

# PMP Pest Management PROFESSIONAL

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## The Arrow Exterminators Family of Brands

# *Our Merger with Arrow!*



"When I first sold my company to Arrow Exterminators in 2010 we had a strong relationship. It is even stronger today. They have followed through 100% on everything promised and their commitment to their customers and team members is unparalleled. Arrow has a very special, unique family culture and they are large enough to offer benefit packages, 401K retirement plans, professional development and training, career opportunities and advancement. I have watched many of my employees grow with the company and be promoted to leadership positions and I know I could not have made a better decision for my employees, customers, and business."

**Randy Nader,**  
*Business Development Manager*  
*Former owner of Nader's Pest Raiders*

If you are considering selling your business, you'll want to know that your team, customers and company are in the right hands.  
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# What makes an attractive target for a merger?

BY KEVIN BURNS | Chief Development Officer, Arrow Exterminators

If you're thinking about buying or selling a company, there's a good chance you've taken some time to sit down and conduct research on what is involved in the process. You've read industry articles and business journals on what makes a company attractive to a buyer.

What you've likely found in your research is that there are many "experts" in the field of mergers and acquisitions (M&A) who tend to focus on the financial aspects of a transaction and use words not typically used in the pest control industry — terms such as *leverage* and *liquidity*. So at a time when you're looking for answers, it's rather easy to end up more confused than when you started.

Through the years, we here at Arrow have developed our own list of items that makes a termite and pest control company attractive to us. Let's take a closer look at each of them:

**1 Revenue growth.** The best time to consider a sale is when your business is thriving. Very few acquirers want to buy a "fixer-upper," even if it is available at a discounted rate. Buyers are interested in revenue growth, and proving to a buyer that the company has been growing consistently is a huge step in helping you sell your business.

**2 Company culture.** Culture is very important to us — and developing an understanding of it, both through ongoing discussions with the owner and through the diligence phase, provides invaluable insight into how the company works. With a clear understanding of culture, the process of integrating new team members and merging the two companies can be well planned. This leads to success, both in the short and long term.

**3 Recurring revenue.** The relationship between a company and its customers is a huge factor to consider when looking at a company. A company that has a long history of serving repeat customers, with high retention rates, is clearly more attractive than one that is growing mainly through new sales or one-time services.

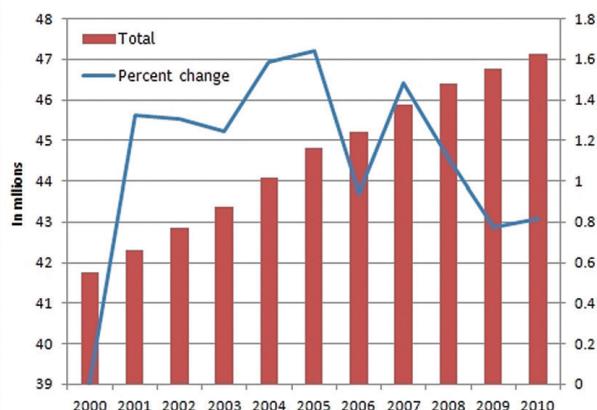
**4 Key people.** The daily activities of the owner, along with the tenure of key employees, can help a buyer become comfortable with the transition of team members and customers to the acquiring company. Running the business on a day-to-day basis — and motivating employees to help grow the company — is key to a successful transition.

**5 Geographical expansion.** There's an old saying that points out "if you want to catch fish, fish where the fish are." According to all reports, population in the southern United States continues to outpace the rest of the country.

And finally, a word on profitability. Profitability is typically a moving target, as our profit-and-loss (P&L) statements are heavily influenced by salaries, commissions and production labor. Many companies "control" their profitability by timing their expenses in such a manner to control their quarterly or annual net income, which can be misleading.

So, is profitability important? Yes, it is a factor, but finding a growing company with a family culture with high recurring revenue in a great market is very attractive to us.

**Chart 1**  
 Resident Total Population Estimates and Annual Percent Change in the Southeast, 2000-10



Source: U.S. Census Bureau's Population Estimates Program



## Let's make a deal

A merger or acquisition may be in your future if you get an offer that's too good to refuse, *PMP's* exclusive survey reveals.

By Diane Sofranec | *PMP* Managing Editor

**Y**ou may not be actively seeking a buyer for your company, but if one were to name your price, you would jump at the chance to sell, a recent survey of *Pest Management Professional* readers shows.

