

NAVIGATING THE TRIANGLE'S BOOMING M&A MARKET

BY: CAROLINE BARNHILL

The market for selling and buying privately held companies, those with revenues from a few million to a few hundred million, in the Triangle is very active and robust. According to Kenneth Marks, founder and manager of M&A advisory firm High Rock Partners, there are three main drivers boosting the sales activity of the middle market.

"First, we have a wave of baby boomers transitioning to retirement and seeking succession and liquidity. And layered on top of that, we have more private equity in the market than we've ever had before – there's about a trillion dollars of unused private equity, worldwide, to be deployed," Marks explains. "Then, lastly, we're seeing public companies continuing to look for capability, skills, customers,

talent and ways to increase earning per share, drive revenue, and access new niches and markets."

These factors together, Marks says, have created a very robust mergers and acquisitions (M&A) market. On March 22nd at The StateView Hotel, in Raleigh, N.C., top executives from across the region came together to learn more about this thriving market.

The event, sponsored by Burns & Bynum CPA, High Rock Partners and Smith Anderson law firm, featured a panel of experts, including M&A advisors and local business owners. Topics ranged from preparing a business for a sale, how to mitigate organizational hurdles during the M&A process, the importance of cultural alignment in acquisitions, and more.



Meet our Experts:



Lanny D. Bynum, CPA
Founding Partner, Burns & Bynum, CPA and Consulting

Lanny Bynum, CPA, is a founding partner of Burns & Bynum, CPA and Consulting and leads the buy-sell, financial and strategic consulting specialties of the firm. After beginning his career with the international CPA firm KPMG, he accumulated more than 25 years of diverse financial and strategic operational experience in the corporate world in chief financial and operating officer positions, within several industries of various sizes ranging from start-ups, to companies under \$20 million in revenue, to over \$3 billion international companies. Career specialties include financial turn-arounds, restructuring companies on extremely fast growth curves and older well-established companies and initiating start-ups/early stage companies. While Bynum has a diverse and wide range of experience with all size companies, his heart and passion has always been with small and medium size companies. Bynum is a graduate of the University of North Carolina, Chapel Hill and serves on a number of local boards of directors and is involved in several community, charitable and Christian-based organizations.



Bryan Dobson
CEO, Quality Equipment, LLC

Bryan Dobson is currently C.E.O. of Quality Equipment, LLC, a 27-branch equipment dealership in North Carolina and southeast Virginia. Quality Equipment, LLC offers a wide selection of products for the agriculture, commercial business and homeowner markets, including John Deere, STIHL and many other complimentary equipment lines. All products are supported throughout Quality Equipment's footprint with parts and service departments in each branch offering local parts availability and trained technicians. Dobson grew up in Scotland Neck, N.C. and graduated from East Carolina University in 1991 with a B.S. in business administration. Upon graduation, Dobson worked six years in the furniture business working and residing in Georgia, Tennessee, Florida and N.C. In 1997 he moved back to Scotland Neck and joined his family in the John Deere business, Farmland Tractor Co. In 2005, Farmland Tractor Co. participated in a merger, which formed East Coast Equipment, LLC. Dobson served as the vice president of sales until December 2009 when he became CEO of East Coast Equipment, LLC. East Coast Equipment, LLC and Quality Equipment, LLC merged October 1st, 2018 at which time Dobson assumed his current position with the new company. Dobson served as a Scotland Neck town commissioner for eleven years until moving to Greenville, N.C. in 2014. Dobson is married to his wife Andria, also an ECU graduate, and they have two children, David and Caroline.



Randy H. Nelson
CEO, Gold Dolphins, LLC

Randy Nelson is the CEO of Gold Dolphins, LLC, a coaching, writing, speaking and consulting firm for entrepreneurs and leaders. Prior to Gold Dolphins, Nelson built and sold two successful businesses (Orion International and NSTAR Global Services), which have produced more than \$1 billion in sales and remain industry leaders today. Recently, he launched The Decision Center in Garner, N.C., an off-site retreat center focused on leadership and entrepreneurial development. Nicknamed the "Triangle's Yoda" in Raleigh, N.C., he has a lifelong passion and successful track record for entrepreneurship and leadership. He served more than six years as a lieutenant in the Navy Nuclear Engineering Program, completing three years on the USS James Madison, a Nuclear Ballistic Missile Submarine from 1984-1987. Nelson has a B.S. in accounting from Miami University and was awarded the Admiral Sydney W. Souers Distinguished Alumni Award at his alma mater in 2011. Nelson has served 15 years on the General H. Hugh Shelton Leadership Center Advisory Board at North Carolina State University, chairing the board in 2014-2015.

