

# Business Sale Success Stories

## Third Generation, Family-owned Life Science Business

### Situation & Goals

The Client had a 30+ year relationship with Cherry Bekaert and the current ownership/leadership of the Company relied significantly on Cherry Bekaert as a valued business advisor.

Collectively, family members owned over 90% of the equity of the business but in many cases lacked liquidity and diversification of their investment portfolio.

The CEO's goal was to provide liquidity that would allow family members to diversify their portfolio and better address overall wealth/estate planning.

### The Process

Over the course of three years (the timing of which was driven by the CEO, who was the grandson of the founders), we explored numerous strategies designed to achieve the goal of providing liquidity and diversification of the investment portfolio of the owners. These strategies included:

- ▶ Taking advantage of the fact that the business essentially had no debt, we outlined a leveraged recapitalization strategy whereby the Company would secure a manageable level of debt, and with advance approval from the bank, the proceeds would be distributed to the equity owners of the Company.
- ▶ Outlining an Employee Stock Owned ("ESOP") business strategy that would allow family members to sell a large portion of their stock to the ESOP which would in turn distribute equity ownership to non-family employees participating in the ESOP. The ESOP also provided for significant tax deferral strategies which, when combined with the ability to provide ownership to employees of the business, was very attractive.
- ▶ Exploring a sale of the majority of the equity to a financial partner (i.e. Private Equity).

### Outcome

The CEO's aversion to debt made the first two strategies outlined above not viable options. Ultimately, the family sold the business to a financial sponsor which resulted in:

- ▶ The family members reducing their ownership percentage of the Company to 5% while realizing a significant cash liquidity event
- ▶ Providing a means whereby key, non-family members of management would own 35% of the business
- ▶ The Private Equity firm would own 60% of the business

The CEO retained his position for 24 months after the sale but subsequently moved into the chairman of the board. As CEO and chairman, he provided key influence on the future direction of the business and was able to use funding from the Private Equity firm to support (i) add-on acquisitions of competitors, (ii) greater levels of R&D for new product development, and (iii) drive the overall strategy to scale the size of the business.

Throughout the process, Cherry Bekaert also advised the family members on various estate planning strategies that allowed for the tax advantaged passage of wealth to future generations and charitable organizations that supported the interests of the family.

# Business Sale Success Stories

## Specialty Laboratory Business

### Situation & Goals

Historically, the Client had only relied on income tax services from Cherry Bekaert. However, two years earlier the owners of the Laboratory were approached by their largest competitor about selling the business. Management began the process to sell the business which was abruptly and unexpectedly terminated by the competitor after several months of due diligence. Approximately one year later this same buyer returned with a new offer to purchase the Laboratory and this time the process was terminated due to the financial crisis of 2010.

The Buyer returned a third time and the owners wanted to position the business in the best possible light thereby increasing the likelihood of successfully completing a transaction.

### The Process

The Owners engaged Cherry Bekaert's deal advisory team to review terms of the previous offers and information supplied to the Buyer as part of the due diligence process. It was determined the financial information supplied in connection with the due diligence was on the cash basis of accounting, but the Buyer required an accrual/GAAP presentation.

Cherry Bekaert recast 36 months of internal, cash-basis financials to illustrate an accrual/GAAP presentation which included key healthcare related components including gross patient fees, allowances for contractual adjustments and bad debts. Cherry Bekaert also worked with ownership to develop a schedule to illustrate adjustments to EBITDA for non-recurring/non-business related expenses.

The Owners were also concerned the historical offers to purchase the business may not reflect the true market value. Cherry Bekaert completed a valuation of the business and also introduced the Owners to a long-standing Cherry Bekaert investment banking relationship. This investment bank was engaged by the Owners to affirm valuation of market comparable transactions and ultimately conducted a limited auction process designed to produce a competitive bidding environment which would allow the Owners to realize the highest possible valuation of the business.

During this process, the Owners also utilized Cherry Bekaert to develop estate planning strategies, which included selling a portion of the stock to an intentionally defective grantor trust.

### Outcome

The Company ultimately sold to its largest competitor. During the Buyers' due diligence process none of the illustrated EBITDA adjustments were disallowed even though some adjustments were considered aggressive in nature. This EBITDA presentation combined with the efforts of the investment banker to create a competitive bidding process allowed our client to:

- ▶ Realize proceeds greater than \$9 million above any previous offers
- ▶ Carve-out a significant portion of the sales proceeds from the taxable estate of the selling shareholders

# Business Sale Success Stories

## Specialty Flooring Business

### Situation & Goals

The Client enjoyed a 10+ year audit, tax and advisory relationship with Cherry Bekaert. During this time, the Client relied significantly on the expertise of Cherry Bekaert team members who served as valued business advisors to the Company. Over the years, Cherry Bekaert provided the business owner with numerous activities including:

- ▶ Assisting with restructuring of debt,
- ▶ Advising on the acquisition of other businesses, and
- ▶ Working with other advisors to the owner in development of a sophisticated estate plan.

The revenue and profitability of the Company was on a continued, positive upward trend and the owner was interested in exploring options to sell the Company in order to realize a significant liquidity event.

### The Process

Cherry Bekaert undertook a sell-side Quality of Earnings process designed to illustrate the sustainability of the positive financial performance trends while illustrating adjustments to EBITDA to recognize the impact on profitability for non-recurring and non-operational expenses.

The Company's products were sold to "big box" retailers, and one customer accounted for more than 70% of total Company revenue. It was recognized this customer concentration would create challenges in selling the business to either a strategic or financial buyer. Accordingly, Cherry Bekaert introduced the business owner to a long-standing investment banking relationship.

In conjunction with the investment banker efforts, Cherry Bekaert supported the ongoing sales process which was focused on the identification of multiple buyer candidates (both financial and strategic) that could accept the customer concentration inherent in the business.

### Outcome

After numerous management presentations to both strategic and financial buyers, the owner sold a majority interest in the business to a Private Equity fund. This fund had significant experience with other portfolio companies operating in the consumer/retail product space, many of which also had customer concentrations.

The sale allowed the owner to realize a major liquidity event, utilize various estate and gift planning strategies that had been implemented well in advance of the sale and to retain ownership in the real estate and facility used by the business. This provided for an ongoing source of future cash flow.

# Business Sale Success Stories

## Laboratory Testing Business

### Situation & Goals

A long-standing tax client was interested in exploring a possible sale of the business to a competitor. The goal was to provide a liquidity event for the two owners and allow them to successfully transition into retirement, recognizing one of the owners was battling a terminal illness.

### The Process

Cherry Bekaert worked with the owners to:

- ▶ Identify potential buyers,
- ▶ Value the business,
- ▶ Develop Confidential Information Memorandums to outline the opportunity for potential buyers,
- ▶ Illustrate the financial performance of the business and future growth potential, and
- ▶ Manage the process with potential buyers.

### Outcome

During the process, one of the owners passed away which made the goal of selling the business even more important. Ultimately, the business was sold to a competitor after undergoing a process managed by Cherry Bekaert to narrow the field of potential buyers down to three most likely suitors.

The proceeds allowed the surviving owner the liquidity needed to retire while also providing liquidity to the estate of the deceased shareholder.