Survey respondents say they find truth in the statement: Every business is for sale; the only real question is for how much? The key is making a deal with a buyer that will offer a sales price that's too good to refuse, retain employees and treat them right, and provide customers the same high quality service to which they've grown accustomed.

Tax laws may hold back some pest management professionals (PMPs), however. Three-fourths of respondents say it would affect their decision to sell. A trusted attorney consulted early in the sales or merger process could explain any tax implications.

The majority of PMPs surveyed believe merging with a larger company will improve career opportunities for employees. Buyers consider knowledgeable and loyal workers valuable assets and typically retain them all when the deal is done.

Interestingly, 73 percent of those surveyed believe merging with a larger company may have an adverse effect on customers. But in many cases, the transition is seamless; the only change a customer may notice is a new company name or billing address.

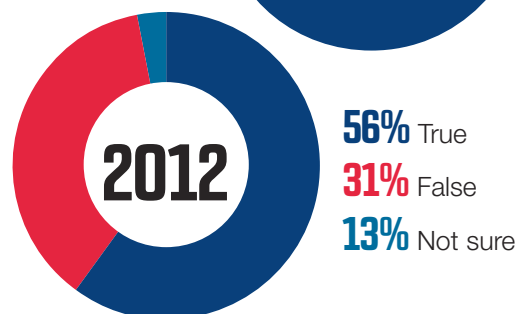
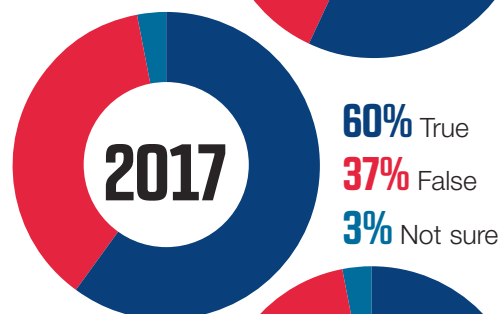
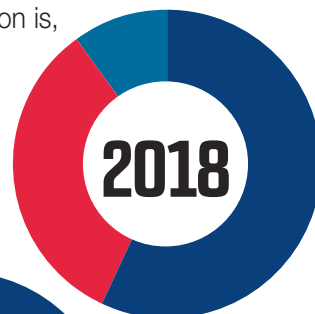
Whether you're an owner or a technician, before long you may find yourself in the midst of a merger or acquisition. The right deal could be beneficial for all involved. *PMP*

You can reach SOFRANEC at [dsfranec@northcoastmedia.net](mailto:dsfranec@northcoastmedia.net) or 216-706-3793.

### Name Your Price

Every business is for sale; the only real question is, for how much?

**57%** True  
**33%** False  
**10%** Not sure



### Tax Laws

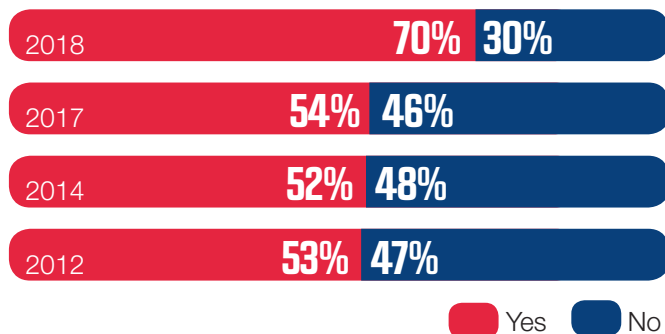
Do current tax laws, or proposed changes to tax laws, make your company more or less likely to merge with a larger pest management company?

| More likely     | Less likely     |
|-----------------|-----------------|
| 2018 <b>24%</b> | 2018 <b>76%</b> |
| 2017 <b>19%</b> | 2017 <b>81%</b> |
| 2014 <b>24%</b> | 2014 <b>76%</b> |
| 2012 <b>24%</b> | 2012 <b>76%</b> |

SOURCE: PMP MERGER SURVEY 2012, 2014, 2017, 2018

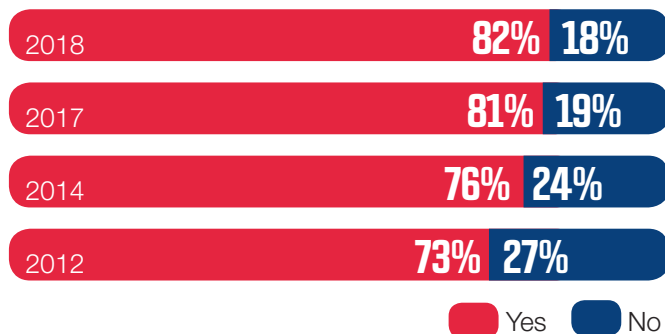
## Processes and Policies

Can merging with a larger pest management provider help an acquired business access, and implement, more proven processes and policies?



