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# Financial Wellness in Uncertain Times

March 3, 2022

# Presenters



**Bret Clark**  
**CPA**

GBQ Partners  
*Managing Director, Toledo*  
419.885.8338  
bclark@gbq.com



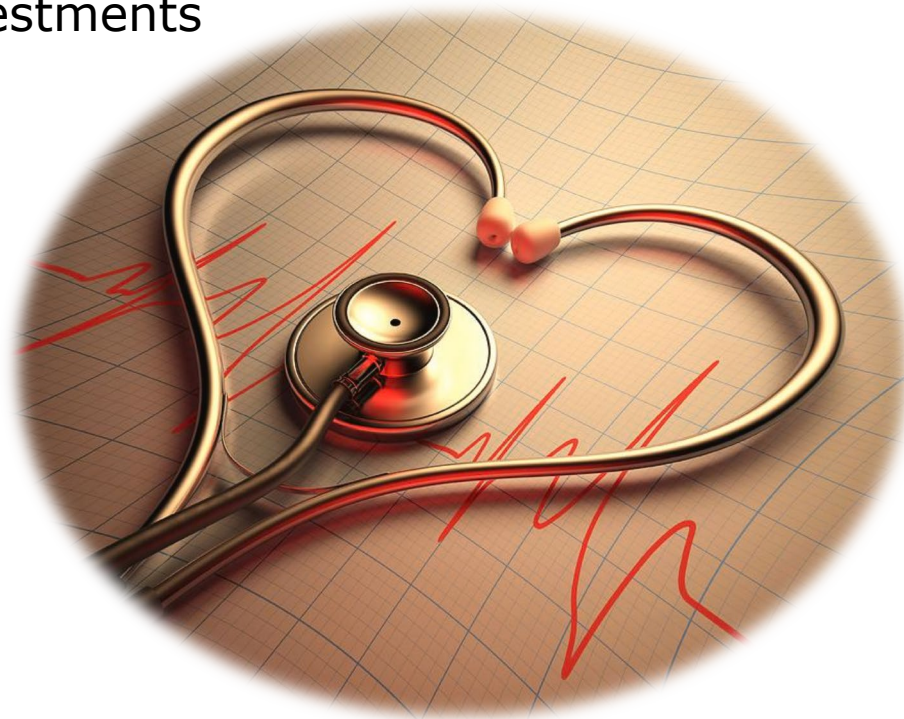
**Jeremy Bronson**  
**CPA, CVA, CMAA**

GBQ Partners  
*Director Transaction Advisory Services*  
419.885.8338  
jbronson@gbq.com

# Company Financial Health

## Strong Balance Sheet

- Cash and Liquid Assets
- Short Term Needs vs. Future Investments
- Accounts Receivable
  - Establish Terms
  - Active Collection Efforts
  - Suspension of Service
- Level of Owner's Equity
- Working Capital
  - Know the Company's Cycle
  - Invoice Timely
- Manageable Leverage
  - Fixed vs. Variable Rates
  - Debt Covenants



# Financial Statement Ratios



## Current Ratio

- Ability to meet current obligations

## Debt to Equity

- How leveraged is the business?

## Debt Service Coverage

- Can the business support the debt load?

## Cash flow from operations

- How efficient is the business generating cash?

## Debt in Accounts Receivable

- Collection Cycle

## Return on Assets

- Measure Investment

## Gross Profit

- Cost of Revenue and Rates

## EBITDA

- Profitability

# Budgeting/Forecasting

## Where Are We Going vs. Where Have We Been?

- Establish goals
- Create accountability within the Company
  - Reward for performance
  - Everyone can play a part for improvement
- Variance analysis
  - Manage by exception
- Know/understand your costs
  - Inflationary pressures
  - Labor cost increases
  - Monthly breakeven

