

## Mergernomics

2012 Merger Guide Survey conducted online by  
Pest Management Professional (PMP) magazine in August 2012;  
165 respondents

### GROWTH OPPORTUNITIES

Can merging with a larger pest management company help an acquired business improve career opportunities and employee retention?



### BRAND POWER

Can merging with a larger pest management company help an acquired business improve marketing with the power of a bigger brand and marketing budget?



### MONEY MATTERS

"Every business is for sale. The only question is: 'For how much?'"



### MERGERS AHEAD

# 23%

say their companies could merge with larger pest management businesses within the next 15 months.

### HELPING HAND

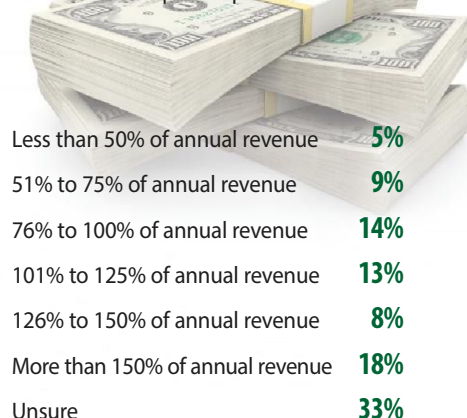
# 35%

say merging with a larger pest management provider can help an acquired business access and implement more proven policies, processes and practices.



### SALES VALUE

If your pest management company merged with another company today, what percent of your annual revenue would the sales price represent?



# Mastering the Art of the Deal

**I**t's a simple plan: Start a pest management business, build it to a healthy size, and eventually retire on the proceeds realized from selling the operation to a larger entity looking to move into your market. There's only one problem — reality doesn't always work out the way business owners plan.

Norm Cooper, a *PMP* Hall of Famer and past president of the National Pest Control Association (now named the National Pest Management Association/



**Norm Cooper**  
914-310-8857

NPMA), has represented sellers and buyers in deals where the acquired companies had annual sales of \$300,000 to more than \$10 million, and were located across the country — from New England to California. Purchasers have included the three largest pest management companies — Terminix, Orkin and JC Ehrlich, now a part of Rentokil — and investor groups and medium and small pest management firms.

In other words, Cooper knows a little something about the reality of the merger business.

President of Rye, N.Y.-based Norman Cooper Associates (914-310-8857, [norman@normancooperassociates.com](mailto:norman@normancooperassociates.com)), a merger-and-acquisition consultancy, Cooper has helped orchestrate more than 50 pest management mergers. *Pest Management Professional* (PMP) interviewed Cooper to gain insight on “Mastering the Art of the Deal” — how buyers and sellers, and their employees and customers, can walk down the aisle, hand-in-hand, and live happily ever after.

***Pest Management Professional (PMP):* Mr. Merger, can you please share a few general tips on successfully selling a pest management business?**

**Norm Cooper (NC):** Start preparing your company for sale today, so that in the event of an emergency,

Merger expert Norm Cooper shares nuggets of wisdom on successfully selling and merging a pest management business.

**Interviewed by Dan Jacobs**  
Contributor

professional and/or personal issues do not force a “fire sale.” Just as you would clean and touch up a car or home to make it more sellable, you should ready your business to be presented in the best possible light.

**Specifically, build business value by focusing on recurring accounts, profitability, revenue growth, pricing margins and minimizing long-term obligations.**

***PMP:* What are a few of the general terms and intricacies usually involved in a deal?**

**NC:** Terms — confidentiality agreement, letter of intent, and due diligence (the buyer's accountants verify the financial statements and financial health of the business. Lawyers should verify employment and that customer contracts are in order, and that there are no lawsuits or liabilities pending).

**An Asset Purchase Agreement should clarify earn-out terms, employment agreements and non-compete clauses, when applicable.**

Buyers and sellers should familiarize themselves with contingencies — tax consequences, percent of allocation of purchase price toward good will, depreciable assets, non-compete and employment agreements, down payment, and guaranteed payments vs. contingent payments based on revenue and/or profits.

