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M&A Deals in the Pavement Maintenance Sector

The Good, the Bad and the Ugly

Presented by

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Founder & CEO of Pursant, LLC

Learning Objectives

1. What are current M&A market conditions

2. How to avoid many M&A pitfalls that can cost you money and/or blow your deal

Case Study Method Approach:

- Learn from the success and failures of others

  Wise men learn from the mistakes of others. Fools learn from their own – Unknown

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PURSANT, LLC OVERVIEW

- Who am I:
  - Serial Entrepreneur (buyer, seller, operator)
    - Personally bought, sold or liquidated over a dozen companies, operated in most states with 5 – 1400 emplouyees
  - Founder of Pursant, LLC

- What we do:

Pursant helps business owners grow the value of their companies and maximize that value when they exit.

- Pursant Business Units:
  - Investment Banking
  - Financial Services
  - Strategic Advisory
  - Talent Acquisition

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PURSANT, LLC OVERVIEW

- Some of our Industries - Lower Middle Market (<250M TEV)
    - Building Services
    - Paving
    - Roofing
    - Business Services
    - Technology
    - Telecom
    - Logistics
    - Education

- Our Team - A team of 12+ professionals with backgrounds including:
    - Business Owners
    - Private Equity
    - Capital Markets
    - Public Accounting (audit)
    - Recruiting

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THINGS TO KNOW ABOUT M&A TODAY

- ❑ Why people are selling
- ❑ Who are the buyers
- ❑ Buyer’s market or seller’s market
- ❑ How long to do a deal
- ❑ Valuation considerations
- ❑ Valuation multiples
- ❑ Best time to buy or sell

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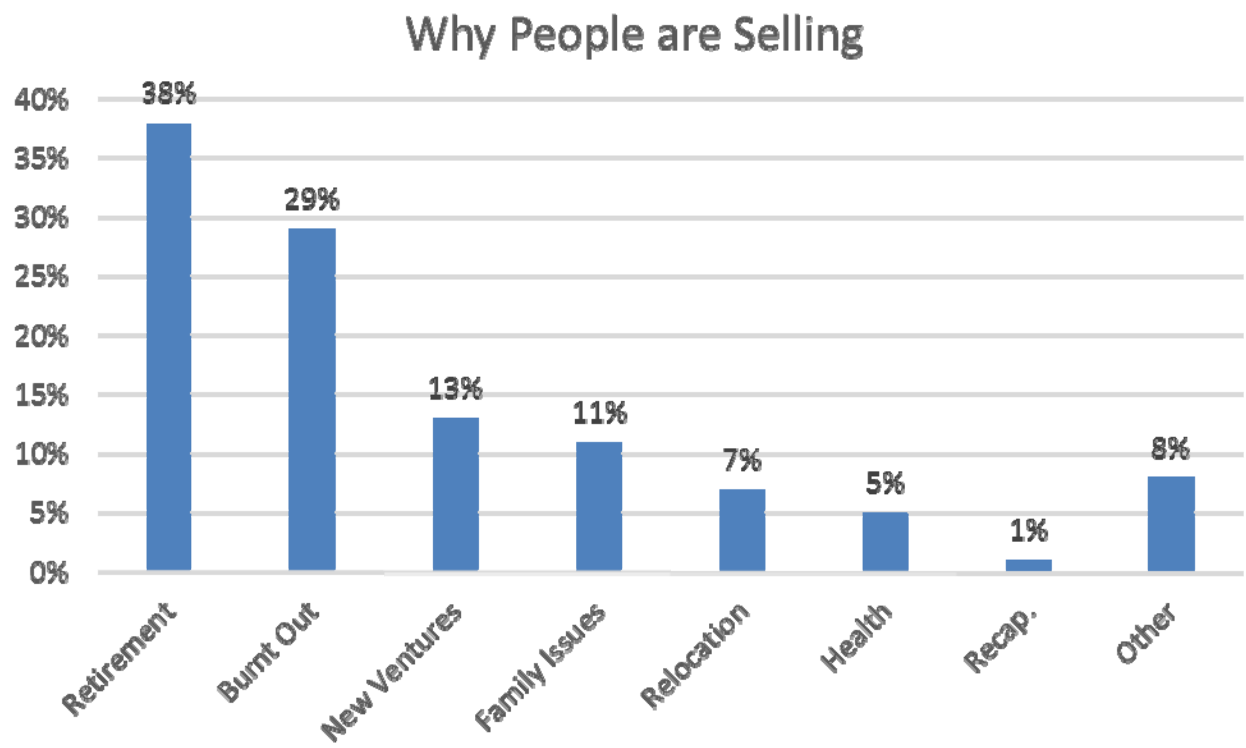
M&A Market Conditions