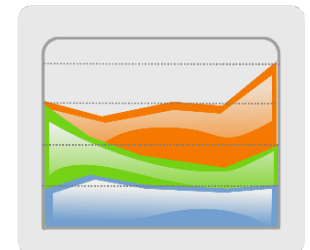
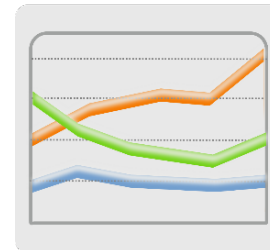
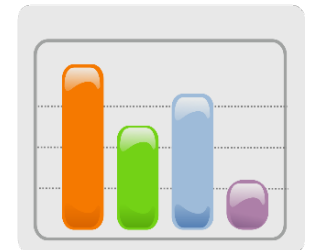
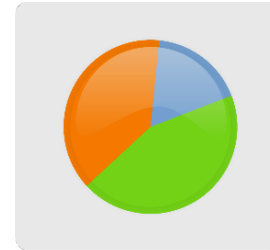




# Monthly Reporting

## Key Performance Indicators (KPI's)

- Cost per Mile
- Revenue per Mile
- On Time Deliveries
- Equipment Utilization
- Transportation Cost to Revenue
- Asset Utilization
- Safety Incidents/Violations



## Monthly financial statements and management reports

- Timely close
- Year to date and compare to prior year and budget
- Build dashboard

# Internal Controls



- Owner Involvement/Oversight
- Segregation of Duties
- Review Banking Activity
- Payroll Approval
- Corporate Culture "Tone at the Top"
- Invoice Approval
- Electronic Transactions
- Credit Cards
- Employee Expenses
- Impact of Remote Workers

# Tax Planning Considerations

## Tax Credits

### Work Opportunity Tax Credit (WOTC)

- Hiring credit for certain groups
  - Qualified Veteran
  - Assistance Recipients
  - Ex Felon
  - Vocational Rehabilitation
- Needs to be applied for early in hiring process
- Credit varies from \$2,400 to \$9,600 per employee

### Research and Development (R&D)

- New or improved product or process
- Technological in nature
- Process of experimentation
- Based on wages, cost of supplies, third party vendors





# Tax Planning Considerations

## Employee Retention Credit

- The Employee Retention Credit is a federal payroll tax credit.
- For 2020, the refundable tax credit is 50% of qualified wages up to \$10,000 for the year. For 2020, the maximum credit is 5,000 per employee for the year.
- For 2021, the refundable tax credit is 70% of qualified wages up to \$10,000 *per quarter*. For 2021, the maximum credit is \$7,000 per employee *per quarter* (so \$28,000 total for all quarters).
- For 2020, for businesses with 100 or fewer full-time employees, qualified wages include wages and health plan expenses paid to ***all*** employees, whether they provided services or not. For 2021, the 100-person threshold was increased to 500 or fewer full-time employees.



# Tax Planning Considerations

## Employee Retention Credit (Cont.)

### Who qualifies?

Employers in the private-sector and tax-exempt organization that carry on a trade or business, and either:

- Have operations that were fully or partially suspended due to orders from an appropriate governmental authority limiting commerce, travel or group meeting (for commercial, social, religious, or other purpose) due to COVID-19: **OR**
- Experienced a significant decline in gross receipts during the calendar quarter. A significant decline means gross receipts for a calendar quarter in 2020 are less than 50% of gross receipts for the same calendar quarter in 2019. For 2021, a significant decline means gross receipts for a calendar quarter in 2021 are less than 80% of gross receipts for the same calendar quarter in 2019.

# Tax Planning



## Section 179

- \$1,080,000 limit for 2022
- Phase out \$2,700,000

## Bonus Depreciation

- 2022 100%
- 2023 80%, decrease 20% per year through 2027

## Qualified Improvement Property

- Interior improvements
- Eligible for bonus depreciation

# Accounting for Leases

The current leasing accounting model has been the same for over 30 years. In 2016, the Financial Accounting Standards Board issued new guidance for leases that will have a significant impact on the lease accounting model and will affect nearly all companies.

