

PestManagement

PROFESSIONAL

.....• **2014**
MERGER
GUIDE

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WE WANT TO DO WHAT'S BEST FOR OUR BUSINESS AND SO DO THEY.

Sean McCauley, McCauley Brothers Pest Control President

Ever wonder what it's like to **sell your business** to Terminix?
Just ask folks who already have.



TERMINIX®

Is it time for you to start thinking about selling?

Contact Steve Good sgood@terminix.com or Fred Murray fmurray@terminix.com
1-855-864-5685

A WORD FROM OUR SPONSOR

TERMINIX: *A partner in success*

As a leader in the industry, Terminix is committed to providing support whenever a good opportunity arises. *Pest Management Professional's (PMP)* annual M&A publication, which is beneficial for all pest management professionals (PMPs), provides a channel for Terminix to inform the industry where the company stands regarding acquisitions.

"Hopefully, for those companies considering selling, the information we provide through the merger supplement will be useful to help them make a more informed decision," says Jason Bailey, vice president of mergers and acquisitions (M&A) for ServiceMaster. "While we realize there are other competitors looking at acquisitions, disclosure of more information along the way improves the health of our industry."

PMP talked with Bailey about the state of the M&A market and Terminix's plans.

PMP: What is the state of the merger market — now and looking ahead?

Jason Bailey (JB): The market is relatively stable at the moment. Companies that are ready to merge or sell will find Terminix open to discussing opportunities. The market seems to be more competitive than in years past, so this could be an opportunistic time for those who've been contemplating a sale. Terminix and other companies are always looking for the right fit — geography, customer base, commercial vs. residential, etc.

PMP: What merger plans does the company have?

JB: Acquisitions continue to be a key part of Terminix's overall growth strategy, especially in North America. We're the largest provider of residential pest control

services, so growing our commercial business is a large focus. However, we're constantly evaluating other pest control businesses for an opportunistic deal and fit. Additionally, we're interested in large international opportunities and are flexible in terms of structures. Terminix continues to build strong relationships. More often than not, capitalizing on trusting relationships plays a significant role in M&A. Many deals are the result of relationships that are built throughout the years.

PMP: Why do mergers seem to happen in cycles?

JB: One of the primary reasons is pest and termite problems peak during certain times of year, normally in warmer months in the spring and summer. Obviously, this is a busy time for PMPs, and cash flow is important. When fall and winter arrive, activity and cash flow slow, which makes for a busy time for mergers and acquisitions.

PMP: What advantages can a PMP can expect from a merger?

JB: Seller benefits can include a paid premium for a business based on buyer efficiencies and the opportunity for career advancement if the owner stays with the buyer. There are no more headaches, or fewer headaches for the owner, depending on the sale structure, and it can be a potential exit/retirement strategy for the owner. The owner receives cash up front, as well as possible future income. For customers, there will be the same, if not improved, level of customer service. For the seller's employees, there's the likelihood of improved benefit plans, access to the latest technology and research (buyers tend to have more capital to invest in those areas), and the opportunity for advancement in a larger corporate structure.

PMP: What does the company do to maximize the success of its acquisitions?

JB: Terminix has a proven detailed integration and transition plan. Our approach continues to be expanded and improved through best practices that are identified from previous acquisitions. We've learned it's all about people. Working with owners and sellers and keeping the right focus on associates and customers drives our success.

PMP: What are the challenges to the merger process?

JB: If a company is organized and the owner is ready, there are few challenges. We've done this enough that we have a straightforward, streamlined process.

PMP: How long does it take?

JB: It depends on the structure and size of the deal. Acquisition timing can be a few weeks for smaller deals and as long as three months for more complex or larger deals. The speed of the process often depends on the seller and how quickly they can provide documentation.

PMP: If a PMP is interested in pursuing a merger with Terminix, what are the first steps?

