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MIDDLE MARKET MERGERS AND ACQUISITIONS CONSULTING FIRMS

EDITION

BUSINESS OWNER'S IDEAL PARTNER FOR OWNER THAT FIND THEMSELVES IN "NO MAN'S LAND"

VELD MERGERS & ACQUISITIONS

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COVER STORY

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BUSINESS OWNER'S IDEAL PARTNER FOR OWNER THAT FIND THEMSELVES IN "NO MAN'S LAND"

By Jeff Rodriguez

The approach to selling businesses with $1-5 ml in profitability differs dramatically from larger firms in the Lower Middle Market that undoubtedly have over $3 ml in EBITDA and those smaller owner-operated Main Street firms with less than $1 ml in earnings to a working owner. The valuation calculations, preparation steps, go-to-market tactics, potential buyer pool and ultimately the exit options and tax mitigation strategies for companies in this 'No Man's Land' do not neatly fall into the realm of the vast majority of practitioners. These companies are too small financially or structurally unsophisticated for Investment Bankers to have an interest in but too large and complex for Business Brokers to have the adequate skill set or experience to take on. This is where Veld Mergers & Acquisitions comes in. No Man's Land is the sandbox they specialize in.

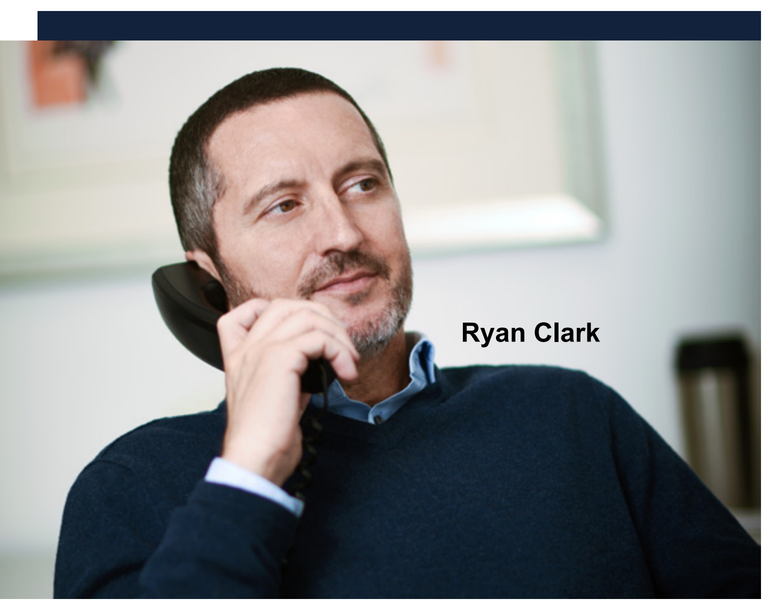
Like many others, Veld Mergers & Acquisitions originally focused on working with those larger, sexier companies that all intermediaries covet. These are the ones with audited financials, few customer or vendor concentration issues, several layers of management, in-house counsel and as a result, a vast buyer pool that will compete to pay

market premiums. The team then tackled the main street marketplace where operators rarely had clean financials, the companies tended to be reliant on the founder or a few key employees, the business models lack recurring revenue or are not as readily scalable, and customer or vendor concentration issues are common. The companies also have a large but very different buyer pool with their characteristics (e.g. they are owner-operators, likely to rely on SBA or conventional financing for capital, are seldom accustomed to financial reports and typical due diligence measures, etc.). Through mastering both of these distinctly different market segments, Veld recognized why few intermediaries desire to concentrate their efforts in the challenging "in-between" market segment. Because companies with $1-5 ml in earnings that find themselves in No Man's Land are often relegated to working with companies they are either too large or too small for they often face unnecessarily low valuations and experience dismal success rates when they go to market.

There is no shortage of reasons why these companies struggle in the marketplace. Confusion may arise from the very first meeting with an intermediary or discussion with a potential buyer as each is likely to wish to apply different definitions of earnings that they hope to apply market valuation and performance metrics to.

Valuation Expertise

When Business Brokers sell companies with less than $1 ml in profits, they apply the general rule of thumb of market multiples to arrive at value estimates. Certified valuations or any in-depth analyses by valuation specialists are rarely performed. Seller's Discretionary Earnings (profits, wages, owner perks, benefits, non-recurring expense, plus non-cash items), which are often determined on a cash accounting basis, are used as a proxy for



earnings and valuation drivers. The companies are evaluated under the assumption that the seller will leave the company.

