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2020 MERGER GUIDE

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The Arrow Exterminators Family of Brands

ADVERTORIAL

Our Merger with Arrow!



"When looking for a home for our business, we were looking for a company that provides exemplary customer service and was passionate about how customers and team members are treated. We found that in Arrow Exterminators, and are very proud to now be a part of the Arrow family."

Craig & Beth Duncan
Former owners
Exterminating Unlimited

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Kevin Burns | 800-281-8978 | kburns@arrowexterminators.com

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Our team members make the difference

BY KEVIN BURNS | CHIEF DEVELOPMENT OFFICER, ARROW EXTERMINATORS

Over the past few years in sponsoring this merger and acquisition (M&A) guide, we've discussed the four steps to a successful M&A deal, what makes a company attractive to a buyer, and the importance of culture in successful companies. This year, let us shed some light on how Arrow Exterminators continuously works on our team member engagement and retention.

As background, Arrow Exterminators was founded in 1964 in Atlanta, Ga., by Starkey and Imogene Thomas, parents to our Chairman of the Board Joe Thomas — a 2009 *Pest Management Professional* Hall of Famer — and grandparents to our chief executive officer, Emily Thomas Kendrick. Fifty-six years later, Arrow has approximately 2,500 team members operating in 12 states, from Virginia south to Florida, and west to Arizona. The majority of our team members service and support our residential pest control and termite customers, with a growing number of team members supporting our commercial pest control and home services divisions.

We have created 600 new jobs over the past three years, and are on track to add an additional 800 new jobs in the next three years. To be able to fuel this growth and provide uncompromised service to our customers, however, we first need to keep each and every team member who is already with us.

A MULTITUDE OF BENEFITS

Our special culture is one that recognizes and rewards our team members, and also keeps us aligned to our vision, mission and core values. We know that by protecting the health and property of our customers, we are making a difference in our society.

Our compensation and benefits package includes a paid time-off policy; competitive salaries; medical, dental and vision plans; company-paid life insurance; long- and short-term disability; and an aggressively funded 401(k) plan. Recognition and rewards go hand-in-hand

with our total compensation package, and contribute to team member satisfaction and loyalty.

The highlight of our recognition program includes expenses-paid trips:

- **Pinnacle Club** is an incentive trip available to our service department and inside sales specialists.
- **Premier Club** recognizes members of our outside sales team and corporate staff.
- **Circle of Diamonds** is a reward for members of our management team.

We also have an annual awards ceremony in which we recognize the achievements of our team members.

Through our newsletter and monthly company videos, we celebrate promotions and birthdays. Years-of-service anniversaries are celebrated in-person on nearly a daily basis!

We also regularly hold town hall meetings, in which our team members can help management understand what is important to them and what is going on in their locations. Our team members are comfortable knowing they can speak up without fear of reprisal.

To keep an entrepreneurial atmosphere alive and well, we have a formal process in which our team members submit innovation ideas. All ideas are reviewed monthly, and ideas that are implemented are recognized and celebrated.

Last, but not least, our involvement with customers in the neighborhoods we serve is one of Arrow's Core Values. From holiday parades to fund raisers and sports activities, we support many of our local communities.

As you can see, we work tirelessly to provide our team members with great benefits and a workplace that is fun and engaging, one that recognizes and rewards accomplishments. How we treat our team members is part of our culture, and is key to our success.



Kevin Burns

2020 MERGER GUIDE

Sales prevail

It seems there's no stopping mergers and acquisitions, particularly when the price is right

By Diane Sofranec | PMP Senior Editor

When is a good time to consider selling your company, or acquiring another? Anytime, apparently.

Pest control companies are still being bought and sold, despite a global coronavirus pandemic. Companies that want to grow and expand their reach continue to make deals and acquire companies.

Pest Management Professional's (PMP's) 2020 Merger Guide survey explored pest management professionals' (PMPs') willingness to sell by asking, "Every business is for sale; the only real question is, for how much?" Nearly a third of respondents this year believe this statement to be true. Eight years ago, a little more than half felt that way, however.

PMPs who have been with companies that were bought or sold offer advice based on their experiences, because eventually, you may find yourself in the same situation.