JB: Contact the Terminix M&A department at 800-858-6937 or www.terminix.com. They also can contact me directly at jason.bailey@servicemaster.com or (901) 597-6909; Larry Pruitt, president, International Division, lpruitt@terminix.com or (901) 597-2005; or Fred Murray, senior director of M&A for Terminix International at fmurray@terminix.com or (901) 597-8804.



Jason Bailey
VP OF MERGERS
AND ACQUISITIONS
ServiceMaster

Gearing Up to Sell

You have decided to sell.
It's time to focus on what
matters most so the experience
is positive and profitable.

By John P. Corrigan, JD, MBA, CPA;
Daniel S. Gordon, CPA; and Norm Cooper

Now that you've decided to sell your pest management business in a few years, you should focus on the following time-honored steps commonly accepted as key to ensuring a successful transaction (*Entrepreneur Magazine*, May 7, 2001: "Preparing to Sell Your Business," www.entrepreneur.com/article/40302):

1. Get a business valuation.
2. Get your books in order.
3. Understand the profitability of your business.
4. Consult your financial advisor.
5. Make a good first impression.
6. Organize your legal paperwork.
7. Consider management succession.
8. Know your reason for selling.
9. Get your advisory team in place.
10. Keep your eye on the ball.

In light of the aforementioned, certain points are more important if one were trying to prioritize. Points three and 10 are the most significant drivers that will increase or decrease the ultimate sales price obtained. Prospective buyers of professional pest management companies are always looking to find the most efficient and profitable businesses, which are determined by an analysis of the revenue mix, number and type of customers, number of technicians needed to service the customers, and the cost of providing such technicians.

Illustration: ©istock.com/photomax25





A common fallacy in our industry is that only revenue matters and the value paid is based on gross revenue. Unfortunately, nothing could be further from the truth. Each pest management company stands on its own, and there's not uniformity among pest management businesses. You should do your own analysis to determine whether your business is above or below par in terms of being desirable for purchase. Undertaking an analytical approach will ensure you have a path to follow in the years leading up to the sale and that the key markers looked at by any prospective buyer result in your business being in the premium category. Consider it an exercise akin to a real-estate broker appraising your home and looking at comparable homes recently sold that are different. A value analysis forms the price zone in which your business will be placed. Will you get a better price if you fix up the garage or remodel the kitchen? It's no different for an owner of a pest management company.

Consider an opportunity to buy a local competitor on the cheap that has significant revenue, little profits and a

horrible technician/servicing cost structure with customers (no annual contracts) spread out throughout four counties in a 200-mile radius. The revenue mix is 75/25 pest management and lawn care services, respectively. If you believe buyers will pay one times revenues for a book of business and you were given an opportunity to purchase such book of business for just 25 percent of your perceived value, shouldn't you jump on the opportunity given you plan on reselling the same book of business in three years and get four times what you're paid for it now? Seems logical, right?

Compare that example with another opportunity. A smaller, local competitor is willing to sell you his business at one times revenue. This business has long-term customers under contract, is solely pest management, and has trained technicians that service customers throughout a 50-mile radius at a high profit margin.

Consider a third alternative. What if a local lawn care service provider (equal in revenue) wants to merge with you to double revenue? Consider a prospective buyer might only offer

Continued on page MG9

You should do your own analysis to determine whether your business is desirable for purchase.

TERMS OF ENGAGEMENT

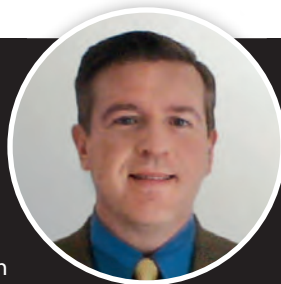
Business brokers should be clear with a potential client about preparing a written letter of engagement. The letter should clearly explain how compensation is determined and what an exclusive arrangement means for a future sale of a business to a party the business broker introduced to a prospective seller, even if the introduction was two years before and the engagement letter has been terminated. Such an engagement letter is a binding contract that should clearly explain potential conflicts of interest the broker might have from prior dealings with various buyers — and being paid by such prospective buyer for services or deals unrelated to the present transaction for which the business broker is retained.