- This guidance was originally set to be effective for private companies for year beginning after December 15, 2019. However, this has since been deferred on two separate occasions for an additional year in each instance.
- As a result, ASC 842 – Leases is now required to be implemented by private companies for fiscal years beginning after December 15, 2021 (calendar year 2022 for most entities).
- The “end game” is to get all leases with service lengths greater than 12 months on to the balance sheet. This includes real estate as right to use assets.
- Leases 12 months or less in length are excluded from the guidance and are expensed pro-rata over the contract with no balance sheet impact.
- Operating/capital terminology replaced with operating/finance leases.
- Start taking an inventory of all company leases.



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# What You Need To Know About Maximizing The Value Of Your Company For Sale/Transfer



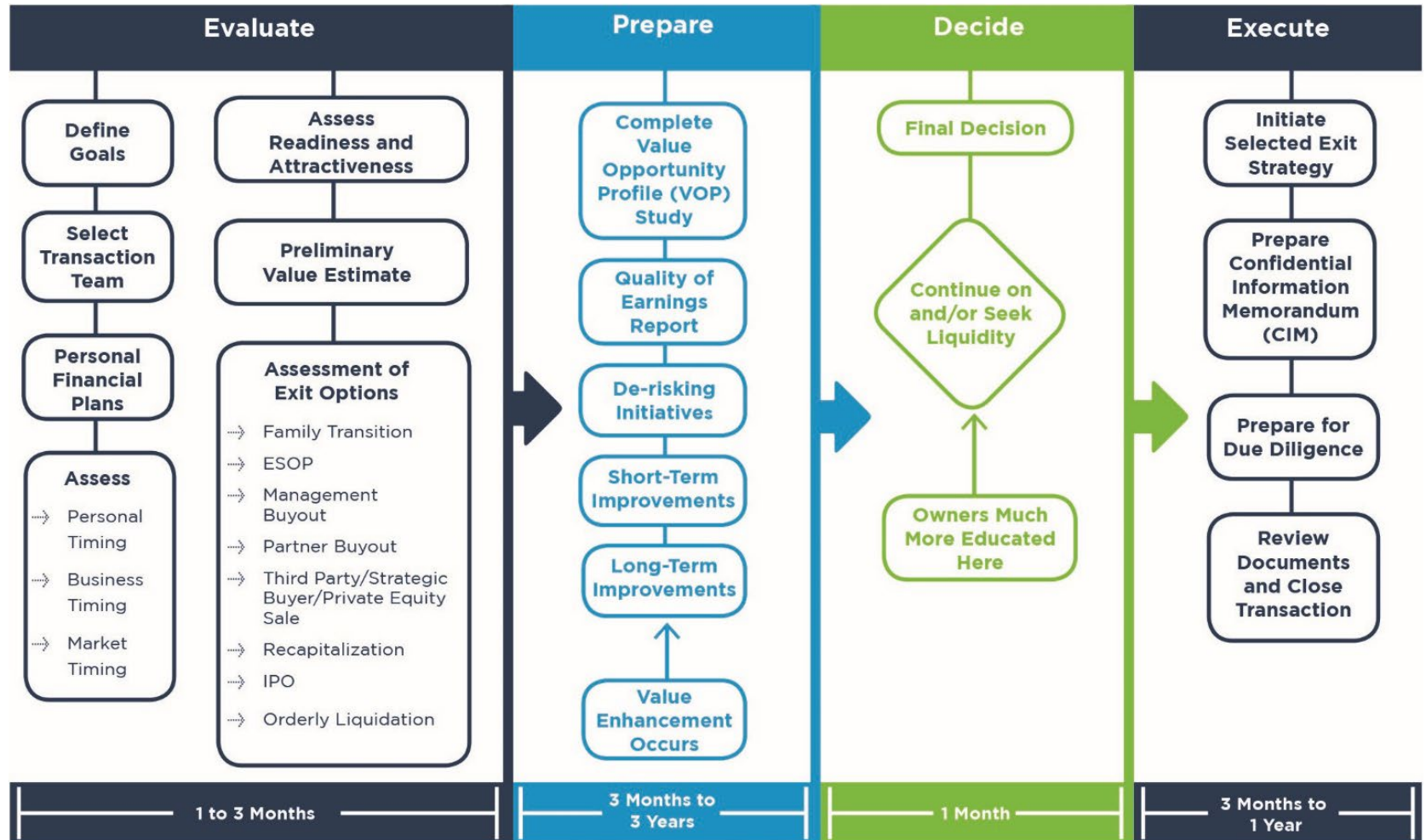
# What is Exit Planning

**Exit planning combines the plan, concept, effort and process into a clear simple strategy to build a business that is transferrable through strong human, structural, customer and social capital.**

- Exit planning is business strategy
- Build, harvest, and preserve wealth
- Identify, Protect, Build, Harvest, Manage Enterprise Value
- Simplify the process and clarify the roadmap to success
- Create and document a plan



# Exit Planning Process



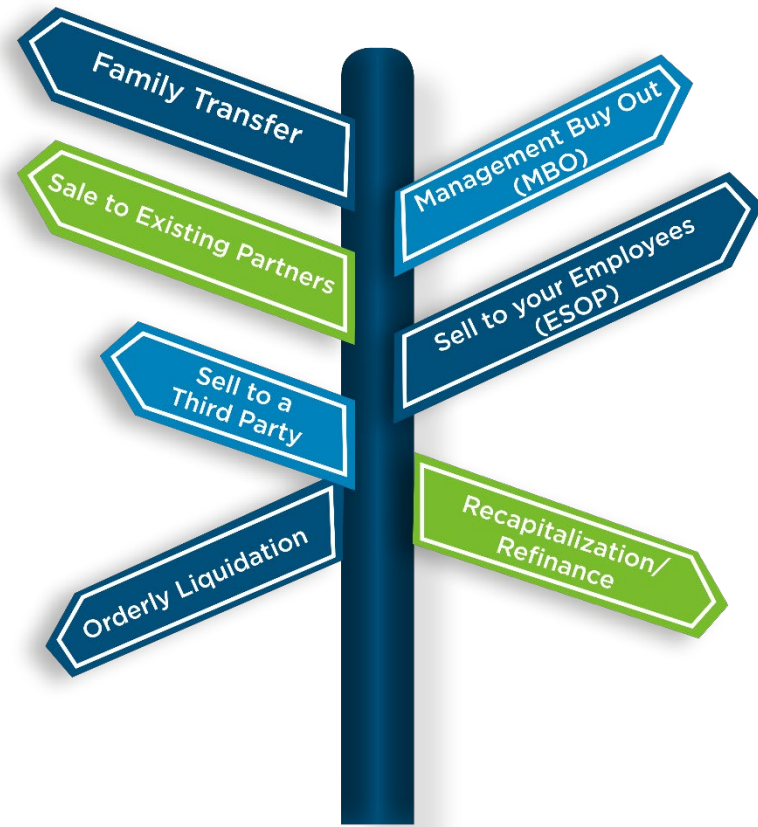
# Types of Exits

## **“Inside” transition**

- Family transfer
- Sale to employee (ESOP)
- Management buyout
- Partner buyout

## **“Outside” transition**

- Strategic buyer
- Private equity
- Family Office
- Independent sponsor
- Individual buyer
- Liquidation