Investment Bankers working with larger clients are also not business valuators, but they are significantly more familiar with valuation principles and the marketplace. When going to market, companies that they work with are likely to already have audited financials, certified valuations and even quality of earnings reports. They will possess GAAP-based financials that are prepared on an accrual accounting basis, and reflect EBIT or EBITDA (earnings before interest, tax, depreciation and amortization) as the preferred earnings metric. As these companies are analyzed and their performance is evaluated on an investment basis, unlike in the main street market, a fair market value salary and benefits package remains in the expense structure. It is also often assumed that executive leadership will remain aboard.

> **The best way to predict your future is to create it**
> Abraham Lincoln

Due to the significant role accurately determining a company's value plays in its success rate when going to market or determining its transition options, Veld Mergers & Acquisitions attributes also being a valuation firm to a large portion of its success. "Without setting realistic expectations at the outset, owners are often set up to fail from the beginning. They rush to market under a false premise but if they simply had better information, they could take the often-small measures necessary to obtain the exit they desire," cites Michael Wildeveld. Possessing valuation expertise not only enables them to articulate a company's current value, but also allows them to identify the several areas in which an enterprise's valuation may be bolstered, determine the value of synergies with strategic suitors (and thus, how much of a premium they may be willing to pay in an acquisition), and more. Michael goes on to say that only a truly informed seller can control their sale, otherwise, they lack the necessary information to make critical decisions or understand their options.

Exit Planning

In addition to combining their experience in selling both larger and smaller companies, as well as their valuation expertise, to cater to those owners that find themselves in No Man's Land, Veld Mergers & Acquisitions wholehearted embrace Exit Planning. This may sound counterintuitive since exit planning initiatives typically delay a sale, or worse from an intermediary's standpoint, present owners superior alternates to a third-party sale. Veld holds that nothing can be further from the truth. Our largest challenge in consummating transactions is not finding a sufficient buyer pool. For us, that's the easy part. The challenge lies in managing a seller's expectations and their inherent fears that they are not entering into the most favorable transaction with the most attractive terms or that they are leaving money on the table. This leads to asymmetrical views on the deal value and in turn stalled negotiations, deal fatigue and ultimately non-performance or seller's regret. Having a fully informed seller is the only way to overcome this. Michael cites, "there is a reason why we achieve the success rates that we do. We're not trying to prematurely push sellers into a transaction. Creating an environment conducive to a business sale is more like cultivating a relationship that will lead to marriage. It requires time, patience and most importantly, mutual trust. Many approach this as if it were a simple transaction. It is not. Client's companies are their babies and their staff, vendors and customers are their extended family. This isn't just business; it is quite personal".

The company strives to work with clients to go into any engagement as informed as possible. This means that Veld Mergers & Acquisitions heavily leans on its trusted network of professional services providers to fill in any of the more in-depth expertise gaps that they lack. Veld holds that another reason for low success rates is that owners rely on their incumbent trusted advisory network for advice. Though well-intentioned, a company's in-house counsel, trusted accountant, banker, wealth advisor or financial planner doesn't typically sell companies for a living. If an advisor is recommended, they may be the wrong 'fit' due to the company's size or company-specific attributes. To also overcome this, Veld creates an advisory team comprised of both a client's legacy advisors as well as the necessary additional advisors to create a comprehensive deal team. This way, no one party's experience or objectives are overly relied upon, which helps minimize false assumptions and limiting beliefs.

To this end, Veld Mergers and Acquisitions champions up to 21 transition options, some of which are unique to the firm and owners that find themselves in No Man's Land. Veld holds that while trusted advisors may be familiar with the most conventional transition options such as a third-party sale, management buyout or family succession, few advisors will have had exposure to the universe of options available. Companies in No Man's Land rarely fit into one of the two sized-based categories, so owners often require a hybrid approach and deal structure.

The Hybrid Approach

As an M&A intermediary that can leverage its expertise as a business brokerage, valuation, and exit planning firm, Veld Mergers & Acquisitions brings forth the most holistic approach possible for its clients when it comes to value assessment and enhancement measures, as well as tax mitigation strategies (in conjunction with its partner network as necessary). This not only enables clients to understand their current value but also gain insight into their company's potential value and engage in value acceleration measures to capture that increase before the transition. In parallel, those clients can also work with the firm's network of tax specialists to help ensure they can maximize any sale or other transaction-related proceeds by employing effective tax strategies to minimize capital gains taxes. Nearly every client that initially contacts Veld Mergers & Acquisitions expresses their desire to sell their company for the highest possible price with the least amount of liability. Typically, that client will rely on those sale proceeds to fund their retirement. The challenge is that they haven't thoroughly assessed their needs, and don't

understand the gap that typically exists between their company's current value and the valuation necessary to achieve their goals. Even if they have consulted with the legacy service providers that assist them in these critical areas, those professionals are rarely aware of the value enhancement strategies and innovative transition options available to them. Perhaps more alarming, they haven't fully contemplated what their post-transition life will look like or evaluated whether or not it will ultimately provide them fulfilment or satisfaction with their transition.