Similar to a real estate broker, the value of an introduction of a potential buyer to a prospective seller might survive the termination of the engagement letter for a time thereafter

in which case the seller will still be responsible to pay the business broker compensation as agreed, even if the seller has retained a new business broker to handle the transaction. Failure to abide by these terms is a breach of contract: If the prospective buyer was complicit in trying to interfere with the prior business broker's contract arrangement with the seller, the buyer can be liable under a cause of action known as tortious interference.

Understand all terms and conditions that apply when engaging a business broker on your behalf, especially those terms that survive termination of the contract.

— JPC, DSG and NC



John P. Corrigan

WHY I SOLD TO TERMINIX



Brent Boles
Schendel Pest Services
President

SCHENDEL PEST SERVICES

Founded in 1947

**10 locations in Kansas, Missouri,
Oklahoma, Arkansas, Arizona and Texas**

Commercial, Industrial, Residential

Annual revenue in excess of \$12 million

Sold to Terminix August 2012

Q&A with Brent Boles

How was your experience selling to Terminix?

We looked at several strategic buyers in our market. I was most comfortable with Terminix. They truly saw the value in Schendel Pest Services. They weren't just buying revenue; they were buying our culture and our employees, and they wanted me to stay on. The Terminix team truly wanted to take advantage of some of the virtues of Schendel and help us take advantage of some of the strengths they brought to the table. There are key employees that Terminix really felt could be of value—not to just the Schendel company but on a larger scale with the Terminix company.

What were your top concerns when thinking of selling?

First, after being with the company for 20 years, my coworkers became my friends. So I wanted this change to be a positive change. For me to sell the business, I wanted my coworkers to have better opportunities. And be sure the future of Schendel is protected.

What were your top concerns when thinking of selling? (cont.)

Second, I needed to know that the last 20 years of work was going to be valued. And third, I needed to feel like I could work with and for the company that acquired us. I wanted to be a part of that transition and feel like I was respected.

Was it a smooth transition?

Far better than I could have expected. Literally, everything that I was told has happened. I was impressed by the amount of transparency and integrity—even today.

What are the key benefits so far of working with Terminix?

It definitely helps to have the ServiceMaster name behind recruiting and maintaining our employees. Individuals will tell us the reason they responded to our ad is that we're able to promote our ServiceMaster benefits.

WHY I SOLD TO TERMINIX



Sean McCauley
McCauley Brothers Pest Control
President

MCCAULEY BROTHERS PEST CONTROL
Founded in 1986

**2 locations in Pittsburg and
Rohnert Park, CA**

Commercial, Industrial, Residential

Annual revenue in excess of \$4 million

Sold to Terminix January 2013

Q&A with Sean McCauley

Why did you decide to sell your business to Terminix?

When a broker approached us about Terminix, we met with our staff and key people before we decided to move forward. It seemed like an easy, seamless transition. The biggest factor is that they'd let us be creative and still maintain our company culture. There are lots of tenured people who wanted to move forward, and this really accelerated their progress. It set a better platform for us to give our quality people opportunities in the future.

It's not really something we were thinking of doing at the time. But we did our due diligence and looked at what others were offering. Terminix was just better.

How has the relationship been so far, after the sale?

I wanted to make sure they would embrace the practices we'd put into place for so many years. They reassured me of that, and so far it's been great. They've really let us run our business. It's been a pleasure working with them.

We want to do what's best for our business, and so do they. It's a collaborative effort for all of us to decide what's the best thing to do. They're really trying to tap into the entrepreneurial spirit to improve on the Terminix business model. A lot of people have misconceptions about Terminix because they're such a big company. I truly believe that they want to foster the entrepreneurial type of business culture that small businesses like us have.