# Inside Pros and Cons

| Family Transfer Pros:                                                                              | Family Transfer Cons:                                                                 | Management Pros:                                                                          | Management Cons:                                                  |
|----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| Business Legacy preservation                                                                       | Family dynamics                                                                       | Business continuity                                                                       | Distraction                                                       |
| Planned                                                                                            | Illiquid buyers / lack of funding                                                     | Highly motivated buyers (pent-up desire)                                                  | Threat of flight (coercion of owner)                              |
| Lower cost                                                                                         | Lower sale price                                                                      | Preserves key human capital                                                               | Illiquid buyers                                                   |
| More control                                                                                       | Key employee flight risk                                                              | Planned                                                                                   | Lower price and generally heavy seller financing (increases risk) |
| Less disruption                                                                                    | Tradition may outstrip good strategy                                                  | Can be combined with private equity to access additional capital and resources for growth |                                                                   |
|                                                                                                    | Path of least resistance – but not always the path to growth or success               |                                                                                           |                                                                   |
| ESOP Pros:                                                                                         | ESOP Cons:                                                                            |                                                                                           |                                                                   |
| Business stays in the “extended family”                                                            | Can be complicated and expensive                                                      |                                                                                           |                                                                   |
| Shares purchased with pre-tax dollars by the ESOP                                                  | May not work for some entities (culture)                                              |                                                                                           |                                                                   |
| Taxable gain on the shares sold to the ESOP by the owner may sometimes be deferred (1042 rollover) | Company compelled to buy-back shares from departing employees (repurchase obligation) |                                                                                           |                                                                   |
| ESOP is an employee benefit and may cause employees to act like owners                             | Generally will not maximize proceeds (Fair Market Value standard)                     |                                                                                           |                                                                   |

# Outside Pros and Cons

## Private Equity, Family Office Pros:

Higher Price (generally at or near highest of all options)

Often the ability to maximize total value and retain equity

Retention of employees and incentive to key people

Experienced and professional buyers

## Private Equity, Family Office Cons:

Generally required to remain working post close

Can create distraction or loss of focus

May cause privacy concerns by involving certain key employees

Sometimes seems complex

## Potential Advisors Pros:

Investment Banker / M&A Advisor

M&A Attorney

CPA

Financial Planner/Wealth Manager

## Potential Advisors Cons:

Spouses and family members

Lender

Estate planner

Personal friend

Insurance professionals



# What makes a business valuable?

## What makes a business attractive?

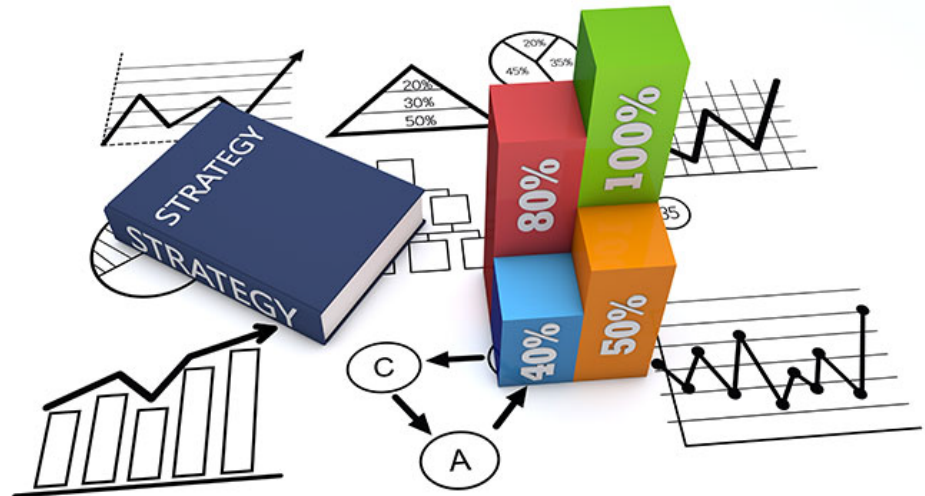
- Market factors
- Business factors
- Forecast factors
- Investor considerations

## What makes a business ready?

- Is the Owner and Business ready?
- Owner has spent time and money to define goals, have realistic expectations and develop a plan
- “House is in order”
- Advisory Team chosen