Maintain contact with current customers, and gain their trust by making sure service is consistent, says Gavin Gallifant, owner of National Environmental Solutions in Peoria, Ariz., and a PMP who has been through the merger process.

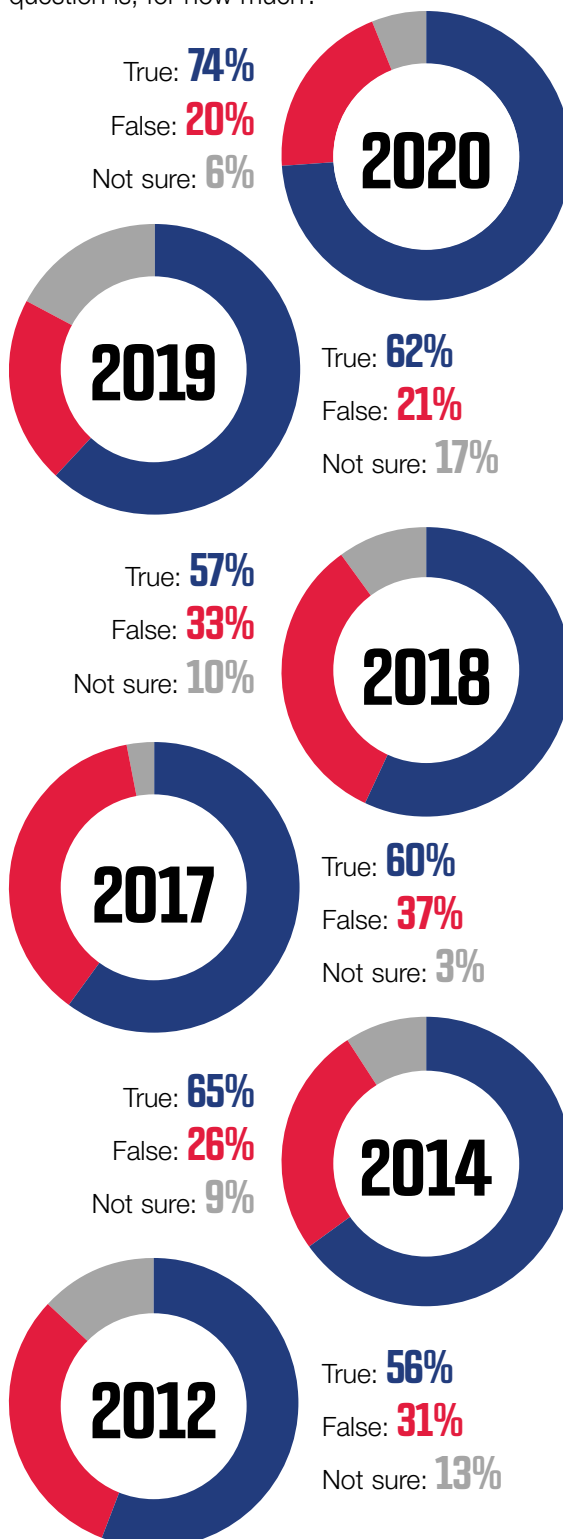
Ask buyers how they plan to interact with the company's current employees and customers, advises Kevin Citarella, president of Citarella Termite & Pest Management in Spring Hill, Fla.

"Building recurring revenue is the No. 1 way to make a business more desirable," says Joseph Edwards, president of North Fulton Pest Solutions in Alpharetta, Ga. Edwards, who also serves as president of acquisition consulting company J. Edwards Services, adds that using an attorney, a certified public accountant, and a broker with pest control industry experience can "make the transition process smoother and less stressful." PMP

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Name Your Price

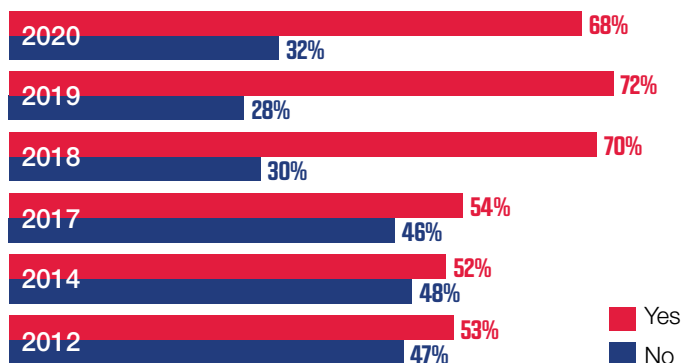
Every business is for sale; the only real question is, for how much?