For confidential inquiries, contact Jason Bailey at 1-855-864-5685 or jason.bailey@servicemaster.com.

TERMINIX®

**Is it time for you to start
thinking about selling?**

ANSWERS TO FREQUENTLY ASKED QUESTIONS

Larry Pruitt
Terminix
President, International,
M&A and Franchise
Development



When we are evaluating a potential acquisition, we look for a good cultural fit, a strong financial profile, and a clear strategic fit. We also look for a management team that is experienced and capable of leading the business through the acquisition process. Finally, we look for a business that has a strong market position and a clear path to growth.

What factors/traits are important to Terminix when evaluating a potential acquisition?

Terminix looks for a good cultural fit, a strong financial profile, and a clear strategic fit. We also look for a management team that is experienced and capable of leading the business through the acquisition process. Finally, we look for a business that has a strong market position and a clear path to growth.

As a business owner who's considering selling, what should I expect from the Terminix acquisition process?

After a confidential meeting with a potential seller, we will conduct a thorough due diligence process. This process will involve reviewing the seller's financial records, operational data, and market position. We will also meet with the seller's management team to discuss the business and the acquisition process. Once we have completed our due diligence, we will make a decision on whether to proceed with the acquisition.

After an acquisition is complete, we will work closely with the seller to ensure a smooth transition. This will involve transferring all necessary information and resources to the new owner. We will also provide ongoing support and assistance to the seller during the transition process.

After an acquisition is complete, what helps ensure success?

After an acquisition is complete, we will work closely with the seller to ensure a smooth transition. This will involve transferring all necessary information and resources to the new owner. We will also provide ongoing support and assistance to the seller during the transition process.

What role do acquisitions play in the future of Terminix?

Acquisitions play a significant role in the future of Terminix. We believe that acquisitions are a key way to grow the company and expand our market presence. We will continue to pursue strategic acquisitions that align with our long-term goals and vision for the company.



Our goal is to negotiate transactions that are a win-win for both sides.



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to pay you three-quarter times for lawn care revenue and 1.5 times for pest control revenue. Would you be subsidizing the merger partner in terms of getting an allocation of 50 percent

of the total sales price? Could you do better if you remained a pest management business?

What if a buyer was willing to pay you 1.5 times revenue attributable to residential customers who are under annual contracts but was only willing to pay three-quarter times revenues for large governmental contracts? Would you focus your final three years on chasing such type of governmental customers, or focus on expanding your retail customer base?

Which is the best deal to pursue, knowing the exit strategy is to sell the business in a few years? The answer is determined by laying out the key markers in terms of not just being about gross revenue that a sophisticated buyer will focus on to determine a fair price for the business.

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Use diligence and vigilance to conclude a deal that maximizes your sales.

THE ACCOUNTANT'S ROLE

When you're ready to sell, your accountant should be proactively reviewing records that will be requested as part of due diligence. Failure to do this could leave you without a clear understanding about what this time-consuming task entails. For example, insurance policies and claims files for past injuries and claims should be summarized in one file so it's easy to give a prospective buyer. Other examples include formation documents, bylaws, shareholder/operating agreements, corporate minutes and resolutions — all of which should be readily accessible and maintained annually. They should provide support for significant actions taken, officer and director designations, banking transactions, personal guarantees and Uniform Commercial Code-1 (UCC-1) filings for collateral pledged.

In addition to assisting with administrative aspects, your accountant should be able to carve the income statement into various analyses that look at types and number of customers and technician costs per customer. These analytics will be what a prospective buyer will be evaluating, so time is of the essence. Making a prospective buyer wait for weeks for such information is likely to result in no deal.

