

Insights Into Private Company M&A
October 27, 2020



Agenda

1. M&A Topics (*45 minutes*)
2. Q&A with Rob MacLeod & Scott McKenzie (*15 minutes*)

Please submit questions along the way

Selected Bigelow and Baker Newman Noyes Shared Clients


Seabrook, New Hampshire

has been recapitalized by


Cleveland, Ohio

The undersigned initiated this transaction and acted as M+A advisor to Marco Rubber & Plastics, LLC




Gardiner, Maine

has been acquired by


Indianapolis, Indiana

The undersigned initiated this transaction and acted as M+A advisor to On Target Utility Services




Northfield, New Hampshire

has been recapitalized by


Boston, Massachusetts

The undersigned initiated this transaction and acted as M+A advisor to EPTAM Plastics, Ltd.




Portsmouth, New Hampshire

has been recapitalized by


Chicago, Illinois

The undersigned initiated this transaction and acted as M+A advisor to Q-Centrix LLC.




Fryeburg, Maine

has been acquired by


London, England

The undersigned initiated this transaction and acted as M+A advisor to Dearborn Precision Tubular Products, Inc.




South Portland, Maine

has been recapitalized by


New York, New York

The undersigned initiated this transaction and acted as M+A advisor to Residential Mortgage Services, Inc.




South Paris, Maine

has been acquired by


New York, New York

The undersigned initiated this transaction and acted as M+A advisor to Maine Machine Products Company




Auburn, Maine

has been acquired by


Salt Lake City, Utah

The undersigned initiated this transaction and acted as M+A advisor to Safe Handling, Inc.



Bigelow Overview

Partner-owned / led M+A advisory boutique

Exclusive client focus is private owner-managed businesses; industry agnostic

Build Enterprise Value / Capture Enterprise Value

\$ Billion in transaction value, ranging from \$30 million to \$500 million

Unique IP and engagement architecture

Bigelow Shared Purpose

WHY

We believe Entrepreneur Owner-Managers (EOMs) are the most powerful pro-social, pro-economic force on the planet.

Sustaining great enterprises beyond any individual or family is key to all constituencies. Selecting the next owner can be one of life's greatest challenges and... most rewarding accomplishments.

WHAT

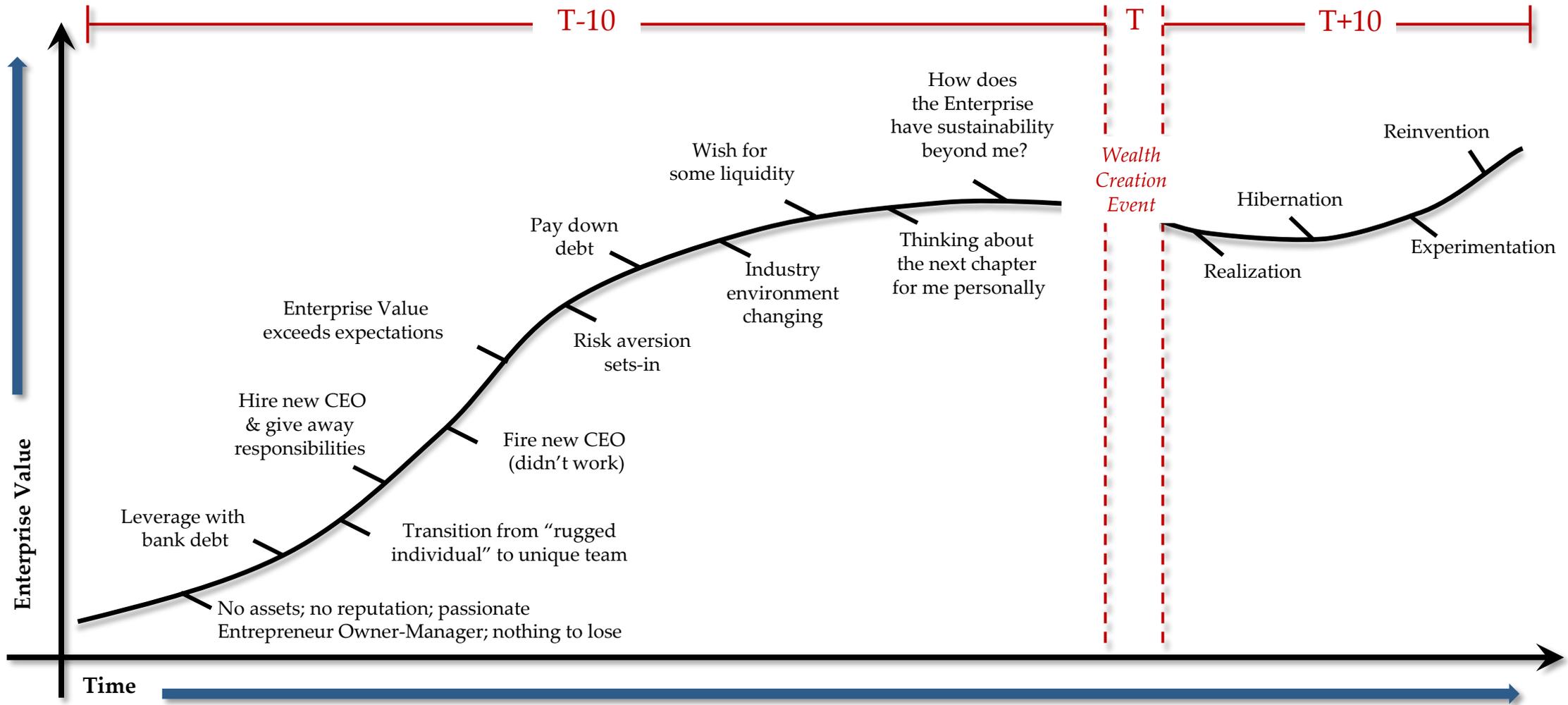
To be the best M+A advisory firm in the world exclusively focused on our niche: helping EOMs achieve their personal and professional goals by first building, and then someday capturing, their Enterprise Value in a capital gain transaction.

