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SELL SMART, BUY SMART

Is this the time to sell your business?

During Uncertain Times



Last Minute Presentation



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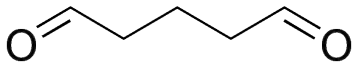
Were You Expecting?

Appropriate Porta Potty chemicals for the Seasons in Michigan

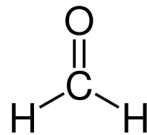


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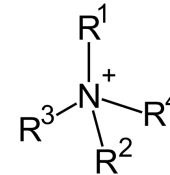
Glutaraldehyde



Formaldehyde



Quaternary Ammonium Cations



Dyes

This is the component that makes the blue liquid blue! Why that color, though? Well, the shade of dye used in the blue deodorizer is used to mask as much of the portable restroom's contents as possible.

Biocides

Biocides are the ingredient that really help get the stench of waste out of a well-maintained portable restroom. Essentially, biocides prevent the rapid growth of bacteria found in waste, and diminish the unpleasant odors that could plague the unit.

Surfactants

Surfactants are a product that work hand-in-hand with the fragrance used in the chemical. These agents allow the fragrance to do its magic while still mixed in with the water found in a porta potty tank.

Fragrance

The fragrance is the aspect of the liquid that ultimately masks any residual odors that could linger after the rest of the products have done their job. This fragrance keeps a restroom smelling clean and allows for a more comfortable porta potty experience.

Sorry Not Me

Your Presenters



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Curtis D. Kuttnauer
Senior Partner
Traverse City



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Fred G. Manuel
Senior Partner
Plymouth

Golden Circle Advisors is a M&A Advisory firm that has built a specialty supporting the Septic Pumping & Portable Restroom Rental industry.
We have successfully sold...





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Agenda

PITFALL

Timing to Sell Your Business

The Valuation Process

Potential Buyers

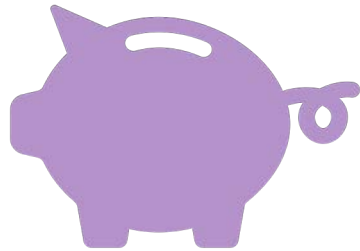
Elements of a Deal Structure

Pitfalls to Avoid When Selling Your Business

Is this the RIGHT Time to Sell?



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Good Time

Improved Profitability & Sales

Strong Economy & Industry Performance

**Ready to Retire, Do Something Else or
Have Health Issues**

Personal Financial Independence



Bad Time

Declining Profitability

Significant Labor Deficiencies

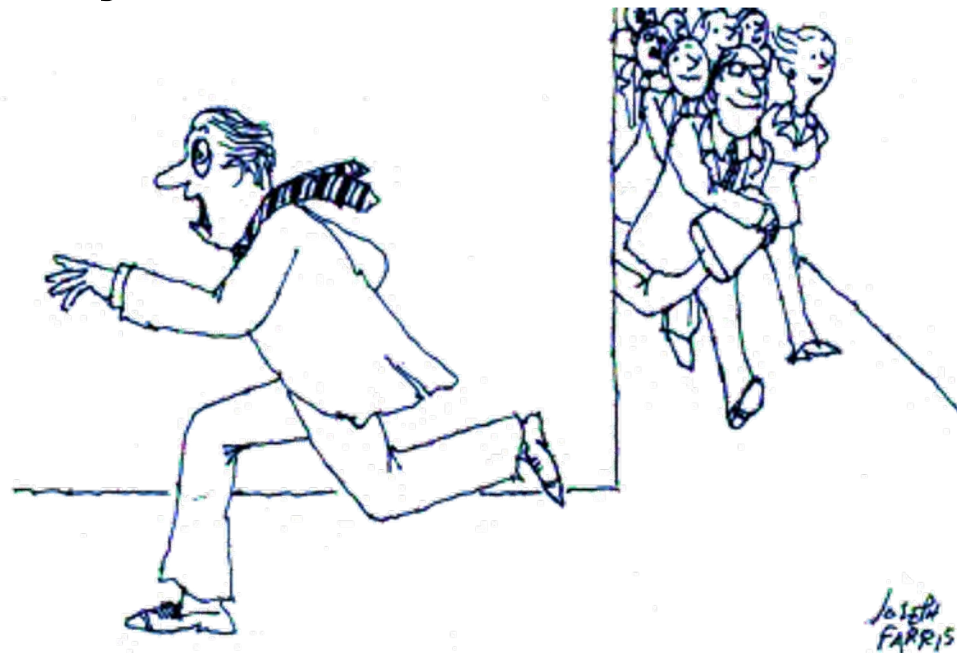
Substantial Unreported Income

Is this the RIGHT Time to Sell?