❑ The Sellers



Source: Pepperdine Private Capital Markets Survey

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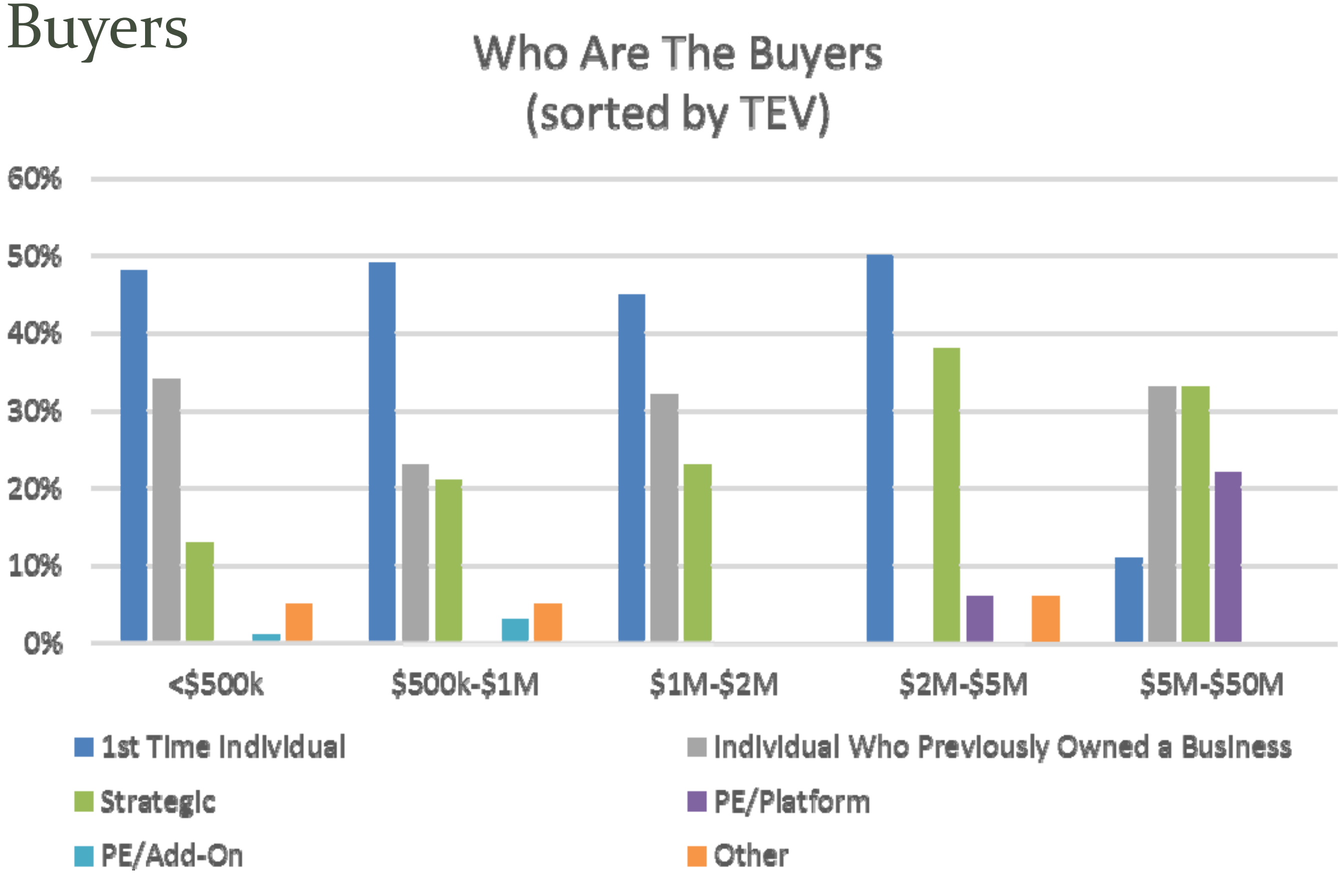
M&A Market Conditions