Holistic Solutions

If Valuation is the first key ingredient, then having clients work with financial planners is the second key ingredient so they may assess if a resource gap exists, or a shortfall between a client company's value and the value they need to achieve in a sale to meet their retirement goals. Rather than being transactional, this is a holistic approach. When assessing valuation shortfalls, in addition to identifying value enhancement measures, identifying prospective buyer pools and evaluating transition options, the parties may find that a sale may not be in the company's best interest. In fact, more effective alternatives may prove more suitable to satisfy a client's evolving needs.

"The largest mistake clients make is to not approach us early enough in the consideration and evaluation process," shares Michael Wildeveld. Clients typically provide us with a 12-month time horizon to complete a transition. This just doesn't provide sufficient time to extract the most value out of a firm, allow them to engage in many of the less conventional transition options or deploy effective tax mitigation strategies. Veld strongly recommends that owners contact them with 2-5 years of runway to develop the most optimum solutions. Of course, they help the clients that approach them with a 1-year goal nonetheless but doing so comes with a cost. These costs include foregoing opportunities to maximize value, minimize taxes or capitalize on some of the more creative transition solutions available that may better suit a client's needs and provide the exit they genuinely desire but may not have realized is possible.

> We view ourselves as our client's partners. Our goal is to help determine and potentially maximize their company's value, explore transition options they've likely never thought possible, and finally, keep more of any sale proceeds by employing tax mitigation strategies – all so they can truly Exit On Their Terms without regret

Veld Mergers & Acquisitions strives to delve well beyond the reasons clients initially indicate that they wish to sell their business, to fully appreciate what type of solution could best meet a client's often unspoken personal priorities and underlying long-term goals. Without prompting clients to engage in a bit of soul-searching, and the advisor gaining a comprehensive understanding of what makes the client tick, they are likely setting themselves up to be dissatisfied with their exit without realizing it. Of course, most clients initially voice that traditional retirement is their objective. After engaging in over 1,000 transactions, however, Veld Mergers & Acquisitions has recognized that entrepreneurs are hard-wired to solve problems and be productive. Despite what influencers may feel is in a client's best interest, creating value tends to remain their primary source of fulfilment.

During 20 years of working with clients, Veld Mergers & Acquisitions has gained tremendous insights from prior clients that ultimately regretted several aspects of their exit. Many wish they hadn't agreed to overly restrictive non-compete agreements, entered into consulting agreements with the buyers or retained equity. Perhaps even more frustrating, sellers witness the value-bolstering initiatives buyers implement and realize they left money on the table when selling or that they could have maintained shares or played a more active role in the next iteration of their own company. Fortunately, Veld has found that if sufficient attention is dedicated to understanding what drives the client, where they derive their satisfaction from and what their value are, each key component can be taken into consideration when crafting solutions and ultimately engaging in the transition with the most suitable parties. Without such a holistic approach, one or more major aspects of any transition will be out of alignment with the seller's personal, financial, and other objectives and potentially become a source of regret.

The Nuts and Bolts of a Sale

In their experience, absent value enhancement and tax mitigation strategies, the average sale takes over 9 months from the outset. In 2021 however, Veld Mergers & Acquisitions consummated its quickest and most lengthy sale. Within 22 days, one company whose medical licenses and permits were its primary assets took precisely 48 hours from an initial consultation and representation agreement execution to the sale conclusion. A second company sold shortly thereafter after 6 years on the market. In the latter case, Veld Mergers & Acquisitions had sold the company's initial property, identified and orchestrated a 1031 Exchange to move the business to a new facility, worked with the founders to expand the business given the additional capital and facility space at their disposal, and finally, cultivated a relationship between the buyers and sellers that not only included the sale of the business but also allowed the founder to not only remain the landlord but also provided him with the opportunity to have an onsite workshop where he continues to develop industry product and service solutions that the buyers then sell via his former company's sales channels.