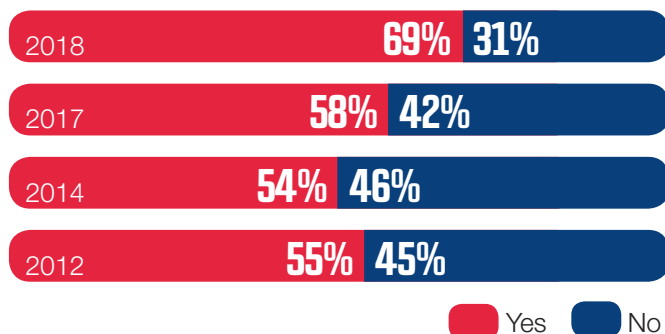
## Bigger Brand and Budget

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



## Career Opportunities and Retention

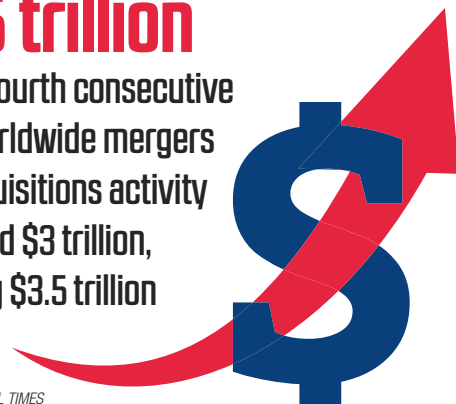
Can merging with a larger pest management provider help an acquired business improve career opportunities and employee retention?



# \$3.5 trillion

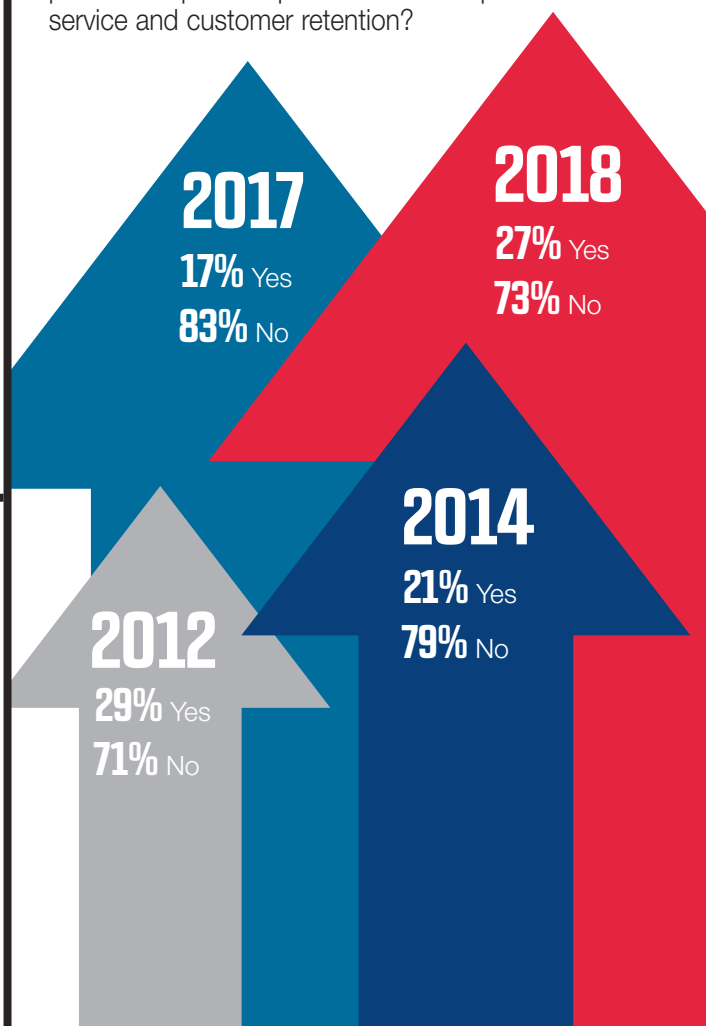
For the fourth consecutive year, worldwide mergers and acquisitions activity exceeded \$3 trillion, reaching \$3.5 trillion in 2017.