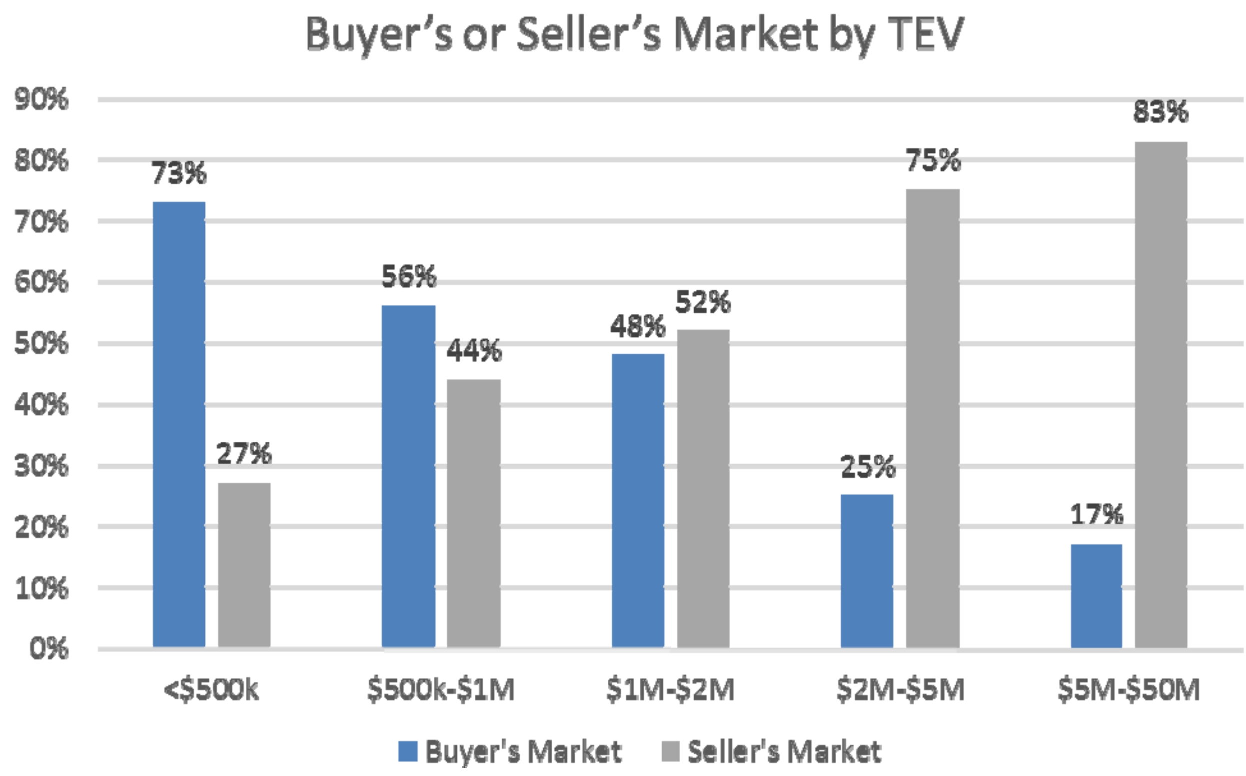
- The Buyers



Source: Pepperdine Private Capital Markets Survey