HOW

We do this by operating as a unique team leveraging our individual strengths, collaborating with collective experience, and employing state-of-the-art technology tools.



The Life Arc Of An Entrepreneur Owner-Manager



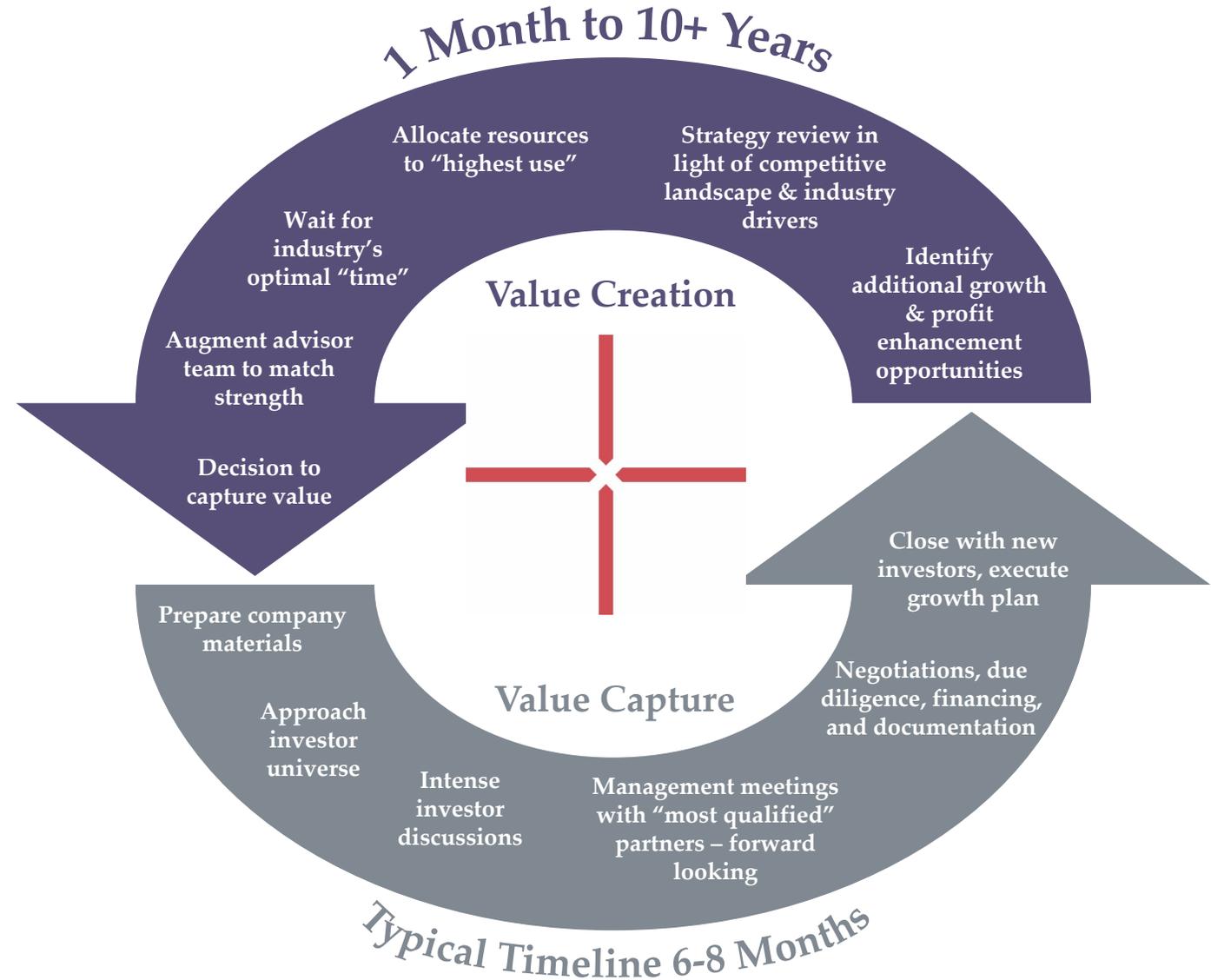
Do you envision a capital gain for your company someday?