— JPC, DSG and NC



Norm Cooper

THE BROKER'S ROLE

Business brokers should have specialized knowledge of the industry in which they represent clients. Accordingly, although there are many business brokers who serve the service sectors, few have a handle on the critical aspects of a professional pest management business — what factors increase value and what factors will be deemed negatives. By contrast, a business broker who only handles pest management deals will have more street smarts about the pool of prospective buyers, what they're looking for in terms of prospects, what prices they're paying and the type of deal terms (other than price) offered. Having the proper context to give a prospective seller a reasonable assessment of value based on experience and unwritten knowledge will trump any generalized approach that looks to standardized earnings before interest, taxes, depreciation, and amortization (EBITDA) / revenue multipliers. Before hiring a business broker, determine how many pest management business deals they have done or at least been involved with. Correlate it to the medical field. Who would you trust to operate on your heart, a heart surgeon or pediatrician?

— JPC, DSG and NC



Daniel S. Gordon

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To maximize your sale price, learn where you stand in the range of desirable, mediocre or undesirable targets from the buyer's perspective. Second, armed with the answers to the aforementioned analytical measuring tools, make decisions about how to improve the ratios and ensure the mix of revenue, customer dispersion, customer retention and cost of technician servicing is among the best compared to industry peers. Armed with a roadmap to success, focus on:

- improving the types of customers (residential, commercial, termite) obtained;
- the number of technicians needed to service the customers; and
- whether the service is solely pest management, or involves other services that increase revenue but not necessarily profitability.

Keep your eye on the ball

What the aforementioned examples illustrate is how you must focus on the aspects of your business strategically, knowing exactly how it will help or hurt your sales price as you near the planned exit date. Nothing should be haphazard in your approach, and you shouldn't allow the business to coast on its own — as if the same value will always be there when the time comes to sell. If anything, be more diligent to ensure you:

- retain customers (strong retention is a premium marker);
- obtain new customers (growth is a premium marker);
- supervise technicians efficiently to avoid warranty claims (a premium marker); and
- maximize route values.

If you're near retirement, you might have a tendency to relax a bit and have one foot out the door before a sale is made. But an attitude like this will result in increased labor costs, less customer satisfaction, a greater loss of customers and a declining customer and revenue base, putting you in the unenviable position of explaining your business isn't falling apart and shouldn't be valued at a fire-sale price. The perceptions of prospective buyers looking at your last three to five years of financial results will be seeing trends, and adverse ones will make them view your business in an unfavorable light. The bottom line is to use diligence and vigilance to conclude a deal that maximizes your sales price. **PMP**

The authors make up the M&A practice at PCO Bookkeepers. For more information, visit www.pcosuccessionplan.com or email info@pcobookkeepers.com.

PMP ***Merger Guide*** ***Survey***

Could slight upticks in confidence and recognition of merger benefits be the beginning of new trends in the industry?

Will Nepper • Managing Editor

Selling or merging with another pest management company is a formidable task for even the most confident, business-savvy owner. There are pitfalls, both obvious and unanticipated, and plenty of guaranteed sleepless nights for the primary decision maker.

Changes in business trends, consumer confidence and overall economic conditions always play a large role in deciding whether to sell, merge or stay as is. There's much to consider and taking shortcuts based on hunches or misplaced confidence can create unforeseen complications and financial loss. In other words, these deals are made by the daringly impulsive and the well-researched economic expert. Which do you think has a better chance at success after the contracts have been signed and the dye cast?

One way to begin unraveling the mystery of "should I or shouldn't I" is by gauging what's happening around you. What are other owners doing and thinking, and why?

For these reasons, *Pest Management Professional* (PMP) conducts an annual merger survey to help gauge where owners stand on questions concerning a merger between a business they've built, maintained, struggled with, as well as acquiring a business and integrating it with their own.



It appears that during the past year, different economic factors provide a push-and-pull effect for those contemplating a merger. There's approximately a 14-percent difference in how survey respondents have reacted to current economics compared with last year's findings, reflecting an uptick in economic confidence. That said, the bulk of respondents still overwhelmingly feel held back by the past year's general state of the economy. About 46 percent are less likely to merge based on the same criteria. Those lacking confidence in the current economic climate has gone from more than half to slightly less than half.