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# Meet the Terminix Team



**From left to right: Larry Pruitt, vice president of operations; Chuck Fallon, president; Fred Murray, senior director of business development and Ted Schulz, chief financial officer**

If you're considering selling your business, it's a good idea to talk to the leader. Headquartered in Memphis, Tenn., Terminix services approximately 3 million customers in 47 states and 14 countries. Chuck Fallon, president of Terminix, is personally committed to making the experience of selling your business a great one.



"We understand choosing to sell is one of the biggest decisions a company owner can make," said Fallon. "Terminix has the experience and the expertise to make the transition as smooth as possible."

—Chuck Fallon, Terminix President

Terminix is interested in speaking to companies of all sizes and geographies to discuss strategic opportunities and is especially interested in regional partners.

# **TERMINIX**

## It's A Hard Decision. Terminix Made It Easy.



"The decision to sell Antimite was not easy; however, Terminix worked with us to alleviate our many concerns. Everyone on the Terminix team worked diligently to guide us through the transaction. I don't think in my 40 years of business I have had the pleasure of working with a better group of individuals. Terminix gave us every consideration and has stuck by the promises made."

"They understood the importance of our brand name and today continue to operate under the Antimite name. Terminix has shown sincere interest and an all-around great attitude toward me and my employees. Since the acquisition, my relationship with Terminix has grown, and I am very pleased with our decision."

—Lee D. Blevins, Antimite



"Obviously, making the decision to sell was difficult, but the real challenge proved to be finding a purchaser we could trust—one who would treat us fairly, continue to give my customers the excellent service they deserved, and offer my employees opportunities to succeed and progress. At the advice of a colleague who had sold his company to Terminix, I contacted Fred Murray. During my first conversation with Fred, it was clear he understood my concerns and worked to resolve each one. The acquisition went much smoother than I had expected. Terminix handled the entire process in a professional, efficient, and personal manner. Without a doubt, our decision to sell to Terminix was the right one for me, my employees, and my customers."

—Shandon Cole, Servicepro Pest Control

For confidential inquiries, contact Fred Murray at 1-855-864-5685 or [fmurray@terminix.com](mailto:fmurray@terminix.com)



Leveraging optimal synergies requires joint planning and execution. Involved parties must jointly plan their merger work and work their merger plan.

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**PMP: How do you decide the value of a company?**

**NC:** That's the merger question I'm asked more than any other. Annual sales is only *one* of many factors helping determine a company's value. Would you think that a company grossing \$1 million annually and making a profit of \$150,000 is worth more than a company grossing \$850,000 annually and making \$200,000 annually?

Geographic area, pricing structure, percent of regularly recurring commercial and residential accounts, brand reputation and customer retention history, are just a few of the myriad factors contributing to a company valuation. In the final analysis the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) formula can more accurately reflect a company's true value.

At the end of the day, buyers care about what you care about: quality of service, professionalism of technicians and office staff, profitability, reputation of company, brand power and sales growth.

**PMP: Can you briefly discuss the unique challenges a family business faces in a merger? How do you make sure everyone is happy?**

**NC:** My advice is that while you own the company, separate employment vs. shareholder issues. It's okay to treat all of your children equally in terms of share ownership, but employment opportunities and salaries/compensation should be rewarded based on performance and a meritocracy. In terms of a sale, my best advice is to be open, honest and fair.

A family business is a business first and foremost. If it's not looked at and treated as such, both the family and business will suffer.

**PMP: Merging cultures can be a challenge. How can culture clashes be avoided so all involved parties can benefit the most from a merger?**

**NC:** The buyer should spend time getting to know the current culture of the operation being bought and respect how the business was run. If the buyer wants to make changes, it should diplomatically explain the rationale and try to bring the key people along by treating them with respect and honesty.