SOURCE: PMP MERGER SURVEY 2012, 2014, 2017, 2018, 2019, 2020

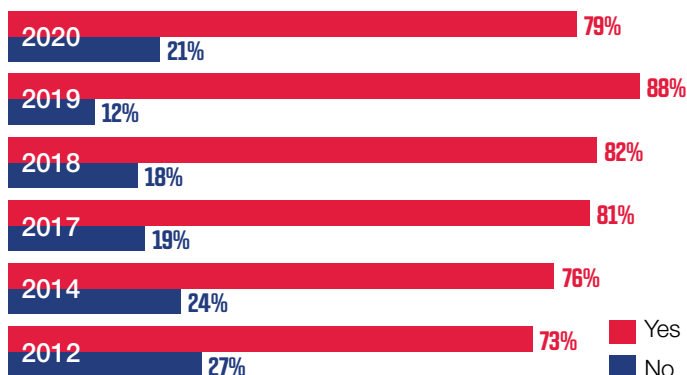
Processes and Policies

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



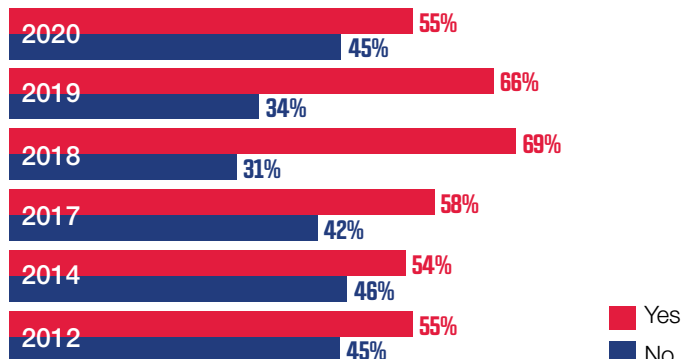
Bigger Brand and Budget

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



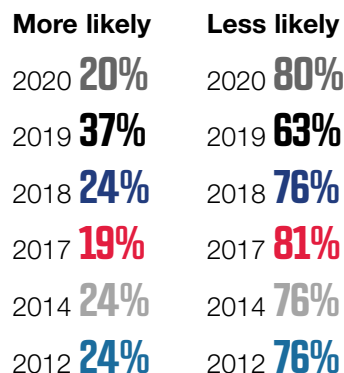
Career Opportunities and Retention

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



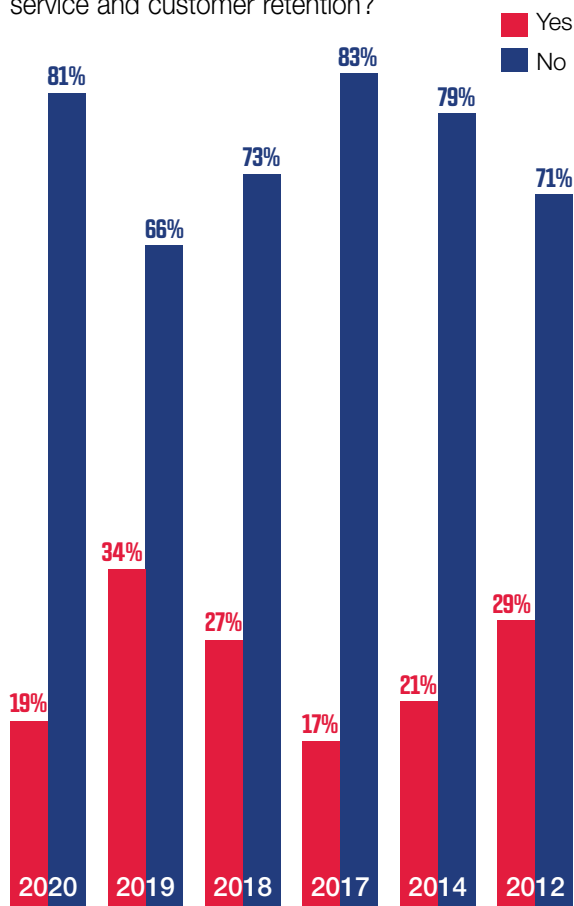
Tax Laws

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?