Yes

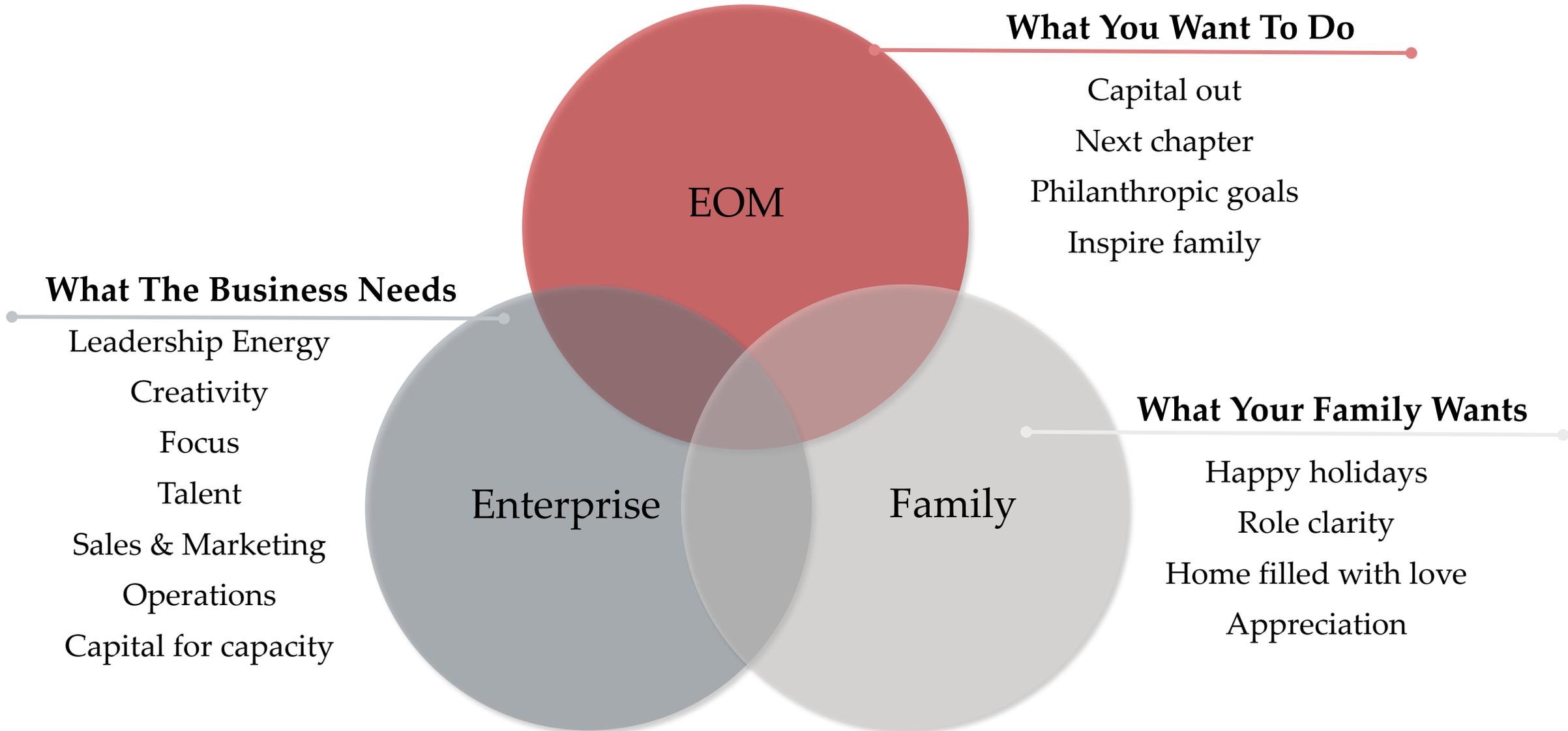
No

We Help Owners Build and Capture Enterprise Value

Two Hats, One Head



Family Business Considerations



Who Acquires Or Invests In Private Companies Today?