The seller should consider the purchaser's reputation and past performance in terms of how the company has treated customers and employees in other acquisitions.

Leveraging optimal synergies requires *joint* planning and execution. Involved parties must jointly plan their merger work and work their merger plan.

Goals should be set for what types and depth of sharing can be achieved and what duplicate costs can be eliminated. A smart merger also involves assessing the strengths and weaknesses of all teammates on both sides to identify how best to organize the combined companies and who best fits in which roles. The use of outside consultants and/or facilitators can help keep this integration process objective and on track.

**PMP: What does a merger "Dream Team" look like?**

**NC:** Accountants are essential in advising you of the legal strategies to reduce your tax bite. Your accountant might have provided exemplary service to you for many years, might have gotten substantial tax refunds for you and has clear knowledge of your company's financial situation. However, accountants do not know the true value of your business and should not negotiate price and details for you. Their function primarily should be advising you of the tax consequences and the wisest tax strategies to follow.

Your lawyer might have been invaluable in selling your home or getting you out of a legal jam, and could even be a trusted relative — but lawyers also do not know the true worth of your pest management business and should not negotiate price and basic terms. The lawyer's primary function should be to avoid hidden legal booby traps and to ascertain whether the pros and cons of the Asset Purchase Agreement and all other legal agreements concur with your understanding of the same instead of with the seller's understanding of the same.

An experienced consultant who specializes in buying or selling pest control companies and is in constant contact with potential purchasers, working in tandem with the accountant and lawyer should result in an optimal resolution for the seller.



**PMP:** How would you characterize the current merger market? Is it a good time or not to do deals, and why?

**NC:** It's a great time to be doing deals. The pest management market has shown itself to be recession resistant and a growth industry driven by new pest infestations.

New technologies and techniques are being viewed as commodity services (higher margins) because of regulatory and customer expectations. This has led existing players to acquire other companies and attracted financial and service companies to enter the market.

**PMP:** Are larger or smaller buyers more active?

**NC:** While there is activity from buyers of all sizes, the largest companies are the most active and are gaining market share. "The bigs" have the deepest pockets. They're in a position to offer superior terms if they feel the acquisition targets warrant it.

The sellers typically are owners of small to mid-sized pest management businesses. Sure, there have been a few big deals done the past decade, and there probably are a few more out there to be had. But the majority of the merger activity will continue to involve small to mid-sized sellers — pest management's bread-and-butter.

**PMP:** Is it currently a buyer's market or a seller's market?

**NC:** It truly is both a buyer's and seller's market. Fair prices are being paid, giving sellers successful exits while also allowing buyers to earn good returns on their investments — if they execute the mergers well.

**PMP:** How would you characterize the lending market?

**NC:** Among traditional banks, it's a bifurcated market. Banks are willing to lend to large companies for large deals because they consider these larger deals less risky and less volatile, but, so far, they have been reluctant to lend to smaller and mid-sized companies. However, there are nontraditional sources of capital now coming into the market, including private equity firms, to fill the voids that banks have left open.

**PMP:** What do buyers receive for their money? How do buyers assess whether acquisitions were worth it?

**NC:** When buyers acquire a pest management company, they are paying for customer bases that will enable them to either expand their geographical reach or consolidate routes. Some acquirers also value the access to new employees, technologies, brands and techniques, but the main driver of value typically is customer relationships — and the revenue that comes with those. Buyers usually assess the success of deals based on the returns they receive on their investments. In the great majority of deals I've been involved with, the acquirers earned solid returns on their investments.

**PMP:** What advice would you give business owners looking to sell? What about buyers?

**NC:** For sellers: Get your financial house in order. Pull your financial statements together and clean up items like excessive personal charges paid by the company. Clean up your team: Say goodbye to problem employees. And don't commit your company to new long-term obligations.

For buyers: Don't delay. The market is heating up. In this low-interest rate environment, companies have an extra incentive to redeploy cash and make strategic acquisitions.

