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Gary will be speaking on Friday, October 21 at 3PM

The M&A Sector of the Building Services Industry:

Current Status

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Recently, I was speaking with a building service contractor about the reduced growth rate of his company. He explained that the company's growth rate drop has been the result of a conscious effort to conserve cash and to not take on any start-up and capital expenditure cost. When asked why, he replied, "I just don't know what to expect, so I am simply not taking on any more risk and expense, even if it will lead to eventual profitability." This contractor may not be the only one thinking this way and given the feeling of continued uncertainty, it is understandable.

Where is the economy headed? Who knows? Are we in a recession once again? Some say we are, or are very close to one, depending on which pundit you believe. One thing is certain, I believe that as bad as things are and have been, the economy will eventually come around and that it is likely that Congress will have seen the writing on the wall about what their role is for helping to bring about stability in the economy. It *will* happen; but when? In the meantime, shareholders of building service contactors have to adapt to the situation in which they find themselves. It may mean slowing growth and conserving cash, while jettisoning accounts that are costing money instead of making money. For others, it may take other steps. One thing is for sure, this is not a time to be asleep at the switch; rather it is a time to protect the one's primary asset; *the company*, adopting whatever strategy will work. The goal is to maintain the value of the company. Maintaining value is important because, at some point, change will happen and the company's value will have taken on significance for all of the shareholders.

Merger and acquisition activity has maintained a fairly brisk rate in many industries, including the building services industry. Certainly, activity has picked up since the dark days of 2009 and early 2010. While the air is still filled with the uncertainty already mentioned, some are beginning to get used to it. So, we see 2012 as being more of the same; that is, a fairly brisk rate of M&A activity. Actually, in 2012 the uncertainty about whether or not the capital gain rated will increase in January, 2013 may provide some incentive for shareholders to move now instead of waiting. As mentioned in previous *Stay Tuned* issues, strategic buyers seem to still be holding back a bit. Maybe those previously inclined to acquire are like the contractor that has slowed growth rate to reduce risk and to conserve cash. However, the investor groups that are active are making up for transactions not being done by strategic groups. Of course, there are strategic buyers that are still doing acquisitions, often below the radar, especially for smaller transactions.

In each *Stay Tuned* issue that is written, *valuation* is always touched upon in some way. This issue is no exception because valuation of one's business is so important. The value of one's company provides for retirement, chasing dreams or *leap-frogging* into another business venture. It is not unusual for entrepreneurs to have several business careers during their lifetime. In a recent BSCAI *Smart Brief* issue, a **New York Times** article (September 19, 2011), *The Truth About What Your Business Is Worth*, by **Barbara Taylor**, was featured. In the article, the author discussed that often businesses fall short of the value anticipated by the shareholders and what the value reality is in the marketplace. The author refers to this as the *"value gap*." I have not used this term before, but it is quite descriptive. While the author is likely correct in some cases, the enlightened seller does not have to be a victim of the "*value gap!"* However, not being a victim, requires effort. That effort involves being aware of marketplace M&A activity, knowing the features for which qualified buyers are searching and, in effect, shaping the company to the model that buyers perceive as being valuable. Our suggestion is to do this with an organized and consistent approach, self-valuating one's company frequently and trying to look at the company from a buyer's perspective. Another consideration is to have a market valuation done by a qualified professional every few years. Valuation requires more effort than simply listening to industry gossip about transactions that have occurred, which are often exaggerated as the story goes from one person to another. The phrase; "don't believe everything you *hear*," is probably good advice. If you have relied on this industry gossip to form the basis of your valuation knowledge, I will add another phrase; "don't believe everything you *think*!" Remember: value is relative and the value of each company is determined by the unique features of that company. One company valuation does not apply to all companies.

Selling one's company is usually a once in a lifetime event. The time to consider this arrives gradually after years of countless 18 hour days, financial hardship, worry and risk-taking that rivals world-class gamblers in Las Vegas and Macao. Finally, after years of struggle, now having changed into relative success, the time is approaching to take the first step toward selling the company. What lies ahead are some sleepless nights and the question, *"should I, or shouldn't I?"* Some will change their minds several times during the process. Most proceed to a closing. A few will call a halt to the process, to be resumed another day. If the process is halted, the effort has not been wasted. Maybe the next time, armed with experience from the first effort, a transaction will result in which everything seems to come together as it should.

Mergers and acquisitions are here to stay, whether the economic conditions are good or as they have been since September, 2008. Many factors contribute to a successful merger or acquisition. It is not all about hard financial data. The human dynamic and the corporate cultures are just as important. In the end, it will be a combination of many factors that will determine whether a transaction will prove to be successful in the long term. One thing is for certain: for a transaction to be judged as being successful, it must be, when viewed in retrospect, have been successful for *all* parties involved. There are no *"good deals"* unless it applies to the buyer and the seller.

More about the M&A world in a few months. ***Stay Tuned***. I'll see you in Las Vegas at the *BSCAI Convention.*

STAY TUNED!

Gary