	Strategic Investor	Private Equity Platform Investor	Private Equity Investor
Liquidity	100%		51% - 80% initially
Valuation	Synergistic benefits may create premium valuation		Based on potential IRR of growth business plan
Future Upside	Typically limited		Two bites of the apple may provide most aggregate value
Governance	Report to acquirer's management		Board of directors, with investor representatives
Operational Change	Brings pre-existing model		Mostly financial / reporting in nature
Culture	Assimilate to parent's		Augmented by new constituencies
Capitalization	Potentially stronger balance sheet and flexibility		Leveraged stand-alone balance sheet
Strategy	Must fit previously identified strategic direction of acquirer		Double sales and EBITDA
Employees / Management	May broaden (or shorten) employees' career path		Equity upside for key employees

Do you know the value of your company?

Yes

No

How Should Owners Think About Valuation?

EBITDA multiples is a result, not the input

Investment Attractiveness = The Story

- Size, growth, and attractiveness of served markets
- Competitive dynamics
- Business model / product offering / unique capabilities
- Future growth prospects
- Customer relationships / channels
- Concentration of customers or vendors
- Historical and projected financial performance

Distilled into a...

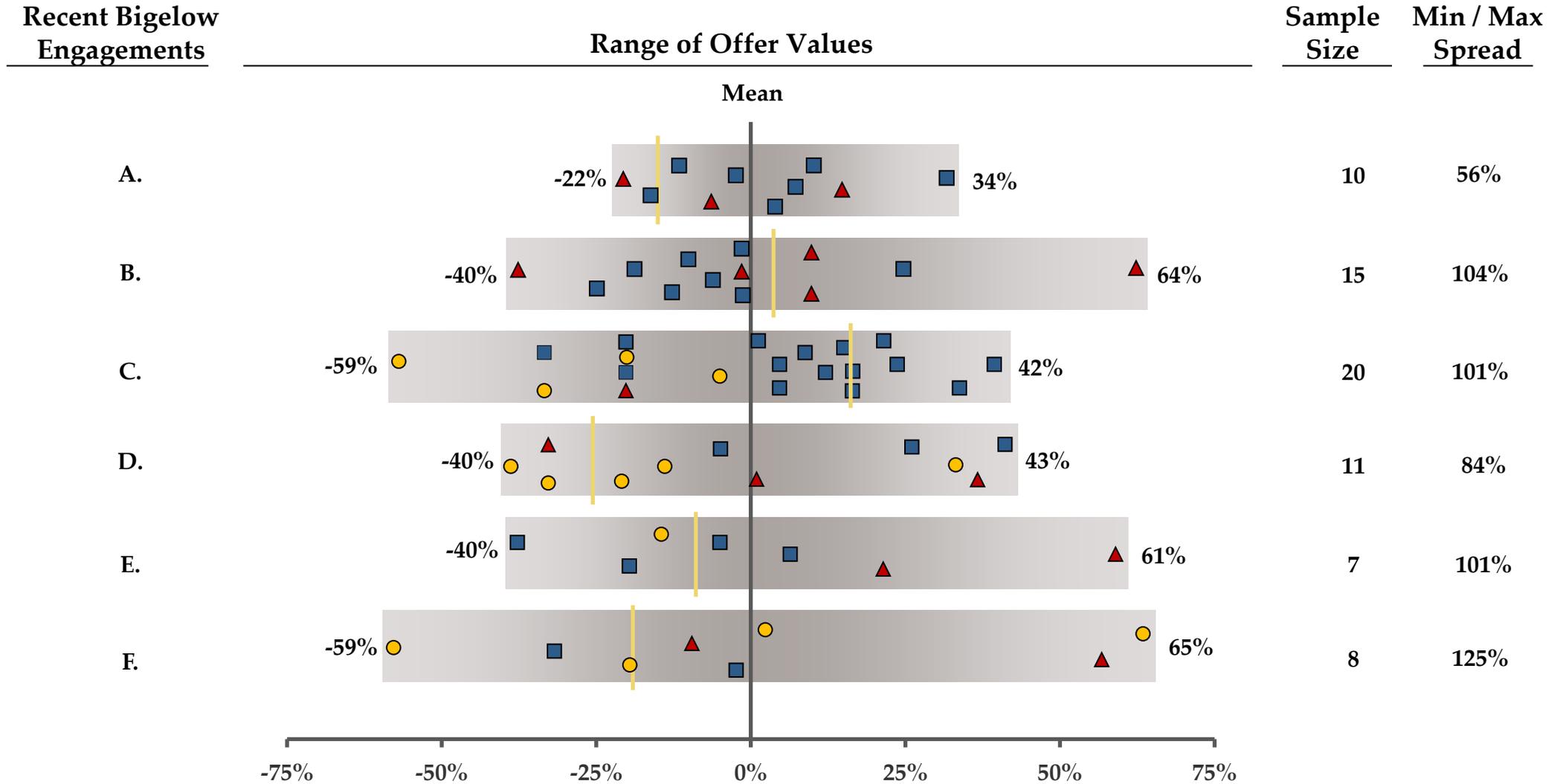
Multiple of EBITDA

Do strategic acquirors always pay the highest price?