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If you are a Baby Boomer...the answer is likely...**YES!!!**



“Run! 73 million baby boomers
are about to retire!”

Are you ready for a NEW life?



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- Most sellers spend little time on “What’s next?”
- When you wake up after selling, what is your plan?
- You had a plan when you started your business, now you need a new one for your new life.
- Will you retire fully?
- Do you have a hobby to pursue?
- What does your family expect of you at the conclusion of the sale?

Current Market Conditions



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- Federal Funds Rate have risen significantly affecting interest rates
 - 450 basis points in less than 1 year with 8 increases
 - Additional increases are expected
- Historically low capital gain taxes
- Business valuations are experiencing downward pressure due to ***Inflation concerns*** – was at a 40 year high, but easing
- Banks are tightening lending requirements and some banks have an aversion to some industries (i.e., construction)
- Private capital remains high – looking for a place to invest

In Real Estate it is all about “Location, Location, Location.”
In Business it is all about “*Timing, Timing, Timing.*”



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Industry Trends

Source: IBISWorld Portable Toilet Rental & Septic Tank Cleaning in the US, September 2022

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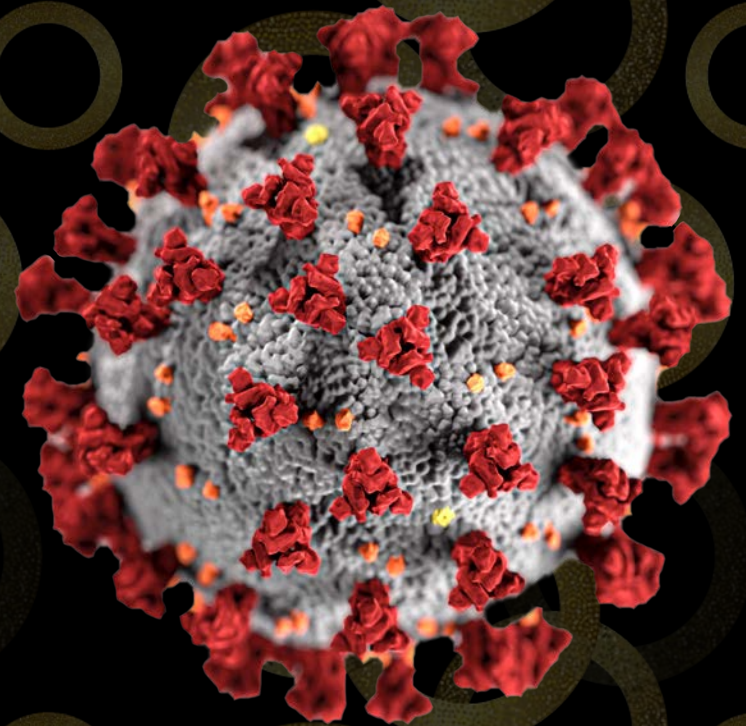
- Downstream construction activity has continually slowed over the past five years
- Industry operators benefit from demand from local and state governments
- The industry has experienced declining profit as workers continue to demand higher wages
- The overall value of construction will likely rise
 - + Michigan continues to experience high residential activity
- **Industry consolidation is expected to continue moving forward**
- The cost of complying with expanding environmental laws will constrain profit
 - + More local municipalities are requiring septic inspections as part of the sales process
- Construction activity is expected to continue to decline, offsetting the still high demand from the entertainment sector
 - + Seen a significant increase in demand for portable for events & requests for luxury restroom trailers

COVID-19 & Septic Industry



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- Overall, this industry experienced a positive impact
 - More time at home, more use of the septic systems...more pumping & repairs
 - More events outside requiring portables and increased interest in luxury restroom rentals





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What Type of Business?