M&A Market Conditions

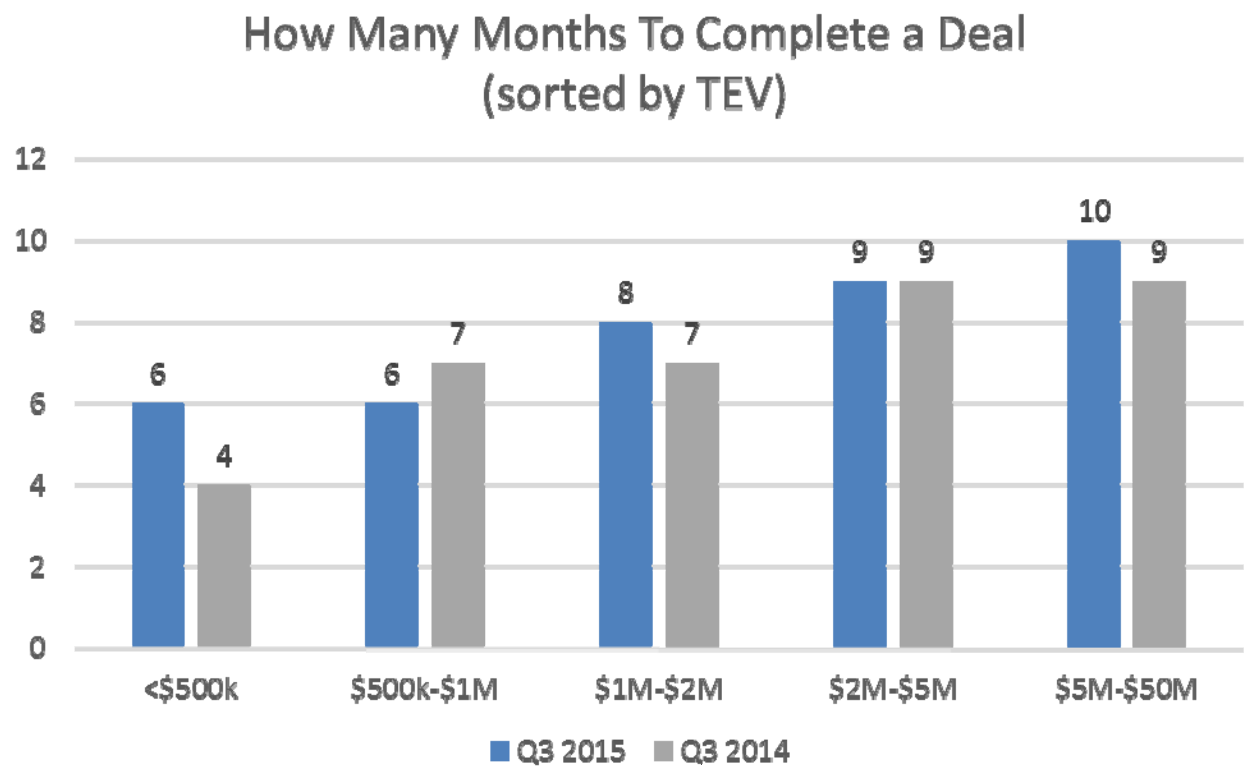
❑ Buyer's or Seller's Market?