# Benchmarking

- How does your company compare to peers?
- Used to evaluate the company's current performance vs. past performance or industry norms.
- Elements
  - Size
  - Growth
  - Profitability
  - Asset Management
  - Leverage
- Use for forecasting



# Valuation

## **Income Approach**

- Based on a company's anticipated future cash flows and an investor's required rate of return

## **Market Approach**

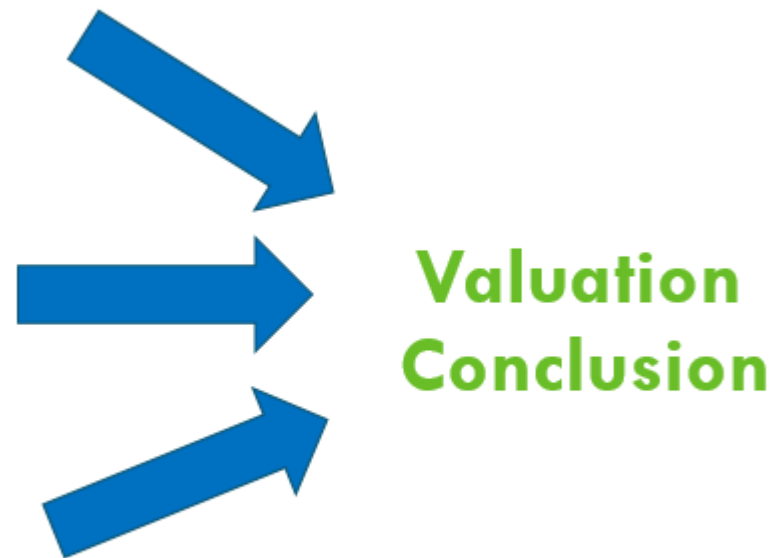
- Compare the company to publicly traded and/or privately transacted companies and apply valuation multiples

## **Asset Approach**

- What are the company's assets and liabilities worth?