PITFALL

Established Business – a business that is more than the owners with employees

Small Business – a few employees that rely heavily on the owners

Family Business – more or less all employees are family members or owners

A Job for One – owner(s) do everything

Value

Value Drivers & Detractors



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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
Repeat customers particularly commercial
Product Differentiation
Dominant Market Share
Location
Technology and Proprietary Processes

Detractors
Requirement for Disposal at Higher 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



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Information Needed for a Business Valuation

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- **5 Years of Federal Tax Returns**
- **Income Statements & Balance Sheets for past 5 years, plus Trailing 12 Months (TTM) from most current month & associated previous Trailing 12 Months**
- **Most current month Balance Sheet**
- **Completion of detailed Business Questionnaire & Supplemental COVID-19 Questionnaire**
- **Asset list with Fair Market Values**
- **Real Estate Purchase & Lease Fair Market Values**
- **Itemized list of non-operating expenses for each year & TTM to recast earnings**

Financial Adjustments



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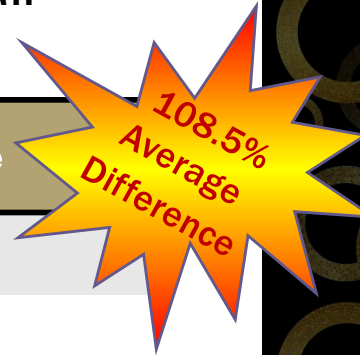
- Unusual or non-recurring items
 - One-off transactions that do not reflect normal business operations
 - Gains or losses from the sale of capital assets
 - Legal fees incurred arising from a lawsuit
- Non-business expenses
 - Personal meals, entertainment or personal travel expenses
 - Expenses that 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





- Business owners **NOT ready** to sell the owner will usually **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%



Know What Your Business is Really Worth



Valuation Most Common Multiples



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○ Revenue = Sales



○ EBITDA =

Earnings **B**efore **I**nterest, **T**axes, **D**epreciation & **A**mortization

○ SDE =

Seller's **D**iscretionary **E**arnings = EBITDA + Owner's Compensation

Earnings are by far the most important measurement in determining the business 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.

Avoid Buying New Shiny Toys

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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.



Know What You Are Selling

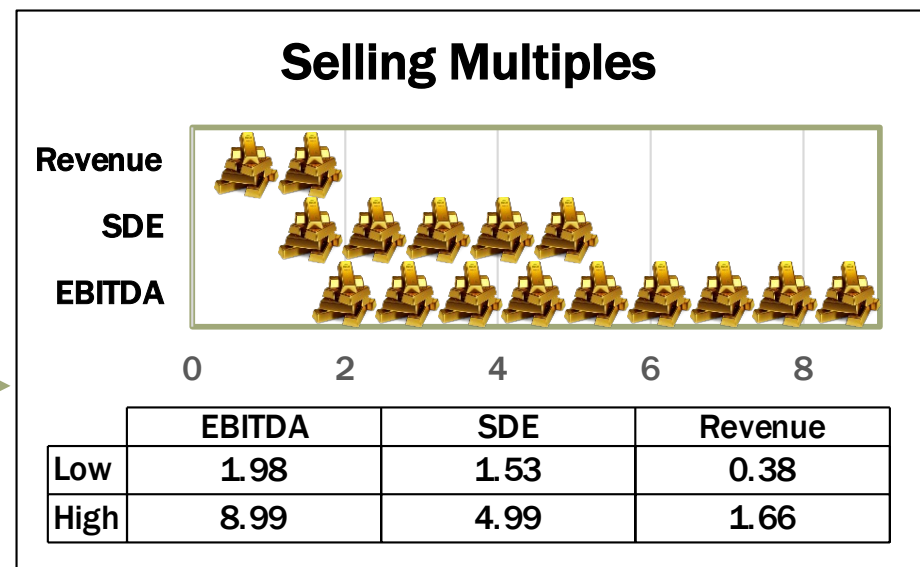
How much is my Septic/Portables business worth?