Source: Pepperdine Private Capital Markets Survey

M&A Market Conditions

❑ Deal Timeline



Source: Pepperdine Private Capital Markets Survey

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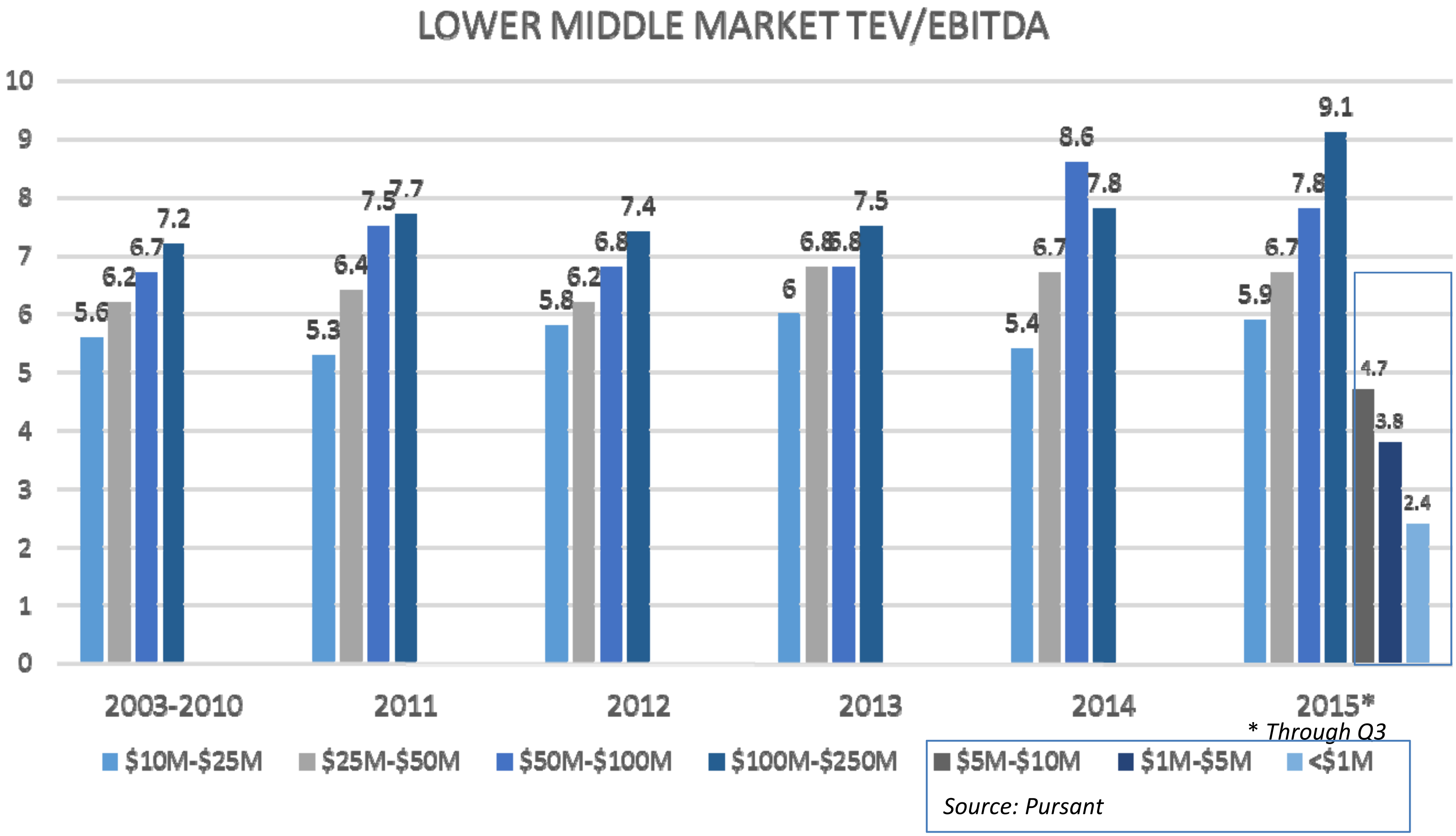
M&A Market Conditions

❑ Valuation Components:

- Multiples of EBITDA (Adjusted, TTM, 3-5 YR. Avg. RR)
- Risk Profile driving the multiple range
  - ✓ Customer type (commercial, municipal, retail, residential, etc.)
  - ✓ Recurring vs. new customers
  - ✓ Revenue concentrations
  - ✓ Margin trends
  - ✓ Capitalized equipment investment
  - ✓ Talent concentrations
  - ✓ Quality of Earnings (Q of E)
  - ✓ Numerous other factors
- Size Premium
- Quality Premium