Better Service

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



Capitalize on your decision

You and your business will be better off if you prepare now for the future

By Greg Clendenin | PMP Contributor

If you're thinking about selling your company, there are some other things you should be thinking about, too, like "Is now the time for me to sell?"

To answer that question, there are other questions you should ask — and perhaps seek expert advice. Some of those questions include:

- Will I get enough money in the purchase price, after I pay taxes and debt, to afford a comfortable living for the rest of my life — or to support what I choose to do "in the second half"?
 - How much personal debt do I have, and that I still will be responsible for after I sell my company?
- Depending on the answers to those questions, you can then think about your options, which include:

- Continue to do what you're doing now for a while longer.
- Hire a consultant who can help you prepare your company for a sale.
- Retain assistance to get your company on track for exponential growth and profit, and ramp up toward a better purchase price later.

MAXIMIZE VALUE

If you determine it is time to sell, keep your foot on the gas. Don't go into harvest mode: Sometimes, when owners decide to sell, quite a while before the sale or before the company is put on the market, they stop investing in growth and the future of the company. This is done to maximize short-term profits and milk recurring revenue. Do not do this without discretion.

PREPARE YOUR COMPANY

Is your company *ready* to be sold? Ensure that your company is in a position that is attractive to buyers and gets you the most in a purchase price. It may be time to retain a consulting firm to help, or network with others who have a record of building great businesses that have achieved great growth and profit over the course of many years.

It may just mean that you jump back into your business with both feet, and go at it until your company is in good enough shape to be taken to market.

The following factors are meaningful to buyers, and will help you get an attractive purchase price:

- Consistent growth.
- Consistent strong profit margins.
- Good employee retention.
- Good customer retention.
- Well-maintained assets to service the customer base.
- Efficient and effective systems and procedures.
- Healthy company culture.
- Productive selling strategies and processes.
- Recurring revenue as a large majority of revenue.
- Brand equity.
- Good corporate image.
- Capable management and middle management.

Note that these factors also are what you want in your company even if you do not plan to sell. Regardless of where you are in the decision-making process, there is something you can do today that will assist you greatly if you are in one of the following positions:

- 1 Ready to sell, and your company is ready to be sold.
- 2 Ready to sell, but your company is not ready to be sold.
- 3 Not selling at this time, and may not for years to come.



That something, no matter which of these three situations you are in, is to have a confidential information memorandum (CIM) created for your business by a consultant or merger and acquisition company. A CIM is obvious for the first two positions. But you may be thinking: “I am not even thinking about selling my company anytime soon, if I ever do sell it. So, why would I bother with having a CIM professionally prepared for my company?” Before we answer that question, let’s discuss what a CIM is.

EDUCATE PROSPECTIVE BUYERS

A CIM is a document used in a sell-side engagement to market a business to prospective buyers. It also is referred to as the “pitch book,” the “offering memorandum” or simply “the book.”

It is crucial that all valuable attributes of the business are highlighted in the CIM to get the best terms and highest possible price. To obtain a premium valuation, it is extremely important to clearly articulate all of the company’s attributes. A CIM is not sent to any interested buyers until they sign a confidentiality agreement or non-disclosure agreement (NDA).

A CIM typically will contain the following:

- Cover page.
- Table of contents.
- Notice/reminder of confidentiality.
- Executive summary.
- Corporate information and history.
- Detailed description of the business and its operations.
- Financial information, including analysis of historical results.
- Owner/senior benefit worksheet with adjusted earnings before interest, taxes, depreciation and amortization (EBITDA).
- Account breakdown and customer

diversification/customer base information.

- Asset schedules (vehicle list and information).
- Management team information.
- Organizational chart.
- Marketing information.
- Sales process.
- Growth opportunities.
- Employee benefits package.
- IT information and technology employed.
- Awards and recognitions received by company.