Not making any money?

Worth the Fair Market Value of the assets

Making money?

- It depends on the Drivers & Detractors
- Higher earnings mean a greater value the business is
- Ballpark value



Sample of GCA Deals



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Deal	Sale Price/Sales Multiple	Sale Price/EBITDA Multiple	Sale Price/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
Portable Restrooms	1.61	-	2.39
GCA Averages	1.42	4.86	3.77



Tax Rate	30%	EBITDA Multiple	4.86
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Unreported Income	Annual Tax Savings	3 Years Tax Saving	Valuation Increase	Net Increase
\$ 25,000	\$ 7,500	\$ 22,500	\$ 121,500	\$ 99,000
\$ 50,000	\$ 15,000	\$ 45,000	\$ 243,000	\$ 198,000
\$ 75,000	\$ 22,500	\$ 67,500	\$ 364,500	\$ 297,000
\$ 100,000	\$ 30,000	\$ 90,000	\$ 486,000	\$ 396,000
\$ 125,000	\$ 37,500	\$ 112,500	\$ 607,500	\$ 495,000
\$ 150,000	\$ 45,000	\$ 135,000	\$ 729,000	\$ 594,000
\$ 175,000	\$ 52,500	\$ 157,500	\$ 850,500	\$ 693,000
\$ 200,000	\$ 60,000	\$ 180,000	\$ 972,000	\$ 792,000

Impact of Unreported Income on Business Value



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Separate different operations into independent entities or divisions with their own financials

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- No one professional has all the answers.
- **Unique skills required for your CPA & Attorney**
- Diverse skills and talents are necessary.
- Team approach minimizes time and cost.
- If properly facilitated and led.

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Building the Right Team of Professional Advisors

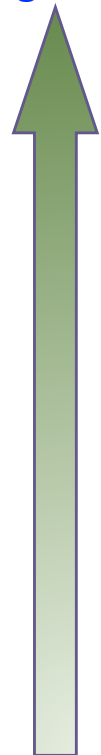
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Types of Buyers



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Highest Business Value



Strategic Buyer	Company that is in the same market or industry that can realize a positive economic benefit from integration
Diversifying Business	Company that wants to aggressively enter competition in seller's industry and use acquisition for future growth platform
Competing Business	Company in same industry concerned the sale of the business to a more aggressive competitor would adversely affect their business
ESOP	Allow business owners to attain financial security through partial or complete sale of business, while able to stay in control and paid.
Outside Investor/Manager	New owner will manage the business that comes with deep experience and management skills in the same industry.
Insiders	Key employees or family members that have intimate knowledge of the business
Diversified Passive Investors	Investors seeking to diversify investments that lack knowledge of the industry and will require key management to remain.
Job Seeker	A person who desires both the investment opportunity and an executive position in the business.
Undiversified Passive Investor	An investor that has no interest in a job, who lacks a diversified investment portfolio and will require key management to remain.

Lowest Business Value

Potential Buyers



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	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 • The successor may require additional mentoring or coaching • Is normally funded through 3rd party debt or seller financing which can inhibit the company's growth potential



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Key Questions for Selling to an Insider

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- Do they have the ability to lead the company into the future?

This is different from ability to manage the company on a day-to-day basis...rather able to be the strategic thinker to ensure company success.


- Do they have the financial resources to secure the purchase of the business? Or will you become their bank?





Confidentiality – Thinking about asking a key employee about purchasing your business – Risk word getting out that you selling

Buyer Qualification – Before releasing any confidential information, any perspective buyer needs to be qualified as capable of purchasing the business



Confidentiality & Qualification

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Typical Deal Structure



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Typical Bank Approval Requirements



- Minimum DSCR
- Business cashflow requirements (passing DSCR)
– 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

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
 - *Sometimes banks will require full Standby until SBA loan is paid off*
- Recommend to keep amount no more than 10%, but have seen deals up to 50% 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