M&A Market Conditions - Valuation



Source: GF Data

M&A Market Conditions – Timing the Market

- The business transfer cycle

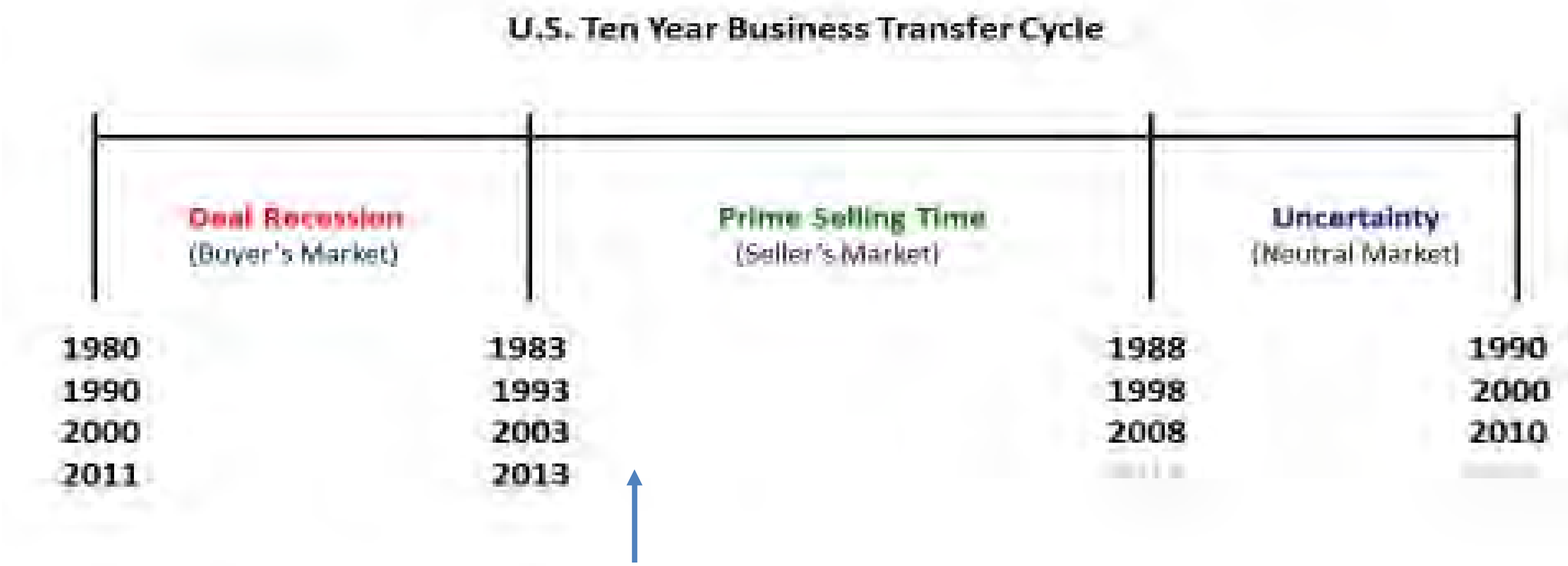
M&A Market Conditions – Timing the Market

❑ The business transfer cycle

1. US economy experiences some sort of economic downturn during the first few years of every decade.
2. The capital supply becomes restricted, especially to the private markets, primarily due to restricted lending, reducing the leverage a buyer can achieve and lowers valuations. This also limits access to working and investment capital.