Having a thorough and professional set of investment marketing materials will have a substantial impact on the success of the merger and acquisition process in at least three areas:

1 The speed of the process. The more questions that are answered in your CIM, the fewer questions you will have to answer piecemeal to get buyers familiar with your business, its dynamics, position, unique selling propositions/points, niches, and so on.

2 The efficiency of the process. The more information you provide buyers, the more quickly they can determine their true level of interest in the opportunity. You don’t want to waste time bringing every potential buyer up to speed individually. A CIM screens out those who are not interested in your industry or business. A good CIM will pique the interest of genuine and qualified buyers.

3 The overall buyer perception that contributes to their valuation considerations. Buyers are influenced by appearance. Don’t do your company an injustice by not having a solid CIM.

The purpose of the CIM is to help a buyer understand your business and the unique strategic investment opportunity it presents. Buyers all

have acquisition criteria, and the CIM will help them match up your business to that criteria. The CIM will make it so only potentially interested buyers are calling with questions. Those follow-up questions will focus more on topics like valuation and desired deal structure, instead of basic information about your company.

A BENEFICIAL TOOL

So, why should you have a CIM if you don’t plan to sell your company? You may not be considering selling, but there are other important reasons to have a CIM created for your business. The exercise of creating a CIM helps business owners:

- Identify opportunities for improvement.
- Uncover issues within the company that can be corrected.
- Have a useful tool when approaching lenders.
- Be prepared for emergency situations if capital needs to be raised quickly.
- Obtain profit-and-loss analysis and advice on all the major business disciplines within your company.

The benefits of creating a CIM far outweigh the cost of having it done. Whether you and your company are ready for a sale, or you are ready but your company isn’t quite there, or if you aren’t thinking about selling now, but want to get your company on the path of exponential growth and profit, a CIM should reflect your company properly and all the years of hard work you put into it. PMP

CLENDENIN is CEO of The Clendenin Consulting Group (thecledeninconsultinggroup.com). He was a CEO and owner in the pest and lawn industry for 38 years. He can be reached at gc@clendenincg.com.



From one family-owned company to another

The owners of Lewis Cobb Pest Control considered their employees and customers when deciding to sell

By Diane Sofranec | PMP Senior Editor

Roger Lewis spent his entire 48-year pest control career at Orlando, Fla.-based Lewis Cobb Pest Control, where he worked with brothers Rick and Randy.

As the brothers approached retirement age, they agreed the time was right to sell the nearly 75-year-old business.

“It was an emotional decision not taken lightly, since there were long-term relationships with employees and customers,” Roger says. “The time had come to enjoy retirement activities and grandchildren.”

LONG HISTORY

Three generations of the family have worked at Lewis Cobb Pest Control. The company started out in 1946 as Rudler Exterminating. Owner Tyn Cobb hired the brothers’ father, Richard, to manage it. In 1958, Lewis Cobb Exterminating Co. was formed, and eventually Richard and his wife, Carolyn, bought the company. For the past 25 years, Roger’s son Rob has been working there, too.

The brothers wanted to find a buyer that would treat its employees and customers right.

“Lewis Cobb’s reputation in the Orlando market was more than 70 years in the making,” says Roger. “It was important that we found a buyer who would continue

the traditions of protecting our customers’ health and property.”

On Jan. 9 of this year, Lewis Cobb Pest Control merged with Arrow Exterminators.

“I can honestly say our merger with Arrow Exterminators was so smooth that I would not have done anything differently,” Roger notes. “Their merger/acquisition team’s expertise and experience made the transition seamless, and they provided assistance to us every step of the way.

“I can honestly say our merger with Arrow Exterminators was so smooth that I would not have done anything differently.”

—ROGER LEWIS



Because of its low turnover rate, “selecting a company that would make their continued employment a priority was very important in our decision-making process,” he says. “We also knew Arrow Exterminators would provide a seamless transition for our customers.”

Lewis Cobb sent customers a letter about the impending merger,

and he says customer feedback has been very positive.

Roger advises pest management professionals who may one day sell their companies to carefully select a team of professionals — a mergers-and-acquisitions broker, an attorney, and a certified public accountant — who have experience with the sale of pest control companies.