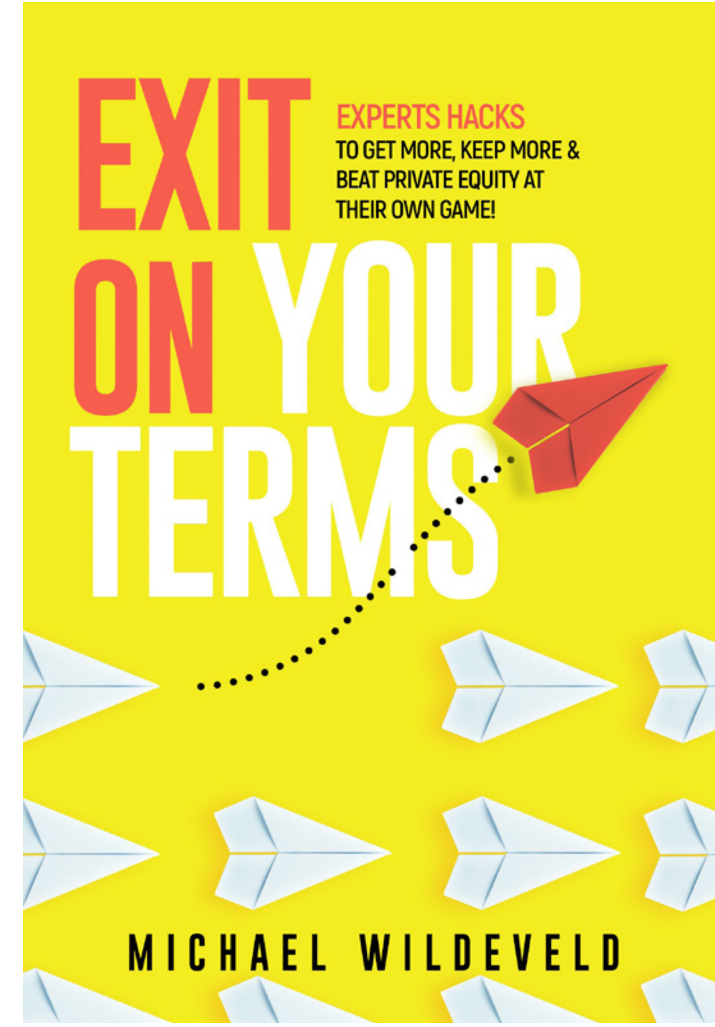
In 2022 Veld Mergers & Acquisitions sold an HVAC company that become a stand-alone division of a large publicly traded conglomerate. Rather than retiring as the owner initially intended, he was hired by the conglomerate to oversee this new line of business, recruit and train staff on a national basis, and finally, remotely advise and troubleshoot on more complex jobs. As part of the seller's employment 'package', he can work virtually from anywhere in the world he chooses provided he has mobile phone service with video capability.

Veld Mergers & Acquisitions, together with The Veld Group for smaller opportunities, completes 40 - 50 transactions per annum. As of September 2022, the company completed two transactions with less than $50k enterprise value (as a result of COVID shutdowns), sold a 1-person enterprise for nearly $1.5 ml, and consummated a $40 ml sale. The firm boasts that they prefer to work in a variety of industries, as its hybrid approach allows them to excel in challenging situations where less attractive industry dynamics exist. In 2022 they've completed sales on an international multi-unit franchisor, several manufacturers, restaurant chains, and a talent agency amongst others.

Between their main street and mergers and acquisitions practice, they have a remarkable 82% success rate when they take a client to market. Veld Mergers & Acquisitions works with clients in varying capacities throughout the U.S. and internationally and have cultivated a network of stellar professional service providers that they collaborate with on an as-needed based on the client's particular situation, exit aspirations and the industry or location-specific attributes. Professional service advisors that may be part of any particular exit team include, but are not limited to accountants, tax specialists, valuation experts, legal counsel, financial, wealth and insurance advisors, family therapists, business coaches and counsellors, estate planners and more.

Background and Work Culture

Veld Mergers & Acquisition has orchestrated over 1,000 sell-side transactions since 2003. The team attributes this to the company's unique origins, broad experience base, and the enormous amount internal support and personal grit required to shepherd all parties through a transaction. The core team members, who have been best friends since playing high school freshman football, has each contributed their unique strengths and varied professional backgrounds to create the comprehensive service offering and collaborative client ecosystem that has resulted in their remarkable productivity level.



What's Next for Veld?

Since proper exit planning is so crucial to empower business owners to get more, keep more and ultimately exit on their terms, Veld Mergers & Acquisitions has developed a multidisciplinary program to work with many clients at once through the value acceleration process at scale and at their own pace. This will allow them to bolster their company's value before any contemplated transition, collaborate with tax specialists to evaluate tax mitigations strategies, and explore the full gamut of transition options potentially available. Veld Mergers & Acquisitions is currently formalizing this unique ecosystem that they've been deploying components of for years to further enhance clients' experiences and transition outcomes.