M&A Market Conditions – Timing the Market

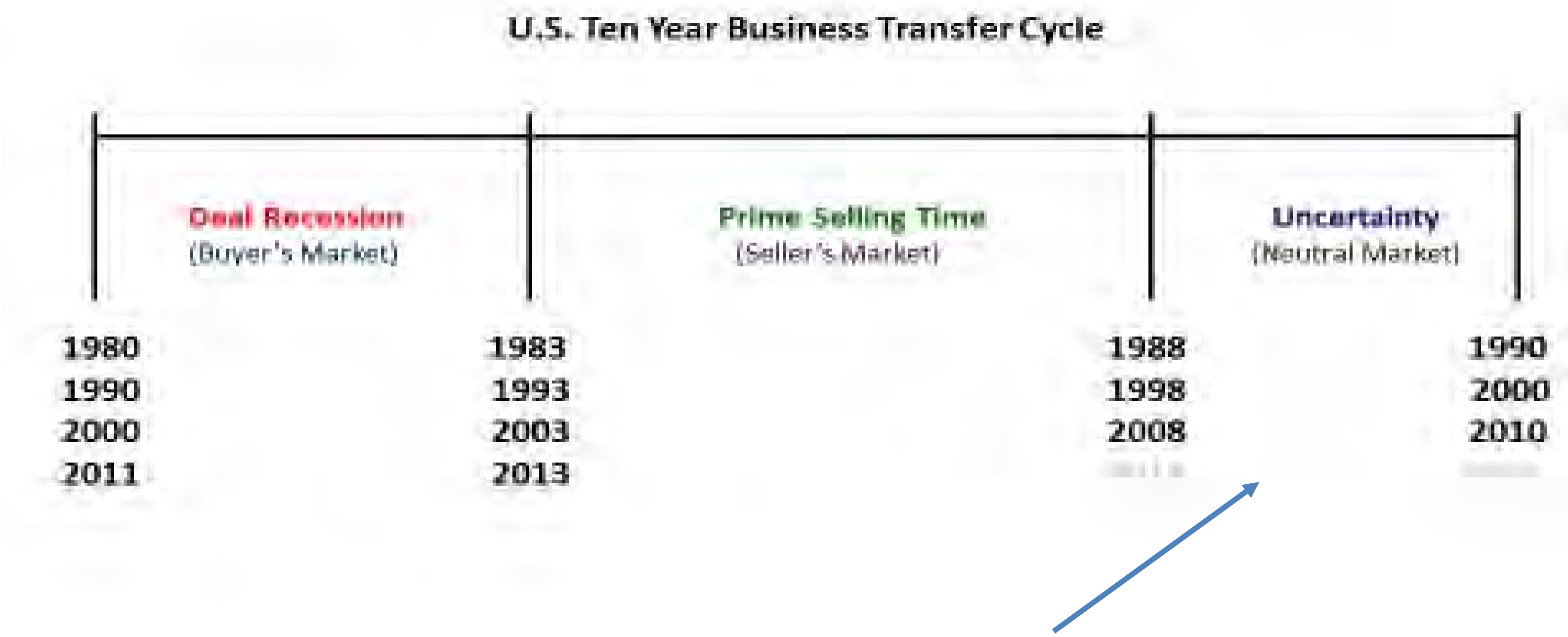
- ❑ The business transfer cycle



Capital starts to again flow into the private market. The market begins the cycle of over leveraging again.

M&A Market Conditions – Timing the Market

- The business transfer cycle



This is then followed by a period of deleveraging.

CASE STUDY METHOD OF LEARNING

Mistakes, you can't live long enough to make them all yourself – *Eleanor Roosevelt*

Negative outcomes can often times be linked back to a series of process and judgment errors that lead up to the undesired outcome.

- **Golf – Scores can be improved with disciplined approach.**
- **Mountain climbing – Tragedies generally start with skipping steps and simple judgment mistakes.**
- **Flight routine – Frequently tragedies can be linked back to pre-flight and in-flight simple errors.**
- **Pavement Maintenance – Problems often linked back to an error in the early stages of the process.**

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PHASES OF THE DEAL CYCLE

1. Optimizing Your Company
2. Understanding the Value of your Business
3. Securing Confidentiality
4. Transaction Team Assembly – Advisor, Attorney, Accountant
5. Educating your Team about the Business
6. Transaction Strategy & Packaging
7. Buyer Pool Development
8. Presentation to Potential Buyers
9. Initiate Relationship Building
10. Transaction Negotiation and Deal Structure
11. Due Diligence
12. Documentation
13. Closing
14. Transition and Integration

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CASE #1

A $50M buyer gets to a few weeks before close and the $5M seller asks for a purchase price increase (per the advice of legal counsel) or he will cancel deal.

