10
 - Banks are allowed to set any minimum above 1.10, usually between 1.20 to 1.35



Typical Bank Approval Requirements



- Minimum DSCR
- Business cashflow requirements – usually for prior 3 tax return years & current year–to-date
- Independent Business Valuations for deals greater than \$250,000
- Real Estate Appraisal, if applicable
- Environmental Study Phase I, possible Phase II

#7

Which would have the greatest positive impact on the value of your business?

50:50



A. Increasing Profitability

B. Increasing Revenues

C. High level of unreported cash sales

D. Buy new equipment to improve operations

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Ways to Improve Business Value

- 
- 
- 
- Focus on profitability over revenue growth & tax avoidance
 - Reduce/eliminate reliance on owner throughout business
 - Reduce/eliminate dependencies
 - Good & accurate record keeping
 - Document all processes, policies, operations & personnel
 - Increase employee tenure & reduce turnover



- Continue preventive maintenance
- Continue exploiting technological advanced & web presence
- Develop & enhance competitive advantages
- Increase customer retention & loyalty
- Increase number of customers & reduce customer concentration
- Enhance marketing strategy & plans
- Resolve all litigation, regulatory or insurance issues



Value Drivers & Detractors

Drivers

Holding Tank with Exception – DEQ Part 117

Permits & Sites for Land Application

Local Municipalities with Low Cost Disposal

Owned Wastewater Treatment Facility

Diversification – Pumping, Portables & Waste

Positive Earnings Before Interest, Taxes,
Depreciation and Amortization (EBITDA)

Excellent Customer List

Product Differentiation

Dominant Market Share

Location & Market Growth

Technology and Proprietary Processes

Detractors

Requirement for Disposal at High Cost Municipalities

High Level of Unreported Income

Lawsuits for Previous Acts, Products Produced or
Services Rendered

Loss of Customers

Outdated Technology, Products, etc.

Labor Force/Employment Issues

Vendor Relationships

Government/Tax Issues

Industry Changes

International, National and Local Economies

Competition and/or high employee turnover

#8

Which would NOT guarantee an increased valuation of a Septic Pumping / Portable Restroom Rental business?

50:50



A. Approved Part 117 Septage Storage Tank

B. New Pumper Truck

C. Approved land application sites

D. Water Treatment Facility

#8

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C. Approved land application sites

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New Truck = No Additional Value???

- Going back to valuations...the Business is valued based upon the profit generated.
- The assets owned by the business are needed to generate those profits.



Moral of the Story

Avoid buying high cost assets when selling your business, unless its condition will increase the value of the business or the costs of maintaining outweighs cost of replacement.

Know What You Are Selling

True War Story from the Trenches...



- Had a septic pumping & excavation client selling their business.
- Included in the asset list was a Bobcat.
- Buyer offers full price on the business and Non-Binding Letter of Intent (LOI) was presented.
- Seller decided to retain the Bobcat for personal use.
- Buyer agrees to allowing this but wanted the \$20,000 listed value of the Bobcat to be deducted from purchase price.
- Seller refuses to reduce the purchase price of the business.
- ***Deal dies...***
- Business never sold.

#9

You have been diagnosed with a blockage of a key artery.
Who would you prefer to perform the surgical procedure?

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A. General Surgeon

B. Proctologist

C. Attorney

D. Cardiologist

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Building a Team of Professional Advisors

Working with a Team of Advisors

- No one professional has all the answers.
- Diverse skills and talents are necessary.
- Team approach minimizes time and cost.
 - If properly facilitated and led.



#10

What are the common pitfalls in selling a business

50:50



A. Going solo and not having the right professional advisors

B. Having unrealistic expectations, bad timing and incorrectly valuing the business

C. Not preserving confidentiality and “prequalifying” purchasing prospects

D. Not having accurate sales and financial data

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Common Preparation Pitfalls



1. Going solo
2. Not having the right professional advisors
3. Starting the process with unrealistic expectations
4. Getting the timing wrong
5. Incorrectly valuing your company
6. Not spending enough time on preparation
7. Preserving confidentiality
8. Pre-qualifying prospects
9. Providing accurate sales and financial data
10. Seller can't let go – emotional tie to business

* * * * * **Game Over** * * * * *

Thank You...

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