SOURCE: FINANCIAL TIMES



## Better Service

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



## How to make your company sellable

Planning ahead will make your company more attractive to prospective buyers so you can sell when you're ready.

By Diane Sofranec | PMP Managing Editor

**S**ometimes, you just know when it's time to sell your pest control company. Maybe you're burned out from spending too much time on the job. Perhaps you have health issues that need your undivided attention. Or you want to give your successors — your children or a trusted employee — the chance to finally take charge.

For Henry Moore, BCE, who in January sold his 15-year-old Georgetown, S.C.-based company, Moore's Premium Termite & Pest Control, to Arrow Exterminators, it was about spending less time inspecting for termites and more time hunting and fishing.

"I was 69, and finally realized I didn't need to make any more money," he says. "I really didn't need to work anymore. I was tired of it and ready to do something else."

### PREPARE FOR A SALE

Moore, who says he's been "stomping bugs since 1971," had been through the merger-and-acquisition (M&A) process before. In 1998, he sold the first pest control company he owned, and then helped the buyer make two other acquisitions.

So, what advice does he have for pest management professionals (PMPs) who are finally ready to put down their flashlights for good?

Set up your company so a buyer can easily take over, he advises. Buyers look for pest management businesses that have a lot of recurring revenue from residential customers with quarterly pest control and annual renewals.

Moore's Premium Termite & Pest Control offered residential customers general pest control and termite and moisture work; it accounted for 80 percent of its business. The remainder consisted of mosquito jobs and industrial and commercial pest control.

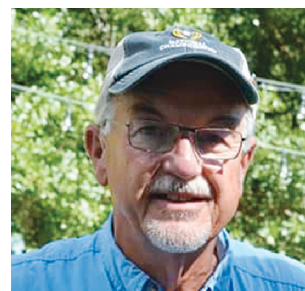
In addition, a company's employees are considered an asset during a sale, he says. Moore had one part-time and nine full-time employees, and they all stayed with the company.

"That was one of the considerations when I sold the business," he says. "I was real close to my employees and my customers. I was just as concerned with the employees and the customers as I was for what I got for the business."

This time around, Moore worked closely with the buyers for about three months after he sold his company. In his experience, however, buyers prefer owners stay on and continue to run the company.

### HIRE HELP IN ADVANCE

If you plan to sell your company so you can leave the



HENRY MOORE



pest management industry behind, hire a manager who can step up once the deal is done.

A self-described “hands-on kind of person,” Moore admits he conducted most of the Formosan termite inspections at the company, for which there were many given its southern location. “I wouldn’t let anybody else handle it,” he says.

“That’s the only thing I would do differently,” Moore continues. “Get a good manager trainee about two or three years before selling so your company is easy to pick up. All a company would have to do is buy it; the manager can continue running the operation.”

It’s also a good idea to start streamlining your business processes and getting your finances in order a couple of years before you intend to sell your company.

“If you’ve got everything on the computer in software programs, all your data is sitting there,” he says. “It makes it easier for buyers to look at, and it makes your company more valuable.”

What PMPs really need to do is set up their company so it’s sellable, Moore says emphatically. Give yourself about three years to prepare your company for prospective buyers.

“When I hit \$1 million in volume, that’s when I became very sellable,” he explains. “I knew all along how to keep setting up my business so it could be sold.”

At age 70, Moore has no medical issues, goes to the gym every day, and is taking it easy.

“I’m lucky I’m in real good health,” he says. “Everything worked out pretty good for me. I’m blessed.” PMP

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## 4 SIGNS IT'S TIME TO SELL

By Stuart and Donna Aust |  
PMP Contributors

When we started our pest control company, Bug Doctor, 27 years ago, it didn’t take long before we learned we were building a valuable asset. We were only in business a few years when prospective pest control companies began sending attractive letters of interest to purchase our company.

But it wasn’t until a close friend and colleague sold his company that we began to entertain the idea for our business. The saying “It’s all about timing” would be an understatement. If you’re wondering whether the time is right to sell your company, consider these key factors:

**1 REVENUE GROWTH.** Some think the best time to sell is when your business is on the decline. It’s actually the opposite. You want to sell when your business is *growing* and the future trajectory of this growth can be established. In our case, we were coming off three years of solid growth with an upward trajectory of total revenue. Our recurring revenue was also at an all-time high. Remember how Derek Jeter from the New York Yankees retired when he was on top of his game? That’s the way to do it.