Nelson is a contributor to Forbes, and was selected as one of the initial authors to publish under the Forbes Books logo. His first book in his Decision Series for Entrepreneurs, "The Second Decision," is an Amazon # 1 best-seller. His second book in the series, "The Third Decision; the Intentional entrepreneur - living a regret-free life beyond business" was recently published in February 2019.



Michael P. Saber
Partner, Smith Anderson

Michael Saber works with companies on their corporate transactional activity, including mergers and acquisitions, venture capital, capital-raising financings, technology transactions and other mission critical matters. He regularly counsels entrepreneurial and closely held businesses from start-up through growth stages in industries ranging from manufacturing to retail to technology. Saber sits on the board of directors and is a member of executive committee of the Center for Entrepreneurial Development (CED), an organization committed to cultivating the entrepreneurial ecosystem in the Triangle. He also co-leads the firm's Life Sciences and AgTech industry practice groups.



Kenneth H. Marks, CM&AA, CFq
Managing Partner, High Rock Partners

Kenneth Marks is the founder and managing partner of High Rock Partners, a boutique firm of strategic and M&A advisors. He is an entrepreneur and subject matter expert in mergers, acquisitions and financing of emerging growth and middle market companies. He combines his first-hand experiences in financing, building and selling multiple businesses for himself with more than twenty years of developing growth strategies and doing deals – all to partner with CEOs to make key strategic decisions; navigate and execute on transitions of ownership; accelerate growth to the next level; or to reposition their company. His firm uses a unique and proven blend of experiences and tools in strategy, mergers & acquisitions, financing and deals, coupled with leadership and creative solutions to achieve clients' desired outcomes.

Marks is the lead author of "Middle Market M&A: Handbook for Investment Banking and Business Consulting" and the "Handbook of Financing Growth: Strategies, Capital Structure and M&A Transactions," both published by John Wiley & Sons in their finance series. Most recently, he led the publication of "Value Levers: Increase the Value of Your Business From 3x to 7x." He has an electrical engineering background and obtained an M.B.A. from Kenan-Flagler Business School at the University of North Carolina, Chapel Hill. Marks is a Certified Merger & Acquisition Advisor (CM&AA) and holds a Corporate Finance Qualification (CFq).

On recent M&A activity...

BYNUM: Over the past two to three years we've seen an influx of baby boomers wishing to exit their business for a number of reasons. Another dynamic is the activity around consolidation and roll-ups, particularly in the heavy equipment, health, IT and medical industries. And then we're seeing more transactions as companies are continuing to seek talent. The talent pool creates interest from potential buyers, while also impacting the valuation of what they're willing to pay for it.

SABER: Private equity companies come to the table with discipline that they apply to their deals. They have, sometimes, very clear guidelines they use to look at companies and are usually unwilling to move away from them. And when buyers spend some time on the front-end applying that same discipline, we often see an increased speed in getting the deal done. So sellers need to apply discipline in preparing for the M&A process, which will allow the deal to go through as quickly as possible. And the speed at which we've seen these deals get done once the momentum is underway is pretty remarkable – compared to what it was ten, or even five, years ago.

DOBSON: Right now, the Triangle is a very hot area companies want to get into. So, even as things may be on the downswing in other areas, the number of companies wanting to be in RTP and the surrounding area is very high. That helps buoy our companies' valuation and interest from external buyers.

On the value of "earn-outs"...