**PMP:** How important is it to get a deal done in 2012 vs. next year?

**NC:** There are many reasons to get a deal done sooner rather than later. The Federal tax rate on capital gains stands at 15 percent because of the "Bush tax cuts," but is likely to rise on Jan. 1, 2013, unless Congress can agree on new tax rates. Additionally, the gift and estate tax exemption levels are very beneficial this year, but these exclusions are due to expire on Dec. 31, and could be substantially lower in the future.

**PMP:** What do you like most about mergers?

**NC:** I get to help sellers who are looking to retire achieve their financial objectives. I also get to help buyers who have the desire to grow their businesses. A successful deal requires work, but is well worth it for all involved. **PMP**

*You can reach Jacobs, a Cleveland-based contributor, at [jacobs3927@sbcglobal.net](mailto:jacobs3927@sbcglobal.net).*

It truly is both a buyer's and seller's market. Fair prices are being paid, giving sellers successful exits while also allowing buyers to earn good returns on their investments.



# A Tale of Two

Dan Jacobs  
*PMP Contributor*

**R**elationships begin with euphoria — you learn that special someone likes you in “that way.” You start talking to one another; get to know each other a little better. Maybe there are a few misgivings, some false starts along the way. The relationship progresses a little more. Maybe there’s some fear about taking that final step. The ultimate goal, of course, is to unite in a peaceful, mutually beneficial relationship.

No, not marriage. A business merger.

Company owners look to mergers for a variety of reasons — when they’re ready to retire, to help grow their businesses, and/or perhaps because they want to chase new opportunities. Regardless of the reasons, the process involves a choreographed courtship

2 PMPs who merged with a larger company share what led them to walk down the aisle — and how it’s working out better for all involved.

that should leave both partners — and their co-workers and clients — much happier.

For Adam and Elizabeth Smith, recently merging the Louisville, Ky., and Indianapolis branches of their Venture Pest Control company with Terminix International was a lifestyle-driven decision.

“Although the pest management industry has been very generous to my family, and we’ve had a lot of success in the field, my wife and I felt it was time for us to pursue other interests,” Adam Smith says.

“We still have ownership stakes in other pest management companies in other states; it’s a great business to be in. Having said that, this merger allowed us to also chase new dreams outside of pest control.”

For Brent Boles, president of Topeka, Kan.-based Schendel Pest Services, it primarily was a numbers-based decision.

“Schendel has grown significantly over the past 10 years; with that growth came some challenges,” Boles says. “Our health care costs increased 60 percent over two years, and many of my co-workers couldn’t afford the premiums. In addition, we wanted to continue growing, and needed capital to do it.”

Founded in 1947, Schendel Pest Services joined Terminix in early August. Merging

**Elizabeth and Adam Smith recently freed up time to pursue other interests by merging their Venture Pest Control Louisville, Ky., and Indianapolis branches with Terminix International.**



# Mergers

with a larger company offers Boles and company financial security and the ability to grow: Schendel brings nine offices, 135 employees, \$13 million in revenue and approximately 14,000 clients to the equation.

Even though the ink has yet to dry on all of the merger contracts, Boles is convinced the decision was best for all involved.

"Day One, I felt this was the right decision. And today, I feel stronger than ever that this is the right decision for my co-workers, clients, myself and my family," Boles says.

"Retaining autonomy is key," Boles adds. "I needed to know the Schendel brand, and the people who made it so successful, would be allowed to continue operating 'as is.' Terminix shared my feelings, and have offered us support and expertise — while encouraging us to keep doing what made us successful. We are a standalone brand operating as Schendel."

## Finding a perfect fit

Mergers can be appealing for a variety of reasons. But for a deal to succeed long term, both the buyer and seller need to benefit. Like a happy marriage, a successful business merger should be a case of  $1 + 1 = 3$ .

A financially sound company might have a location that appeals to a prospective buyer or a set of clients (commercial or residential) that is easier to buy than to develop from scratch. The prospective seller, in turn,

might benefit from access to the larger company's proven people, practices and systems.