**2 HIGH PROFITABILITY.** Investors and industry buyers want to see high levels of operating cash flow. Ensuring efficient route density in small geographic areas and appropriate pricing can translate into greater profitability.

**3 COMPETITION AND DIFFERENTIATION.** What sets your company apart? What is your competitive advantage with regards to technology, marketing, branding, and service offerings? When these are solidly in place, purchasers will be drawn to the unique edge that sets your company apart. In our case, we individually branded each division to appeal to various demographics. Also, by adding a bird division 10 years after the inception of Bug Doctor, the entire trajectory of our company changed significantly — and increased value, demographics and business opportunities. Buyers also look for a good cultural fit and strong management and field staff.

**4 MARKET CONDITIONS.** What are the multiples, or current value, of your company? It’s ideal to sell when the market conditions drive the multiples up. You may pass on an opportunity to sell, hoping the multiples rise — only to work another 10 years and end up selling for the same price, or even less. Of course, there’s no way to predict market trends. In addition to the market conditions affecting the multiples, your company’s growing revenues, profitability, and differentiation also will drive up the multiples, providing a perfect time for you to sell. PMP

### MORE ONLINE

Check out 3 more factors to consider before selling your company at [PMPestTalk.net](http://PMPestTalk.net).



STUART AND DONNA AUST

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## 10 tips to prepare for a sale

**M**any pest control business owners started their companies from the ground up. They secured a truck; some needed equipment, materials and supplies; and along the way, they built a successful business.

In the end, many pest control businesses will change hands. What can pest management professionals (PMPs) do to prepare to sell their companies and increase the value — and sales price?

### GETTING READY

You must consider many factors and take several steps before putting your business on the market. Making strategic decisions prior to selling will help you achieve the highest possible value for your company. Here are 10 tips to help you get ready:

**1 PREPARE EARLY.** Time is the friend of the seller. If you are in a hurry to sell, you will lose leverage, value and possibly control of the deal. When a business is prepared for a sale, everybody — buyers, sellers, customers and employees — wins and the process runs smoothly. A sale is all about details. You want to be able to demonstrate to any buyer that your business is well run with many best practices in place.

**2 SEPARATE FAMILY ISSUES FROM BUSINESS ISSUES.**

When it is time to sell your business, solve any outstanding family problems in advance. Identify and address hidden family issues, such as:

- “Non-productive payroll,” wherein a spouse or child is on the company’s payroll but does not really work in the business.
- “Excluded assets,” which are personal possessions some sellers keep at their companies, but will want after the sale. Buyers see all kinds of personal possessions around the office — old cars, boats, pianos, memorabilia, hunting and fishing gear, etc. — that are not intended to be part of the sale. Help the seller by making your workplace free of personal items you want to keep.
- Clean up and restructure family expense habits, such as costs related to travel, dining out, memberships, etc.



**Before buyers take a close look at your business, take steps to increase its value.** By Kemp Anderson | PMP Contributor

Doing so will help during the selling process, because it allows buyers to clearly see the financial strength of your company.

**3 ARTICULATE YOUR COMPANY’S HISTORY, CULTURE AND VISION.**

The ability to tell your story is important, and adds value to your sale. Helping the buyer understand the history of your company, the current culture and the vision will help put the buyer at ease.

- The history of your company really is important for the sale. How did you start out? Why did you start a pest control company? What milestones have you reached? How did you fund the start and growth of your company? Why are you selling? What will you do next, and why? Understanding your history will help buyers continue your business into the future. Be wary of a buyer that does not want to hear your story.

- For some people, “company culture” is a fuzzy term. Ask yourself: What are the values that drive my company? It is important for sellers to be able to articulate the culture of the company they are selling. It is equally important to the transition after the sale for the buyer to show interest in the company culture.

- What is the company vision if you don’t sell? While you clearly may be selling your company, it is typically important to most buyers that the seller stays engaged with the business all the way to the day the sale closes. To that end, the seller’s vision for the future and a history of consistent growth is important.

**4 ENSURE YOUR COMPANY HAS A TEAM IN PLACE.**

Sometimes it is difficult to remember, but you are selling your *company*, you are not selling *you*. In fact, in most sales, the seller will transition out of the business sometime in the first year after the sale. Most prospective buyers really want to see a team in place. Do you have a management team, or





at a minimum, a strong supporting cast? Do you have a supervisor, sales leader, lead administrator, renewal coordinator and other competent employees? This is important because it indicates your business does not rely on simply one person: you, the owner/seller.