SABER: An "earn-out" is a contingent right of a seller to earn additional consideration, based on the performance of the acquired company after the deal closes. With an earn out, the owner of the selling company is going to be more involved in the business going forward and help to achieve additional financial milestones in the business being acquired. This means there can be tension where the buyer is running the company in the way that, in the buyer's judgment, maximizes the company's performance as a whole, as opposed to the individual seller from the acquired company who wants to maximize his or her outcome from the earn-out itself. This may or may not tie in to, or align with, the strategic direction of the buying company as a whole. This can produce a bit of tension, which can lead to disputes on a post-closing basis. However it can create a lot of upside for a seller and if it goes right, it can be a home run.

BYNUM: The times that I've seen earn-outs make sense is when there is a real disparity between the buyer's and the seller's perception of company's valuation. For instance, one party thinks it's worth \$10 million, the other thinks it's worth \$8 million, and we get to an impasse. So, that \$2 million may become a point of earn out.

NELSON: Build a great business, with a repeatable EBITDA (earnings before interest taxes depreciation & amortization), and get your cash. The more you have to sing and dance to try to prove your value, the more likely it is you're going to get an earn out.

From left Michael Saber, Lanny Bynum, Bryan Dobson, Randy Nelson, and Moderator Kenneth Marks at Today's M&A Market event at The Stateview Hotel



KEEPING YOUR OPTIONS OPEN

"We're all going to exit our business one way or another. My advice is to always create options for yourself and for your exit. Continue to own the business and make it as profitable and valuable as it can be, so that should an opportunity for a transaction – either proactive or reactive – present itself, you've prepared your company in the most optimal way you can. The biggest mistake we see with companies is not creating those positive options. And then one day due to necessity, or because an owner makes a decision that they're ready to do a transaction, they're not prepared to do it. They haven't created the options to maximize and optimize the value and opportunity. So continually run your business to create options for yourself."

Lanny D. Bynum, CPA

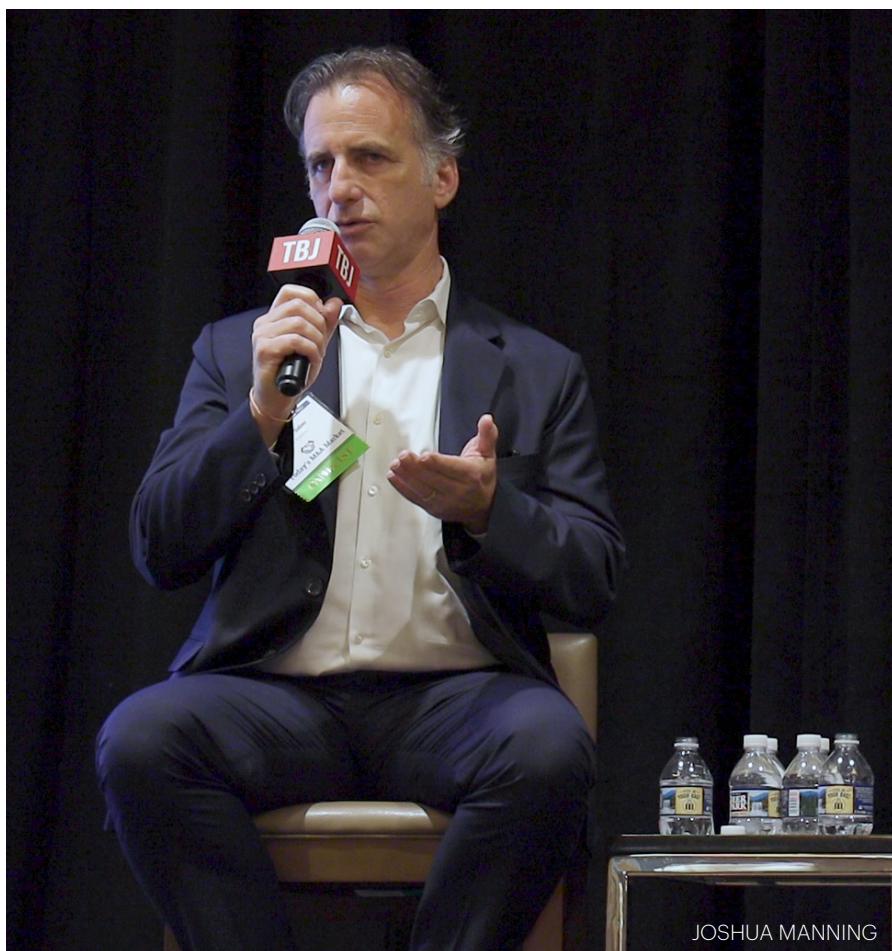
Burns & Bynum, CPA PA

On preparing a company for an M&A transaction...