Yes

No

The Private Company Market Is Highly Inefficient



Key: ▲ = Strategic; ● = PE Platform; ■ = Private Equity (PE); | = Client Expectation

Seller Beware

Unknown
Biased Inexperienced
Emotional
Fearful Principle Entrepreneur
Uninformed Value Doubtful
Legacy
Untrained Inadequate

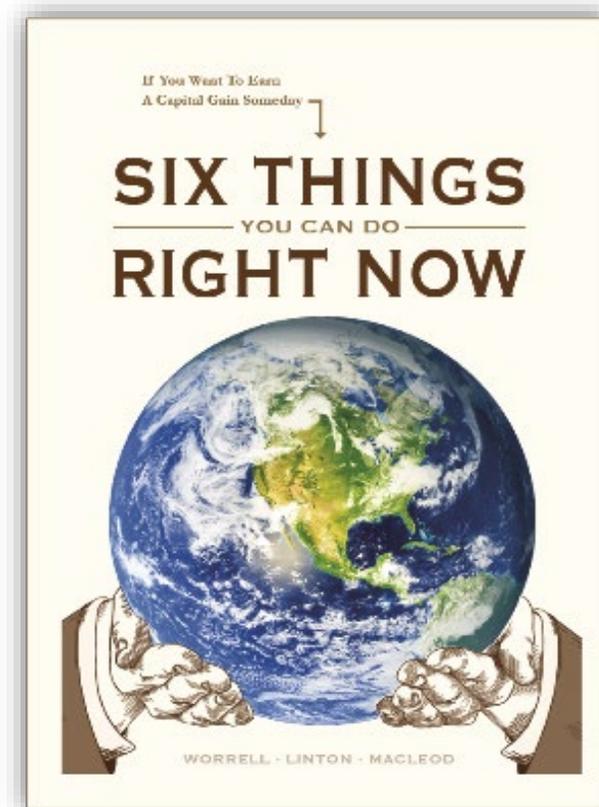
Asymmetry Of Information
Asymmetry Of Experience
EOM
The Principal Agency Problem

Experience
Expert
Confident
Objective
Seasoned
Corporate
Informed
Qualified
Worldly
INVESTORS

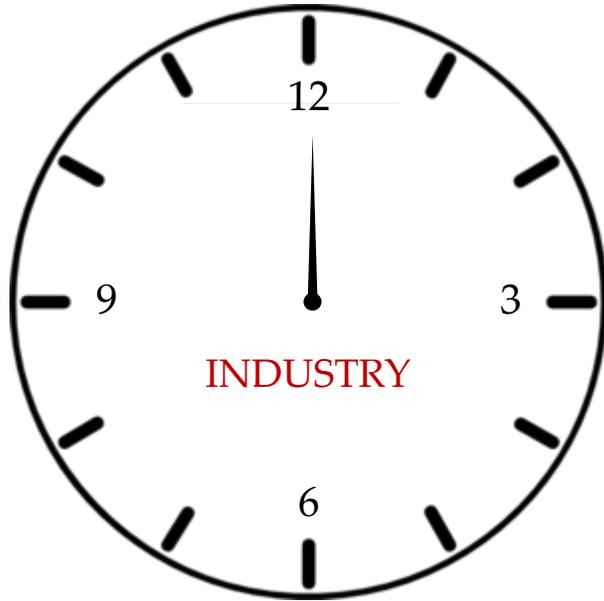
6 Things You Can Do Right Now...