## **CoreValue**

- Informal valuation, but used as starting point for discussion



# Role of Investment Bank/Broker/M&A Advisor

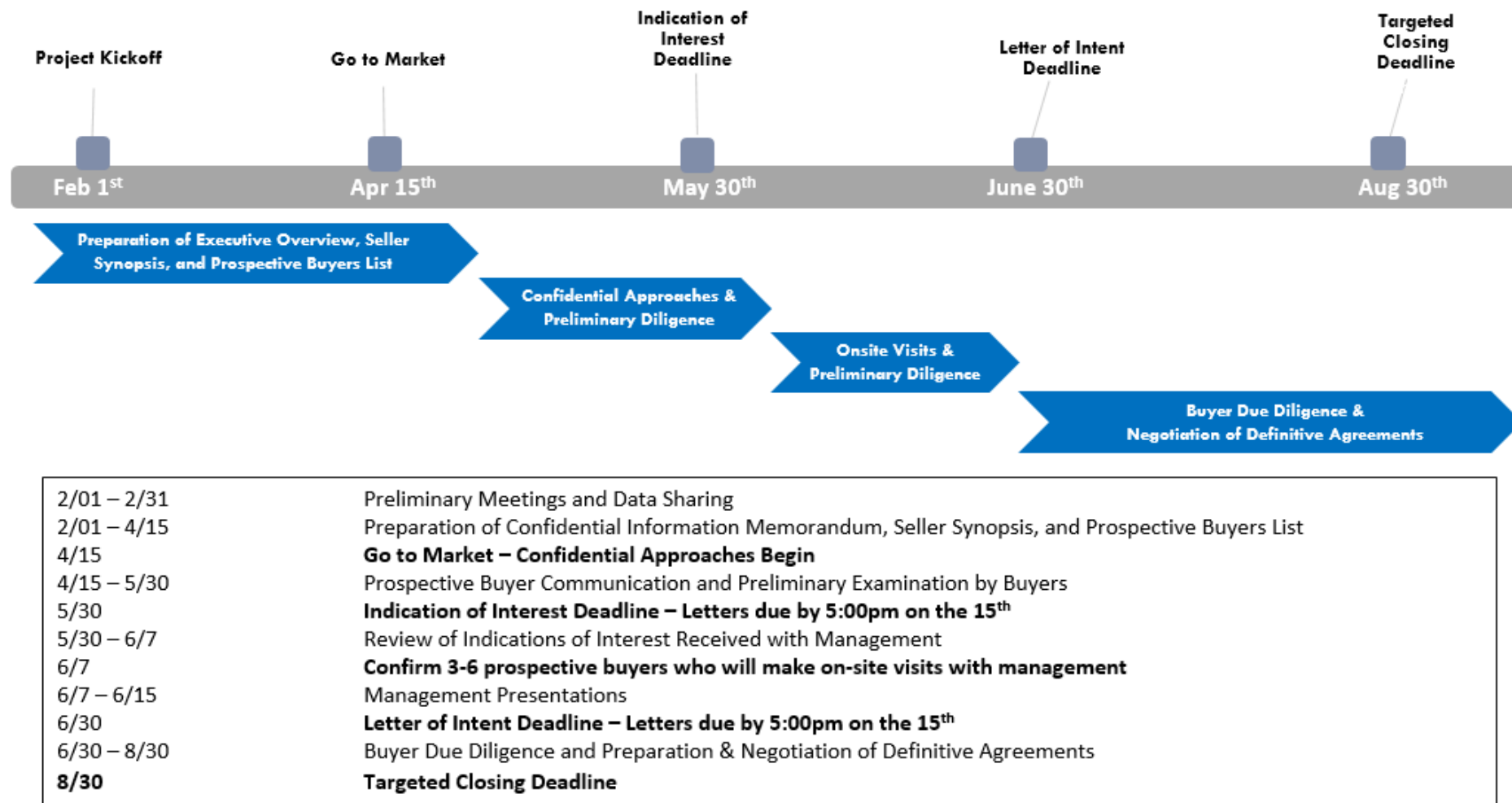
- Objectivity – market value, issues, etc.
- Confidentiality
  - Customers
  - Suppliers
  - Employees
  - Competitors
- “Bad cop” - you might work for the acquirer for a while
- Experience
- Market knowledge - terms
- Databases of potential buyers – PE, Strategies, Family offices
- Focus – you on your business, us on your exit
- Aligned interest – compensation (person that tells you the highest # isn't who you should choose)
- Coordination of other advisors
- Emotional support – stressful process

# Potential Buyers

- The role of the investment bank or M&A advisor is to develop a list of prospective acquirers and contact those parties on a confidential basis
- Certain smaller brokers may try to “advertise” companies for sale on websites, in media outlets, and through other advisors – this can be a risk to company owners
- Creating the list of prospective buyers generally includes utilizing expensive databases, obtaining industry lists, conducting research, and attending M&A events
- Most times, advisors will focus on the following (sometimes in a tiered fashion):
  - Strategics
    - Competitors
    - Suppliers
    - Distributors
    - Products with similar customer base
    - Other industry players
  - Private Equity (PE)
    - Platform – typically \$5m EBITDA minimum
    - Add-on – usually in similar business to a Platform, could be as low as \$0 EBITDA
    - Independent Sponsor
  - Family Offices



# Example Sell Slide Process & Timeline



# Other Considerations

- Preparation is important and takes time
- Price is not always the only concern
  - Timing of payment(s)
  - Terms
  - Legacy
  - Employees
  - Transition
  - Seller note
  - Roll equity
- Earn outs
- Consulting Agreements
- Non competes

# Thank you

Thank you – it was our pleasure to be here today.

**Bret Clark**

419.885.8338

bclark@gbq.com

**Jeremy Bronson**

419.885.8338

jbronson@gbq.com