SABER: Preparation adds value. Don't discount the importance of getting your company ready so that a buyer can come in and take a look. You're going to be scrutinized – they're going to want to look at your documents and talk to your customers. If you have some bumps in the road that occur during that time, a buyer is going to want to slow the process down. They may even see some red flags that cause them to pause. So, if you get your ducks in a row ahead of time, that's going to make a big difference, not only in allowing you to close the deal faster, but also in producing some value along the way.

BYNUM : You'll need a team to work with you through the transaction. Typically you'll have an attorney with M&A experience, a CPA and an M&A advisor. Make sure you have a team that will park their egos at the door and be ready to work in your best interest. And make sure you understand why you're selling or merging your business. Once that is clearly defined, don't deviate from it – because it's easy to start changing objectives during the course of the transaction. You need to share those two to three objectives with your team, and you'll need to revisit them constantly.

NELSON: When it comes to selling your business, double or triple estimate how long you think it will take for the due diligence process. Along the way, something is going to happen that will push back the timeline, so be prepared for it.



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Michael Saber of Smith Anderson, advising audience at Today's M&A Market event

On the importance of cultural alignment in acquisitions...

SABER: While the pricing and terms of a transaction are, of course, critical and will capture much of your time, pay close attention to the social issues as well. Something I hear frequently from clients is that getting a deal together and getting the deal done was the easy part. The hard part has been post-closing, while integrating the two companies and making sure the cultures align. If you have cultural alignment, you will be more likely to have a successful acquisition – which is what everyone wants at the end of the day. Choose your partner carefully at the front end and pay close attention to that critical element that sometimes takes a back seat until the very end.

BYNUM: My advice would be prior to ever starting to talk numbers, is to start getting to know the people. Once you start talking numbers and valuation, things begin to get cloudy. So early in the transaction, spend some time simply talking to the potential buyer and if you can, have multiple meetings.

DOBSON: Typically, if it's a similar business, we try to find some areas where we can work together and maybe even start sharing some best practices back and forth. Maybe we trade some inventory, or provide some other basic services to each other to get a feel for how we work and what we're all about. Talking with customers is an excellent thing to do, as well. So go find some of their larger customers and spend some time with them and learn what the customers really feel about them. You'll learn a lot there.

Best advice for those entering into the M&A market...

NELSON: I would say in your business, and in every business, it's not about you. It's about the customer – and it's the same thing with your business. It's not what you think your business is worth, it's what somebody is willing to pay. And sometimes, it's not what you want to hear, so get people who can help you hear that number.

DOBSON: Expect the unexpected. Go in realizing that you're going to have turns in the road that you weren't expecting and be prepared for those. Give yourself plenty of time and don't put yourself in a position where you have to do things emotionally. Time is your friend. I also think it's very important to listen more than you talk in a deal. Through listening, you'll learn a whole lot more about your future partner or the company you're trying to buy, so think carefully about your questions. It's hard for all of us, sometimes, but do your best to stop talking and just let the information flow and listen.

BYNUM: Understand the structure of the deal. Somebody walks in and says, "I'll give you \$10 million for your company." That could mean you walk away with one million dollars in cash, or you could walk away with eight million dollars in cash. So, the purchase price is rarely as important as walk-away cash. I don't know how many times I had someone come in and say, "Someone offered me \$10 million for my business. I'm going to sell it." Well, when you read the initial agreement, it's a \$10 million purchase price, but it's debt-free and they've got \$6 million of debt, meaning they've got to pay off that debt at the \$10 million purchase price – so it's really a \$4 million purchase price. So you need to understand structure and terms and conditions of a deal.