...If You Want To Earn A Capital Gain Someday

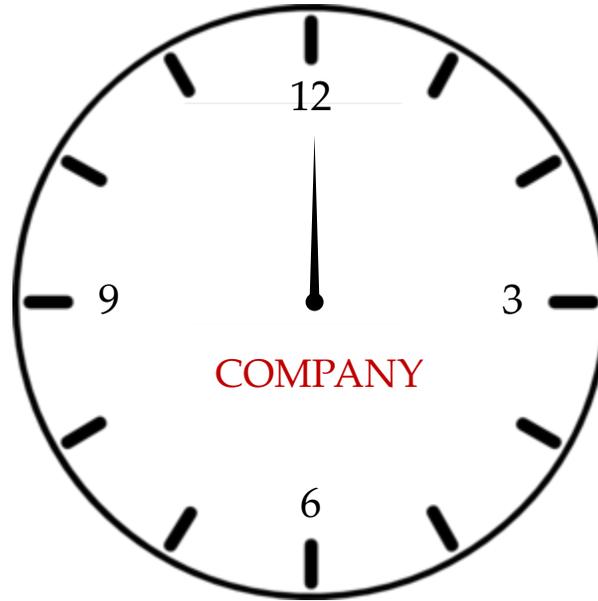
1. Simultaneity
2. Strategy
3. Management
4. Advisors
5. Measurements
6. Timing



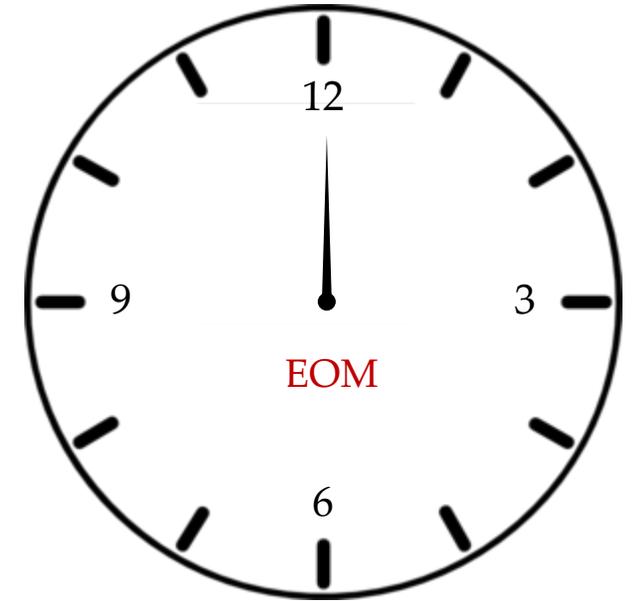
What Time Is It For You?



Is your industry currently
in or out-of-favor with
investors?