A SMOOTH PROCESS

Once it was clear Arrow would be a good fit, the acquisition process took approximately five months from start to finish.

Immediately after the sale closed, Arrow Exterminators’ transition team — along with CEO Emily Thomas Kendrick and Chief Development Officer Kevin Burns — spent several days at Lewis Cobb, meeting with each employee individually.

“The Arrow team understood the trepidation people would be feeling, and spent a great deal of time to make them feel comfortable and reassured,” Roger says.

Communication between the buyer and seller helps avoid surprises at the closing, he adds. Being organized is helpful, too. The ability to easily access the “tremendous amount” of information required during the acquisition process will save time for everyone involved.

“We had a wonderful experience with Arrow, and feel confident that our customers and employees are in good hands,” he says. PMP

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Determining the right time

Key questions provide guidance to PMPs who need to decide when will be the best time to sell their companies

By Daniel Gordon, CPA | PMP Contributor

To sell or not to sell? This is the question every business owner asks themselves — whether you are 35, 45, 55 or 65 years old. Unfortunately, there is no single answer to fit all circumstances.

However, a little soul-searching, blended with some logic and awareness of certain financial aspects, will help you build your own measuring stick to fit your situation and make things clearer.

DO THE MATH

Let's use an example of a business (S Corp, for tax purposes) doing \$1.5 million in annual revenues, with about 20 percent of such amount (\$300,000) going to the business owner in salary and perks each year.

An eight-to-10 times free cash flow multiple puts the value of the company at somewhere between \$2.4 million to \$3 million (1.6 to 2.0 x revenue). Also, assume there are \$100,000 in liabilities outstanding for vehicles, and another \$50,000 of customer prepaids at the time of the sale. This would leave the owner with about \$2.25 million to \$2.85 million before taxes, and \$1.575 million to \$1.995 million after taxes, assuming a blended federal and state rate of approximately 30 percent.

ANSWER HONESTLY

Not bad. But is that enough? Answering the following key questions should provide some guidance when making your decision to sell:

- ❶ How old are you presently and, given your health, how many more years do you want/need to work in the business to reach a point where you feel you have fulfilled financial responsibilities to yourself and your family (i.e., single, divorced, children, parents, etc.)?
- ❷ Is your business still in a growth/expansion mode, or is it a mature/declining business due to increased competition, loss of key employees, or loss of motivation by the owner?
- ❸ If you sold your business now, would the after-tax sale proceeds provide you sufficient income replacement for the number of years you expect to live, or will you have to seek a new career?
- ❹ Does your business have existing employees (or family members) to fill your company role if you were to become unable to work due to disability — or if you needed to work part-time drawing a salary or potentially retire and draw a pension?
- ❺ How important are you, personally, to your business in terms of maintaining client relationships vs. internal administrative systems that

work efficiently regardless of whether you are there on a daily basis, or retired, or a part-time employee?

- ❻ Do you have financial resources available outside of what the business provides you to maintain your lifestyle and financial obligations? For example, maybe you have an inheritance, a pension, or equity vested from a prior career.
- ❼ Are you tired of the business?

CONSIDER THE MARKET

Multiples have expanded significantly in most asset classes over the past several years. And while COVID 19 gave a brief pause to merger-and-acquisition (M&A) activity, it seems there are several purchasers who have come back into the market. While these firms are looking for quality, well-run companies to purchase, valuations have only been slightly affected. So, for the time being, the M&A market is cautiously re-engaging.

The tailwind that may affect after-tax sale proceeds going into next year could be buoyed by the fact that the U.S. government has injected so much stimulus money into the economy that it would make sense that taxes will need to go up. That said, even if valuations remain the same, as a seller you may not net the same amount — since a larger slice of the pie will go to the tax man. In other words, if you are considering selling, 2020 may be the year to explore your exit plan. PMP

GORDON is managing director of PCO M&A and Succession Specialists (sellmypcobusiness.com), a merger and acquisition consulting firm consulting firm that caters to pest management professionals throughout the United States. He can be reached at info@sellmypcobusiness.com.





Beyond The Call®

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 \$270 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.

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