**5 KEEP CONTROL OF COSTS.** For an average pest management company, the majority of its costs are in payroll, fleet, and material and supplies. As you prepare to sell, it is important to stay focused on your controllable costs, and to try to keep costs down and profits in line.

**6 KEEP STRONG FINANCIAL CONTROL.** How often do you meet with and talk to your financial leader (certified public accountant, chief financial officer, accountant or others)? It is important to have a good financial person to guide you and your business, as is having strong financial control of the business. It also is important that the seller has a good understanding of the business. Simply being able to describe your business' financial process and health is important; it will add value to the sale.

**7 UNDERSTAND YOUR CUSTOMER CONCENTRATION.** Residential? Commercial? General pest? Termite? Lawn? Other? It's important you know. Also, what is the mix of your largest customers? The answer may be an indication of risk. Depending on business location, some customer concentration may be unavoidable. If you have signed agreements that take the customer relationships into the future, however, this certainly will help ease the buyer's concerns.

**8 OFFER BUYERS A REALISTIC FORECAST.** Many buyers will value a seller's business on future cash flows and/or future earnings. Ideally, sellers should be able to demonstrate a history of revenue and profit growth. Further, sellers should consider having a realistic forecast for their business. This shows buyers they are serious; it points to the credibility of the business, the quality of the business and the focus of the seller. Your financial leader should be able to produce a forecast for a minimal expense.

**9 WORKING CAPITAL: UNDERSTAND IT, MANAGE IT AND EMBRACE IT.** In general, working capital is an indication of the health of your business. This financial metric represents the operating liquidity available to a business. Why is working capital important? If a company's current assets are less than its current liabilities, a company may have a working capital

shortfall — also called a working capital deficit — and that's not good. This probably means the company cannot pay off its short-term debts, which also is not good. If cash from operations is low, then the company may be in financial danger. This is not a desirable position to be in when considering a sale.

Positive working capital is needed for a pest control company to be able to continue its operations. You need working capital not only to be able to pay off short-term debt, but also to cover unexpected expenses, make investments, and stay in business. The typical assets included in a net working capital calculation are cash, accounts receivable, inventory, and customer pre-pays minus accounts payable.

**10 CONSIDER SEEKING PROFESSIONAL ADVICE.** Representation from seasoned advisors can provide you — and your business transaction or sale — with sizable savings and significant value. Guidance from experienced merger-and-acquisition professionals will help you build a team for your sale. Too often, sellers look at this as a pure expense. Why not look at it from the standpoint of how much more value to the transaction it can add?

This team includes, but is not limited to, CPAs or accountants, tax experts, attorneys who have conducted business sales and transactions, and other advisors to help you get ready to sell and represent you and your company through the entire selling experience. Each has a valuable role in the process of preparing to sell, and selling, your pest control business.

## PREPARATION PAYS OFF

Selling your business will take time and planning. It is time-consuming and for many, it is emotionally draining, so preparing in advance helps. While understanding the value of your business as you venture into today's hot market is critical, support from a seasoned team of professionals with acquisition experience can help you through the process. It also may be possible to receive free counseling from your local Chamber of Commerce, seminars, local workshops or internet research. PMP

**ANDERSON** is president of Kemp Anderson Consulting. He helps business owners and executive leadership navigate the divesting and merger and acquisition process, through post-integration activities, business strategy and implementation, and transaction negotiation. He can be reached at [kemp@kempanderson.com](mailto:kemp@kempanderson.com) or visit [KempAnderson.com](http://KempAnderson.com).





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# *Come Grow With Us!*

Family-owned and operated since 1964, Atlanta-based Arrow Exterminators has grown to become the 6th largest pest control company in the United States with revenues exceeding \$210 million. Now with the third generation of the Thomas family at the helm, Arrow is poised to achieve our vision of becoming the largest privately held pest and termite control company in the country. *With you, we can.*



Over 350 Arrow Team Members in Cancun, Mexico!

Whether you are ready to sell your business  
or just exploring some options, we'd love to talk.

*Call today for your confidential conversation.*

Kevin Burns | 800-281-8978 | [kburns@arrowexterminators.com](mailto:kburns@arrowexterminators.com)

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