Changes in attitudes based on current tax laws parallel this, with slightly fewer respondents citing taxes as deterrents. That's about a four percent change compared with last year.

Despite the minor increase of confidence, there's no question the overall pest management industry remains gun shy when it comes to deciding to merge, sell or hold tight to the status quo. More than 60 percent of survey respondents say they're definitely *not* merging in the next 15 months, with only four percent responding that a decision to merge in the year ahead is "definite" (2.48 percent) or "probable."

It seems, however, that despite the perceived wariness of pest management businesses to altering their business's ownership, they recognize significant benefits — from improvements in brand and budget, to new career opportunities — such a bold move can provide. **PMP**

You can reach Nepper at wnepper@northcoastmedia.net or 216-706-3775.

2014 PMP Merger Survey

Conducted online by *Pest Management Professional (PMP)* magazine in July 2014; 127 respondents

MERGERNOMICS

Do current economic conditions make your company more or less likely to merge with a larger pest management company?

More likely:
27%

Less likely:
45%

Unsure:
28%

A TAXING QUESTION

Do current tax laws make your company more or less likely to merge with a larger pest management company?

More likely:.....**18%**

Less likely:.....**38%**

Unsure:.....**44%**



THE MERGING LANE



Do you see your company merging with a larger pest management provider in the next 15 months?

Definitely:.....**2%**

Probably:.....**2%**

Possibly:.....**35%**

Definitely not:.....**61%**

EVALUATING YOUR VALUE

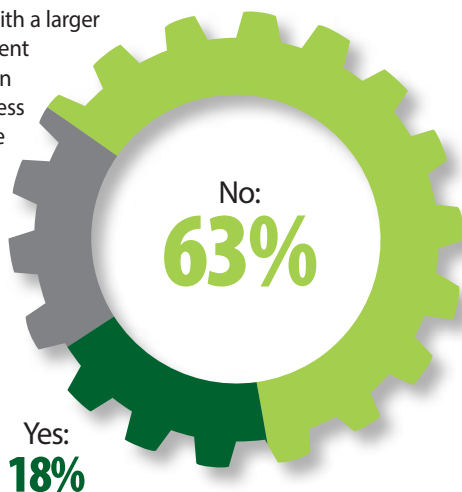
If your business merged with another company today, what multiple of your 2013 sales would the purchase price most likely represent?



HELP OR HINDER?

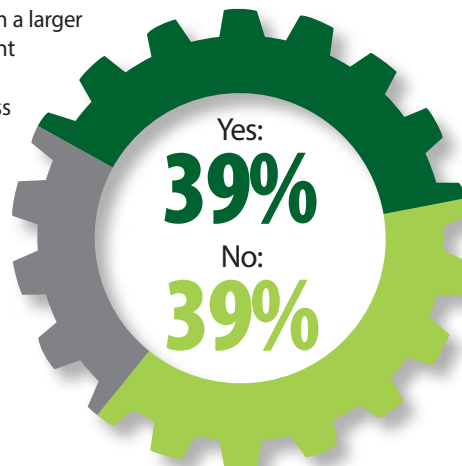
Can merging with a larger pest management provider help an acquired business improve service and customer retention?

Unsure:
19%



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

Unsure:
22%



WHAT'S YOUR PRICE?

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

True:
72%



Unsure:
3%



False:
25%



BRAND POWER



70%

believe merging with a larger pest management provider helps an acquired business improve marketing with the power of a bigger brand and budget.

**I WAS IMPRESSED
BY THE LEVEL OF TRANSPARENCY
AND INTEGRITY.
I COULDN'T HAVE EXPECTED
MORE.**

Brent Boles, Schendel Pest Services President

Ever wonder what it's like to **sell your business** to Terminix?
Just ask folks who already have.



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