Both parties must perform their due diligence.

"I didn't enter into the process half-pregnant," Boles notes. "I knew it was the right thing for me and Schendel. My advice is: Make sure you're committed to the process before walking down the aisle."

Even with all of the preparation, there can be a little trepidation.

"My biggest worry was how the employees at our branches would handle the changes," Smith says. "We had known a lot of our employees for many years; they had become really good friends. We wanted to be certain their professional and financial needs would be met, and they'd be able to adjust to a larger company's culture and policies — and that's precisely what our merger delivered."

Merger experts can help work out the details, but even so, small speed bumps should be anticipated.

"Sometimes, the process kept me up at night; when lawyers are involved, I tend to lose sleep," Boles says.

"We had some things pop up that created a little anxiety, but Terminix was committed to making the deal work for everyone," Boles adds. "Terminix really worked hand-in-hand with us to overcome any challenges. The talks were never adversarial. Both parties stayed focused on the finish line."



**Brent Boles just merged Schendel Pest Services with Terminix and is excited for all involved.**

## Making the union work

Boles remains president of Schendel and still runs the operation. He offers this piece of advice and for anyone looking to merge: "Hire a professional to help determine if it makes sense, and if so, what steps to take."

Experience helps as well — and no one raises an eyebrow when a pest management professional (PMP) enters more than one business marriage: "This wasn't the first time I sold an office," Smith says. "And I also have a number of friends who sold their pest control branches to Terminix, so I was well aware of what to expect."

"I spent so much time and energy building the company, it's only natural I initially felt a little sad knowing someone else now is responsible for the customers and employees. However, it really makes me smile, knowing the merger is in the best interest of those very same people I care so much about." **PMP**

*You can reach Jacobs, a Cleveland-based contributor, at [jacobs3927@sbcglobal.net](mailto:jacobs3927@sbcglobal.net).*



**Fred Murray,  
Senior  
Director of  
Business  
Development**



## Five Reasons You Should Consider Selling Your Business

**C**hoosing to sell your business is a difficult decision to face alone. The considerations can seem daunting at first glance.

Preparing the data, determining fair value, balancing concern for customers and employees, weighing tax consequences—there's a lot to think about.

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### Here are **five reasons** you should consider your options thoroughly:

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1. The economic downturn has reached historic levels and continues to be challenging.
2. Business loan defaults have caused tighter restrictions for loans and credit lines.
3. Operating costs are constantly rising, combined with uncertainty driven by Washington, resulting in endless worries and sleepless nights.
4. The right sale can create new career opportunities for both you and your employees.
5. You deserve a reward for years of truly hard work—and the peace of mind of knowing your customers are being treated respectfully.

Terminix is now looking for top-notch companies to join our family. With our vast experience in acquiring pest control companies, we promise a fair value and a smooth transition. We can assist with your exit plan. Let Terminix be your solution.

## Smart Tips to Get Your Business in Shape to Sell

**S**elling a business can be time-consuming and complicated; however, you can speed up and simplify the process.

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### Here are some **smart tips** to prepare your business for sale:

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- Detail revenue and customers for the past 3 years by service line (pest, termite, other) and by type (recurring versus one-time).
- Organize customer files by service line, and sort by active and inactive.
- Calculate annual retention rates of your customers for each service line.
- Verify average customer pricing by service line and frequency.
- Understand your outstanding loans or credit lines and what assets are pledged as collateral.
- Determine the customer reports that can be produced and exported from your system.
- Ensure that all taxes are current and appropriate returns filed.
- Settle any pending claims against your business.

If you're ready to sell, or if you have questions regarding the process, give Terminix a call for a private discussion. Your retirement, your business, your customers, your people—we've got you covered.

# **TERMINIX®**

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For confidential inquiries, contact Fred Murray at 1-855-864-5685 or [fmurray@terminix.com](mailto:fmurray@terminix.com)