Interest Rates Impact on DSCR

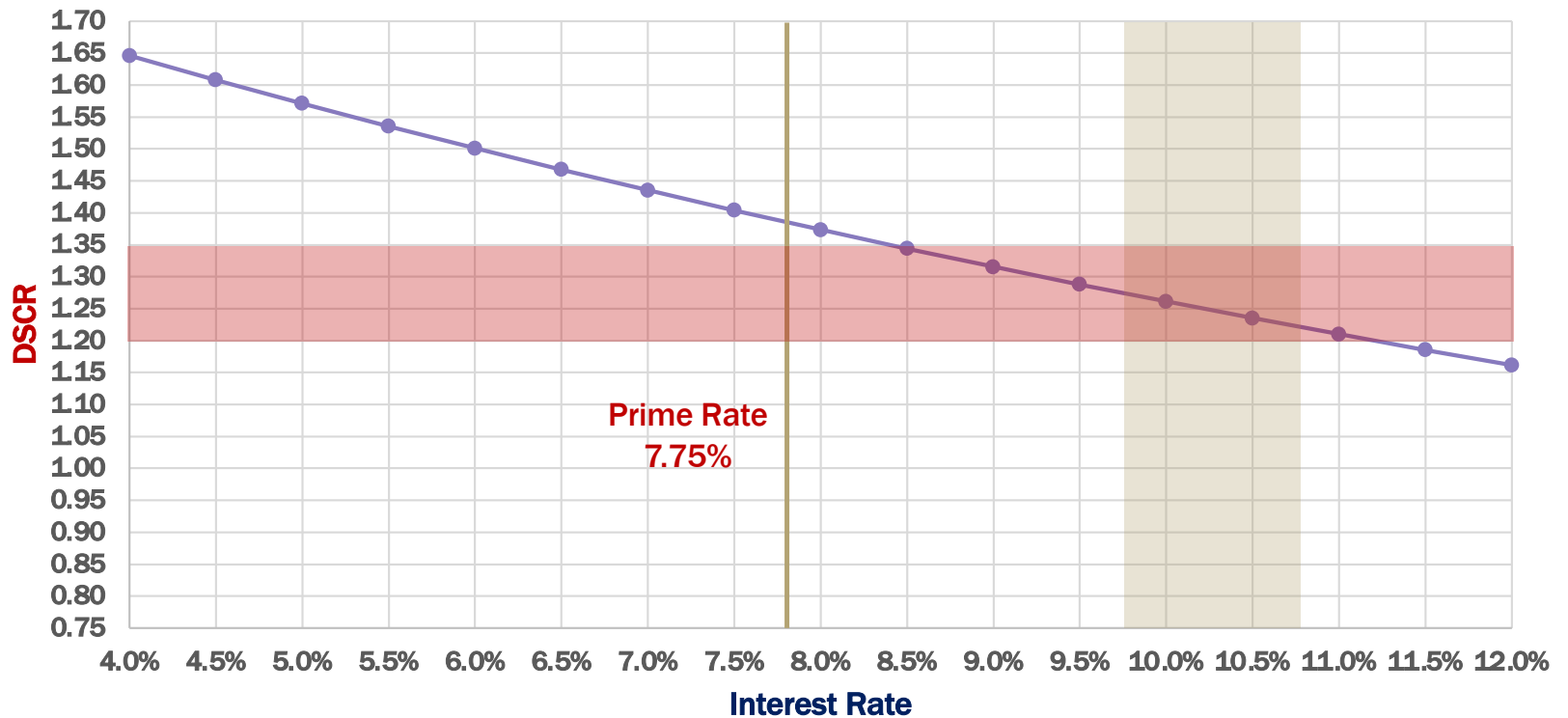


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Debt Service Coverage Ratio - Operating Cashflow / Debt Service