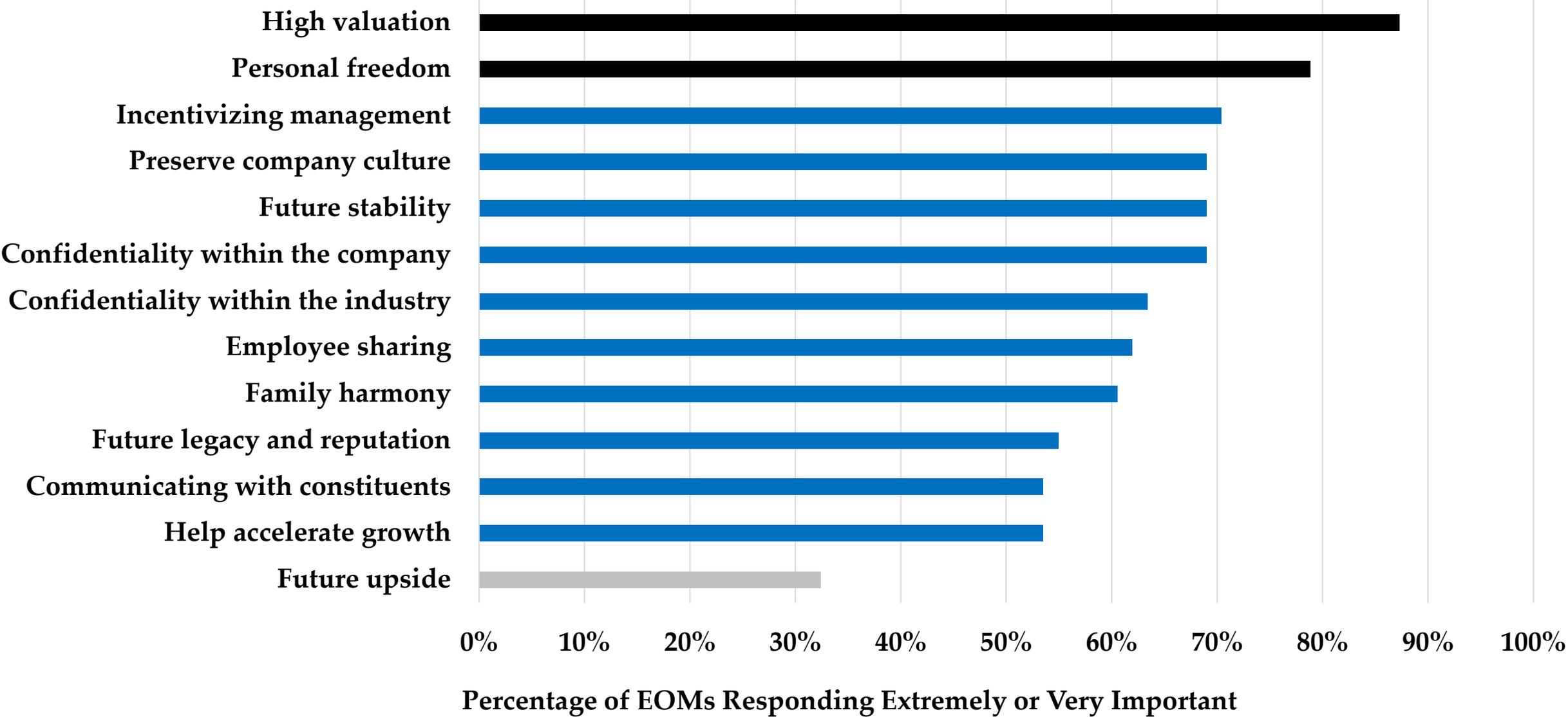


Does your Enterprise's
financial performance
validate its intrinsic value?
(How baked is the cake?)



Are you personally taking the
right amount of risk in the
business in relation to its
market opportunity?

What Do Owner-Managers Care About



Bigelow's Sample Toolkit: Preparation Pays



<u>Preparation Considerations</u>	Yes?	No?
1. Estate planning		
2. Building advisory team		
3. Management team involvement		
4. Sell-side Quality of Earnings		
5. Market study		
6. Growth plan & financial model		
7. Corporate video		
8. Website update		
9. Phase I environmental		
10. Legal due diligence "scrub"		
11. Sales and use tax analysis		
12. Virtual facility tours		
13. Rep & Warranty insurance strategy		

Marco Rubber & Plastics Case Study



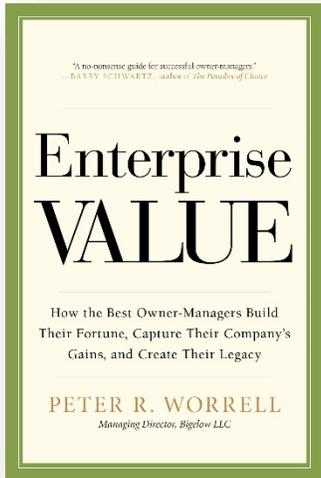
- 4 year+ relationship
- Brought in BNN as new accountants – audit and tax
- Refined strategy – brought software in-house
- Chose to seek a majority partner
- Extra preparation:
 1. market study
 2. company video
 3. incentives for management team
 4. growth plan & projection financial model
 5. sales tax clean up



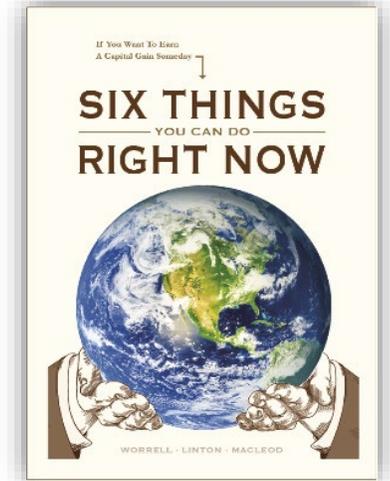
Private Enterprise Value Podcast:

When your life partner is also your business partner

Thank You



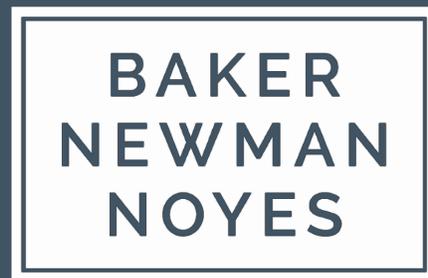
Website: BigelowLLC.com
Blog: bigelowllc.com/channel/positive-enterprise-value-blog/
Podcast: Positive Enterprise Value



Transaction Preparation

Scott McKenzie, Managing Director

Transaction Advisory Services



Transaction Advisory Practice Lead



Scott McKenzie, CPA
Managing Director
smckenzie@bnn CPA.com

Scott is a managing director in the assurance practice at Baker Newman Noyes, and leads the firm's transaction advisory services group. Scott brings more than 20 years of experience in public accounting to his role at BNN. A seasoned audit professional, Scott works closely with private equity and venture-backed, emerging growth, and sophisticated public and privately held companies in the software, life sciences, construction, manufacturing and distribution industries.

Clients turn to Scott for help in transaction support services and financial due diligence. He has unique knowledge and experience in buy-side and sell-side advisory for complex financial issues that may arise during a transaction. Scott has led due diligence assignments involving target companies across the U.S. and Canada. His experience also includes software revenue recognition, complex equity and revenue recognition, and stock compensation.