- What went wrong?
- What could have been done to avoid this?

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CASE #1

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CASE #1

Lesson:

Advisors, and in this case, the attorney should be engaged ***early*** in the process; otherwise, they can be disruptive later on, wasting a lot of time and money and potentially killing the deal.

How did it end?

- There was an increase in purchase price, but it was on an earn-out basis.

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CASE #2

A $6M seller is ready to accept an LOI in-hand and pulls the plug on an attractive cash offer from a buyer in order to explore other offers.

- Was this a good move?

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CASE #2

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CASE #2

Lesson:

Having more than one buyer has many advantages:

- Tests for where the market is ***really*** at for market valuation
- Gives you more confidence and credibility in negotiation
- Gives you better BATNA (plan B)

How did it end?

- The Purchase was done with the original buyer at a 30% increase in purchase price and more favorable purchase price allocation.

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CASE #3

A buyer gets to one week before close and the $3M ***passive*** seller changes his mind and decides not to sell.

- How could this have been avoided?

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Case #3

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CASE #3

Lesson:

Passive sellers have advantages and disadvantages:

- You will often be the only buyer under consideration.
- Sellers are often "on the fence."
- Read their true feelings early and often.
- Build the relationship and stay close.
- Consider a breakup fee.

How did it end?

- No deal. The seller just wasn't ready to sell. Lots of wasted legal fees and emotional energy and opportunity loss.

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Case #4

A buyer gets to the Purchase Agreement stage with a $10M seller and an “earn-out” language battle ensues and the deal stalls out.

- How do you get through this common sticking point?

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CASE #4

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Case #4

Lesson:

The Earn-out is problematic for both parties:

- The buyer doesn’t want to pay for contingent benefits.
- The seller often doesn’t have business control post-sale.
- Seller views it as being paid with their own money.
- Sometimes the earn-out is really just expensive financing.

How did it end?

- The buyer and seller agreed on an all cash discounted purchase price.

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CASE #5

A buyer acquires a $10M seller out of its core geographic market and one year later the $10M company that was acquired is down to $2M in revenue.

- What went wrong and how could this have been prevented?

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Case #5

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CASE #5

Lesson:

Transition and Integration is the #1 killer of retained value in an acquisition, not the purchase price or deal structure:

- “Owner dependent” business
- Poor management of the previous owner
- Different strategy for remote markets

How did it end?

- Seller left the business (abandoning the earn-out)
- GM was finally put in place
- It’s been a very slow rebuilding process

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CASE #6

An $80M buyer acquires a $5M healthy seller at a very low 2x EBITDA and both live happily ever after.

- How does this happen and where do I get one of these?

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CASE #6

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CASE #6

Lesson:

- Know your seller's priorities!
  - Money?
  - Future of employees and/or brand?
  - Future career opportunity?
  - All of the above?

How did it end?

- Seller was much older in life with little concern over economics. His people and brand future were his only concern. Happily ever after for both parties.

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CASE #7

A $6M buyer acquires a $150M seller.

- How the heck do you do that?

CASE #7

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CASE #7

Lesson:

- Anything is possible!
- Lots of capital available in the market
- Great time to be a seller and a BUYER

How did it end?

- The Deal closed and the buyer was integrated into the seller's platform and for the most part, just brought new leadership.

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SUMMARY

Develop a process and stay disciplined at following the process.

Remember:

- Golf
- Mountain climbing
- Flight routine
- Good pavement maintenance process
- M&A Process – *Do more Good deals and less Bad and Ugly deals!*

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Mistakes, you can't live long enough to make them all yourself – Eleanor Roosevelt

Questions?

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