Stay Tuned
The M&A Sector of the Building Services Industry:

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STAY TUNED – A Periodic Update Of The Building Services Industry's M&A Sector

The current M&A climate for activity is very much like it has been since the last half of 2011: active, but not necessarily on fire. The transactions that are being completed seem to be working out well for both the buyer and seller. The usual price components of cash, promissory note and earn out, seem to be in line with past transactions of 65% cash and the balance being in either earn out and/or subordinated promissory note. Of course, as usual, each transaction is unique in price rationale and price components.

BUYER PREFERENCE

Prospective buyers, whether investor or strategic, prefer certain market areas over others, sometimes being dictated by whether or not there is strong union activity. This is not always the case, but it can be a factor. The favored market areas now appear to be the mid-Atlantic, mid-west, south-east and south-central. Buyers also have preference about the market sectors in which a company is engaged. It is no secret that companies that are engaged in the education, high tech, medical and industrial sectors seem to be favored. Market penetration and better customer retention are among the reasons cited for this preference. That, of course, does not mean that the often maligned commercial, multi-tenant office sector does not have a place on the ladder of preferences among some buyers, because it does.

THE ECONOMY

I guess that many are becoming used to the current economy and its influence on business. While there is certainly uncertainty, many have adapted to operating well within that environment. This is especially true for the building services industry that has shown remarkable ability to adapt through being creative, innovative and having dedicated and competent management.

Qualified prospective buyers are ready to go! We, as I am sure others do too, receive many inquiries from buyers seeking good companies to acquire. We have learned that not all buyers are equal, so we have to do our homework to find the ones that are serious, qualified and that have realistic and reasonable expectations. Many of the prospective buyers now are investor buyers; some are strategic buyers. I think that the disparity between investor buyers and strategic buyers is probably due to strategic buyers still being very cautious and are guarding their cash. The strategic buyers that are active now are usually seeking smaller companies that are $10 M, or less in revenue. Investor buyers are usually seeking companies with at least $1.5 M or greater in adjusted ebitda.

There appears to be some seller reluctance at the moment. Maybe this is due to some poor performance and their anticipation of what the price and structure for their company will be. If that is the reason, they should not make any assumptions about price and structure until it has been thoroughly investigated by persons qualified to assist in determining market valuation. *Hearsay* is not a basis to provide a true market valuation for a company! One thing is for certain: if selling a company anytime in the near future is an option, 2012 may be the optimal time to do it because of the tax law changes coming in 2013, regardless of which political party wins Congress and/or the White House. More will be discussed about this later.

VALUATIONS / TRANSACTION STRUCTURES

Overall, market valuations have held the line; however, buyers are being more critical in their analysis, wanting to bet on "*sure things*." While true that each transaction is unique, it has become evident that in keeping with the "sure thing" approach, buyers seem to be structuring their offers with less cash and more risk sharing with the seller, whether in earn out form, seller retained equity, or seller financing. As usual, the ultimate success of a transaction requires the buyer and the seller to share in that common goal by working together.

2012:
THE YEAR TO SELL IF SELLING *IF* PLANNED DURING THE NEXT SEVERAL YEARS

As the cliché goes; "*it is not the price, it is how much of the price that one keeps.*" Many know that the long-term capital gain rate is due to increase from 15% to 20%, beginning January 1, 2013, if Congress does not act. Some may not realize that there could (subject to the Supreme Court's ruling about whether or not the healthcare legislation of 2010 is constitutional) be an additional 3.8% Medicare Tax on most investment income, including capital gains. So, it is quite possible that the combined tax increase beginning in 2013 will be 8.8%, bringing the total to 23.8%! That is a significant tax increase, reducing the net proceeds to shareholders. Do the math and you may agree that 2012 is the year to sell. It takes time to sell a business. As of May 1, 2012, only eight months remain in 2012 to complete a transaction. Usually, that is adequate time, but it does not leave much time to spare.

ACTIVITY AT GPA

We at GPA remain relatively active, working toward several closings and having completed one closing so far in 2012. Two are scheduled for closing by the end of the second quarter. Over the years we have developed a strong professional relationship with a host of qualified buyers that have purchased companies that we have represented. In most cases we represent sellers. We represent buyers too occasionally, but we never represent a buyer and a seller in the same transaction. Currently, we have been approached by both strategic and investor groups in search for good companies engaged in providing services to all market sectors in most market areas. Specifically, there is opportunity for sellers that are located in the mid-Atlantic, south-east, south-central and mid-west market areas.

A PERSONAL TRIBUTE

Many of you may know Bill Garlough and the fine work that he has done over the years as a M&A intermediary, having exclusive focus in the building services industry. While I have no specific numbers, Bill has been involved with many successful transactions over the years.

Bill and I are friends and have been for many years despite our competing in the M&A marketplace. I have learned from Bill's wisdom and have always admired his gentle approach to the M&A world.

Bill is soft spoken and recognized by many at BSCAI Conventions by his uniform of a light blue blazer that he claims brings him luck. You may not know that at one time, Bill wore the uniform of a *US Marine* and was among those heroes at the *Battle of Okinawa*, a decisive battle that led to the end of *World War II.*

Bill recently retired, but still makes himself available for discussions about the M&A world. Thank you, Bill, for your friendship and your contribution to the building services industry. Please join me in wishing Bill and his wife, Charlotte, a very happy and healthful retirement.

CONCLUSION

Please feel free to comment or questions anything that is included in this issue of *Stay Tuned.* I appreciate receiving those comments or questions and will respond. If you have questions about your own interest in either buying a company or selling a company, please contact me directly. You can be assured of complete confidentiality. I'll look forward to seeing many of you at the BSCAI Executive Seminar in Scottsdale, AZ in May. Please contact me in advance if you would like to meet with me for a few minutes while there.

STAY TUNED!

Gary