Preparing to Sell Your Business

- Who should you be speaking with?
- What needs to be done?
- What is a quality of earnings review?



Time for a polling question!

How many in the audience have spoken with an advisor regarding a potential sale of your business?

Please take a moment to check in by answering our polling question. This helps us track engagement for CPE.

*The polling question will show on the screen for **one minute** and then we will resume the slides.*

THANK YOU for your patience while we give everyone the opportunity to respond.

What Will a Buyer be Expecting?

- Legal documents.
- Financial documents.
- Tax documents.
- Access to senior management and others within your organization.



Time for a polling question!

How many in the audience have had a quality of earnings report prepared?

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Preparing to Acquire a Business

- Do your due diligence.
- Have your team ready.
- Plan for transition and integration.



Common Issues Encountered During Transactions

- Lack of preparation prior to going to the market.
- Not involving advisors early in the process.
- Continuing business as usual.
- Planning for transition and integration.



Time for a polling question!

If you were approached by a buyer are you prepared to sell your business?

Please take a moment to check in by answering our polling question. This helps us track engagement for CPE.

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Questions?



Income Tax Accounting Update

Tom Widman, Tax Principal



Today's Presenter



Tom Widman, CPA, MST

Tax Principal
twidman@bnn CPA.com

Discussion Points

- Key Tax Provisions of the CARES Act
- State Conformity
- Valuation Allowance Assessment
- Questions



Key Tax Provisions of Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”)

- 5 year net operating loss (“NOL”) carryback
- Temporary removal of taxable income limitation on NOLs
- Temporary increase to business interest deduction
- Delay of payment of employer portion of payroll taxes
- Technical correction for qualified improvement property (“QIP”)
- Acceleration of refunds related to Alternative Minimum Tax (“AMT”) credits



5 Year NOL Carryback

- The Tax Cuts and Jobs Act (“TCJA”) eliminated the ability to carryback NOLs
- The CARES Act reinstates the carryback and also extends it to a 5 year period for losses incurred in 2018, 2019, and 2020
- Key considerations:
 - Tax rate arbitrage
 - Accelerate deductions
 - Valuation allowance impact



Delay of Taxable Income Limitation

- The TCJA imposed a limitation on the use of NOLs generated after 2017 to 80% of taxable income
- The CARES Act removes that limitation for tax years prior to 2021
- Key considerations:
 - Valuation allowance impact for fiscal year ends
 - Delay of deductions



Other Tax Items in CARES Act

Interest Limitation-

- The TCJA created more stringent limitation of interest deductions, limiting the deduction to 30% of adjusted taxable income.
- The CARES Act increased the limitation to 50% of adjusted taxable income for tax years 2019 and 2020.

Payroll Tax Deferral-

- The CARES Act permits companies to defer payment of the employer portion of 2020 payroll taxes until 2021 and 2022



Other Tax Items in CARES Act (continued)

QIP Treatment-

- QIP property reverted back to 39 year life property and not eligible for bonus depreciation at the end of 2017
- The CARES Act incorporated a technical correction to reestablish QIP as 15 year property and eligible for bonus depreciation back to 2018

AMT Credit Refunds-

- The TCJA eliminated AMT for corporate entities and instituted a refund system for carryover AMT credits over an extended period
- The CARES Act allows for refunds to be claimed for the full amount of the credit carryforward with the 2019 return



Time for a polling question!

Which CARES Act provision is most beneficial for your company?

Please take a moment to check in by answering our polling question. This helps us track engagement for CPE.

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ASC 740

Timing of Accounting for Enacted Tax Law Changes

- ASC 740 requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted (US income tax laws are considered enacted on the date the president signs the legislation)



State Tax Implications

- Similar to the TCJA many states do not conform to the CARES Act tax changes
 - Implications-
 - Valuation allowance analysis for state purposes
 - Tracking of interest limitation deferred for state purposes
 - Tracking state depreciation basis difference
 - Constant monitoring of state guidance



Valuation Allowance Assessment

Must balance the implications of the positive and negative evidence

3 years of cumulative Income/Loss

4 Sources of taxable income

Carryback ability

Reversal of taxable temporary differences

Tax planning strategies

Future taxable income



Here's another polling question!

Do you think another stimulus bill will be passed before the end of 2020?

Please take a moment to check in by answering our polling question. This helps us track engagement for CPE.

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Summary / Additional Thoughts

- Treasury is still releasing regulations around the interpretation of the TCJA.
- Do not forget about tax when adopting new accounting standards
- Discussed the tax law changes included with the CARES Act
- Overview of valuation allowance assessment



Questions?