Example
Net Cashflow
\$200,000

Loan Amount
\$1,000,000



Seller Financing Impact on DSCR



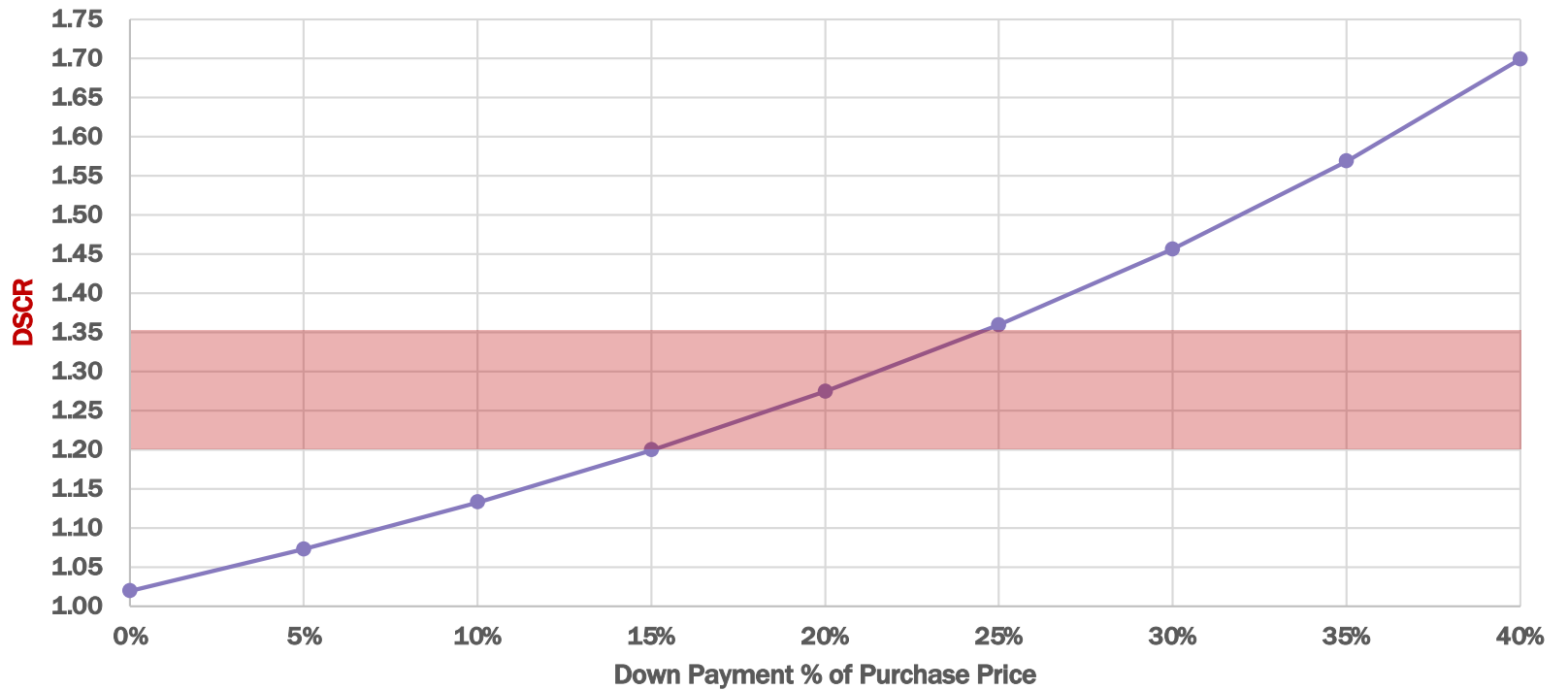
Down Payment = Buyer Cash + Seller Financing

Example
Net Cashflow
\$200,000

Purchase Price
\$1,250,000

Term
120 Months


Interest Rate
9.75%





Unless the acquirer is already licensed by the State of Michigan/DEQ, there will be a delay of time before the acquirer will be licensed to operate.

There are solutions to this challenge that can avoid this licensing challenge, while reducing the overall transfer tax liability on the equipment transfer to a new owner. It is a complicated solution, but nonetheless an excellent alternative. If interested in this solution, please contact us directly and we will be glad to discuss the specifics.



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Be Aware of a Licensing Issue

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Any Additional Questions?

Thank You...



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Curtis D. Kuttbauer
Senior Partner

☎ (248) 896-8600 x300

☎ (231) 922-9380

✉ curtis@teamgca.com

Fred G. Manuel
Senior Partner

☎ (248) 896-8600 x301

☎ (734) 320-6667

✉ fred@teamgca.com