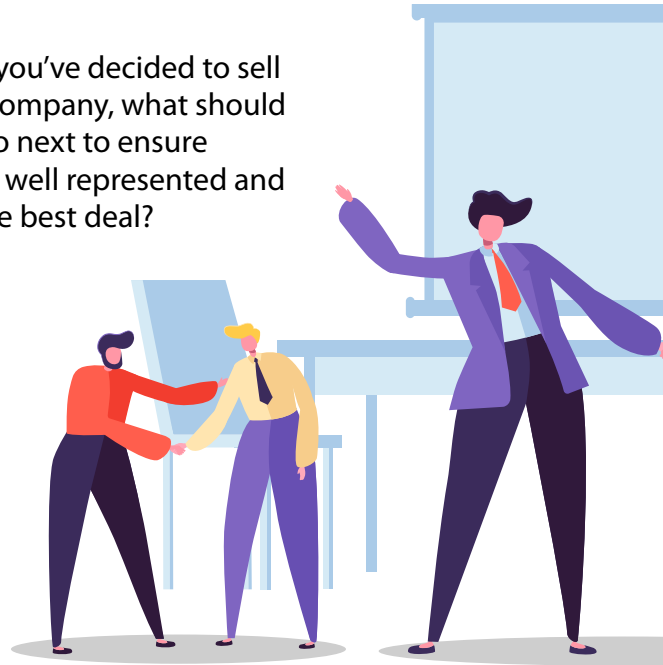


NEXT STEPS

Once you've decided to sell your company, what should you do next to ensure you're well represented and get the best deal?



So, you've decided to sell your company. Congratulations! Now you're on your way to make further decisions such as how much to sell your company for, which broker to use and whether or not to stay on working for the new buyer. While the timing couldn't be better due to the heavy consolidation still occurring in the pest control industry, the following key steps couldn't be more crucial when selling your company.

Before I brought our family business to the market, I was able to speak with some of my friends and industry peers who had previously sold their businesses. This was quite a learning experience for me as I gained a realistic set of expectations when I began marketing my company. When it comes to selling what is likely your largest asset, you really only have one chance to get it right. Here are some things to know before then.

A STRONG BENCH. One common question is, "Should I retain the services of a mergers and acquisitions (M&A) advisory firm or can I represent myself?" You have probably heard Abraham Lincoln's famous quote which says, "He who represents himself has a fool for a client." There are so many items that are negotiated in a business sale that if something is overlooked it can come at a major cost to you. These items can include deal structure (asset vs. stock deal), how the deal is financed (cash, earn-outs, notes, stock, etc.), employment agreements for key employees and you, non-compete agreements, lease agreements if you own the property where the business is located and more. Let's face it:

You have been focused on growing your pest control company over the years and likely not on M&A transactions, so it is best to let the professionals deliver the maximum value for you and your company.

When you decide to sell your business, you should also alert your accounting firm, legal team and wealth manager. It is highly recommended to have a good team in place during the deal process. Your accountant can advise you regarding the tax ramifications and how deal structure may impact your net earnings post-transaction. The legal team will be needed to assist with drafting or reviewing legal documents to ensure that everything which has been negotiated with the buyer is stated

accurately in the appropriate documents. Your financial or wealth adviser can assist with investment advice from the proceeds of the sale.

If you choose to work with an M&A advisory firm, you will receive an engagement letter outlining their services and fees. Advisers will charge an engagement fee and success fee or commission on a completed transaction. Most engagement and success fees are similar, but can differ slightly. In most cases, M&A advisory firms are willing to apply the engagement fee towards any success fee that is negotiated.

CONFIDENTIALITY AGREEMENTS. The first thing that you should do when discussing the sale of your company is to ensure that a Non-Disclosure Agreement (NDA), also known as a Confidentiality Agreement (CA), is signed by each party. If you have hired an intermediary, they can perform this step for you. It is important to not send any confidential information until you have an executed NDA or CA in place (an adviser may send a teaser or share non-confidential information regarding the seller before the NDA is ex-



By Stuart Aust

executed in order to pique and measure the interest of the acquirer). The purpose of the NDA is to establish that the acquirer and seller will not disclose any confidential information that is exchanged between parties in connection with a possible sale to anyone not covered by the agreement. There is usually a return or destroy clause for any shared materials between parties upon request.

After the possible acquirers have been contacted, your advisory firm will put together what is called the Confidential Information Memorandum (CIM). This is also referred to as the presentation deck, book, pitch book, presentation and/or the offering document. This is prepared to market the business that is for sale to prospective buyers. The CIM contains a detailed description of your company's history, operations, finances, sales, marketing efforts, customer background, employees and management team, and facilities/real estate. It is important to capture in the CIM the characteristics that make your company unique and distinguish it from the competition. The purpose of the CIM is to create a roadmap of value for potential buyers so they can begin to put an

initial offer together.

Another important step before receiving an offer is the meeting between the seller and the bidder. This doesn't have to be a physical meeting and even can occur over the phone. Regardless of the venue, this is an ideal time for the potential buyer and seller to meet each other and determine if there is a natural fit and chemistry between parties.

If the purchaser likes what they have observed after the teaser, CIM and meeting, they will submit a formal offer to the seller stipulating the purchase price, and the terms and conditions of the offer. This is called the Letter of Intent (LOI). While the LOI is non-binding and either party still has the option to walk away, it typically asks for exclusivity. This means that when you sign an LOI with one party, you agree to stop negotiations with all other potential suitors.

DUE DILIGENCE. Once the buyer and the seller agree on the LOI, the process of due diligence begins. Due diligence is a detailed examination of the seller's business conducted by the purchasing company. Usually, third-party accounting and legal teams are heavily involved in this process. The purpose of due diligence is to confirm and verify everything that has been provided and submitted by the seller. This includes many of the same items already presented, but now from a technical, legal, financial and strategic perspective. With larger-sized transactions, the information from due diligence is stored into a confidential and secure data room. It is the responsibility of the M&A advisory firm to control who has access to what documents in the data room and act as a gatekeeper when information is requested from the buyer.

After completing due diligence or towards the end of the due diligence, the final document is drafted, which is called the purchase agreement. This is usually

drafted by the buyer's attorneys and reviewed by the seller and their team, but also can be written by the seller's legal team if they have transactional experience. You will want to make sure that everything that has been negotiated up to this point is clearly stated in the purchase agreement since this document is final and legally binding. The purchase agreement contains the purchase price, deal structure, deal financing, non-competes, employee agreements, guarantees the seller makes regarding their business, promises the buyer makes regarding their business, and defines how post-closing adjustments or disputes will be resolved. Throughout the process and especially during due diligence, there is quite a bit of back and forth. The seller and the purchaser each have items that are important to them. As a seller you typically won't obtain everything that you want and the same goes for the buyer. The ability to remain flexible is key to getting the transaction to the finish line.

The last step is closing, which usually takes place at the attorney's office. With the help of technology, not everyone attends the closing like in the past. Those that were involved in the acquisition can be in separate offices during the closing. At the closing the paperwork that has been drafted by the legal team is ready to be signed by the buyer and seller.

Once all paperwork has been executed, the moment you have been waiting for is finally here. What a great feeling it is once you have received the initial check or received the wire transfer of the funds into your account. Now it's time to go out and celebrate with your loved ones! **PCT**



Stuart Aust is the principal/founder of The Aust Group. The Aust Group is a mergers and acquisitions advisory/consulting firm that specializes in guiding shareholders through the deal process and facilitating successful transactions in the pest control industry. Learn more at www.theaustgroup.com.