SABER: I agree. Understand structure and don't agree to structure until you are certain that you understand what it is and that you can maximize it. Because you're going to sign a letter of intent, typically, and when you sign that letter of intent, it's going to have a provision that says for 30, 60 or 90 days, you and the seller are not going to shop this deal to anybody, and if you do, you're in big trouble. So, as soon as you sign that letter of intent with that provision in there, your leverage as a seller almost vanishes. So, do your hard work, the high level of structuring and understanding, before you enter into your letter of intent.

MARKS: There's no guarantee that even if you go into the process, you're going to sell the company. Things happen in life. Keep your foot on the pedal, grow your company, and keep improving the performance so you don't have to do a deal. That gives you the most options and the most leverage.

A graphic with a blue background. In the center is a white icon of two hands shaking. Below the icon, the text "Today's M&A Market:" is written in large white letters. Underneath that, in smaller white text, is "Private Company Exit Strategies and Opportunities".

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The logo for High Rock Partners, featuring a stylized building icon made of vertical bars next to the company name "HIGH ROCK PARTNERS®".

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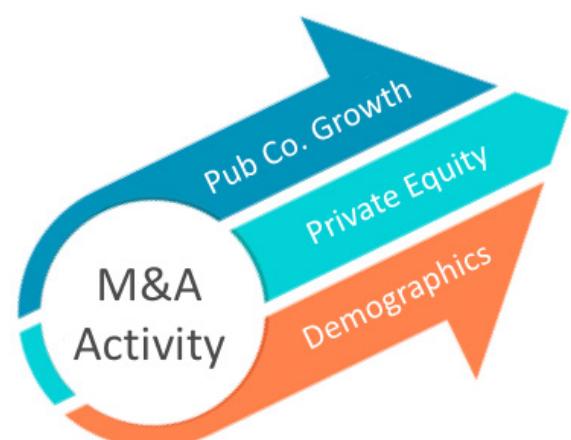
The logo for Smith Anderson, featuring a stylized "SA" monogram next to the company name "SMITH ANDERSON" and the tagline "expectexcellence®".

WHO'S BUYING PRIVATE MIDDLE MARKET COMPANIES?

While direct investments by private equity firms only account for 7% to 10% of middle market transactions, private equity still manages to influence about a third of the market. Once private equity firms invest in a platform company, those platform companies then look to add on and grow their businesses – and these add-on acquisitions for the platform companies increase private equity's influence to nearly a third of the market.

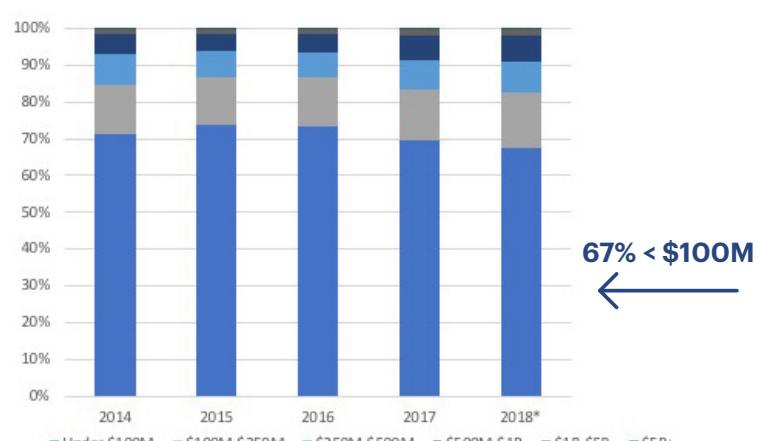
The remaining two-thirds of market activity is lead by strategic buyers seeking add-on capabilities and growth.

What's Driving Middle Market M&A



SOURCE: High Rock Partners 2019

M&A Activity by Deal Size



WHAT SIZE COMPANIES ARE SEEING M&A ACTIVITY?

While much of the dollar volume seen in M&A activity is attributed to larger multi-billion dollar transactions, nearly two-thirds of the deal volume by quantity is from the acquisition of smaller companies, under \$100 million.

UNDERSTANDING SELLER MOTIVATIONS

Over the years, High Rock Partners has worked with other investment banks to survey nearly 100 private company owners post-closing on their motivations for selling. The primary motivation for most CEOs related to market timing – within the business cycle, as well as their industry cycle.

Seller Motivations

