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2022 MERGER GUIDE

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"Our team of pest control technicians share hundreds of years of combined experience so it was important to me to find a company like Arrow that will treat this team as well as I have for these many years. I had the opportunity to talk to a number of other acquirers, but none of them could match up to Arrow, especially when it comes to people."

— Pete Eldridge,
founder, Apex Pest Control

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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SPONSORED CONTENT

A WORD FROM OUR SPONSOR

Our team members are our secret to success

BY KEVIN BURNS | CHIEF DEVELOPMENT OFFICER, ARROW EXTERMINATORS

At Arrow Exterminators, our team members are super-important to us because they *are* the company. Whether they've been with us for decades or just joined us during a recent merger, *every* team member contributes to our success as a company.

Family-owned and -operated since 1964, Atlanta-based Arrow Exterminators is the second-largest, family-owned pest and termite control company in the United States ranked by revenue. We have a modern fleet of more than 2,800 vehicles, 165 service centers and more than 3,100 team members. This past year, Arrow Exterminators was named a Top 5 USA Workplace, an award based solely on team member feedback.

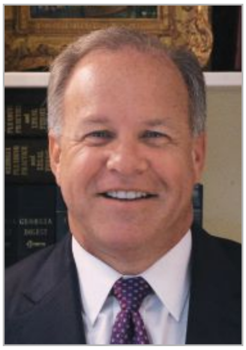
When we merge with another family-owned business in the pest management industry, we know the owners are concerned about what will happen to the employees who have been the heart and soul of their company. We assure them that each and every one of their employees will be well-cared for after the sale of their company, and we put it in writing.

Without the hard work of every team member, we would not be able to boast revenue exceeding $345 million, with highly satisfied customers in 12 states: Alabama, Arizona, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas and Virginia. In fact, we are very, very proud of our Net Promoter Score of 87, which is spectacular.

EMBRACING EMPLOYEES

We ensure team members treat one another professionally, respectfully and fairly; it's part of who we are — it's our company culture. Often, it's our company culture that gives company owners the reassurance they need to choose us. It makes all the difference to owners who consider their employees to be a part of their family.

We offer team members a compensation and benefits package that includes paid time off; competitive salaries; medical, dental and vision plans; company-paid life insurance; long- and short-term disability insurance; and an aggressively funded 401(k) plan.



KEVIN BURNS

In addition, we encourage our team members to grow with our company. We actively encourage them to formally submit innovation ideas, which are reviewed monthly and recognized and celebrated if implemented. We also recognize team members' achievements at an annual awards ceremony. We always appreciate their efforts, and their hard work never goes unnoticed.

Training opportunities are available to team members as well. Arrow Exterminators encourages professional development and allows for career advancement. We are proud that our highly trained team members provide quality service to our customers.

ESTABLISHING TRUST

It's yet another way to assure company owners their customers will continue to receive exemplary, personalized service, just as they did before the transaction. We understand the desire to carry on the pest management methods and customer service that have been part of a company's history. We want company owners to know their customers can trust Arrow Exterminators, a company that has been serving customers for 58 years.

We welcome the newest members of the Arrow Exterminators team. Their success is key to our success.

In this Merger Guide, merger and acquisition advice from the pros will help guide your decision to sell when the time is right. An exclusive survey of pest management professionals' (PMPs') views on industry mergers and acquisitions will show what your colleagues think of selling their companies. Arrow Exterminators is proud to sponsor this information, which is designed to help PMPs make a choice that will be right for them, their employees and their customers when they are ready to sell.

Reap the rewards

Making a deal has its benefits, *PMP*'s exclusive mergers and acquisitions survey reveals

By Diane Sofranec | *PMP* Senior Editor

Change can be good. Owners who sell their companies are not the only ones who reap the rewards; often employees wind up better off as well.

Owners cite many reasons for selling their pest control companies. They may feel it's finally time to retire, it's too hard to find workers, they don't have children who want to take over the company, or they may have health issues that make work difficult.

Whatever the reason, pest management professionals (PMPs) are motivated to sell whether they built their company from the ground up or inherited it from a family member.

To learn more, *Pest Management Professional's* (*PMP's*) 2022 Merger Guide survey asked readers their thoughts on mergers and acquisitions.

Most would consider making a deal, as 62 percent of those asked agreed that, "Every business is for sale; the only real question is, for how much?" This figure has been growing steadily over the past 10 years, when 56 percent of those asked agreed.

The biggest jump over the past 10 years relates to the question, "Can merging with a larger pest management provider help an acquired business access, and implement, more proven processes and policies?" This year, nearly one-third of those asked answered yes; 10 years ago, only slightly more than half agreed.

In addition, more than half of survey respondents agreed with the question, "Can merging with a larger pest management provider help an acquired business improve career opportunities and employee retention?"

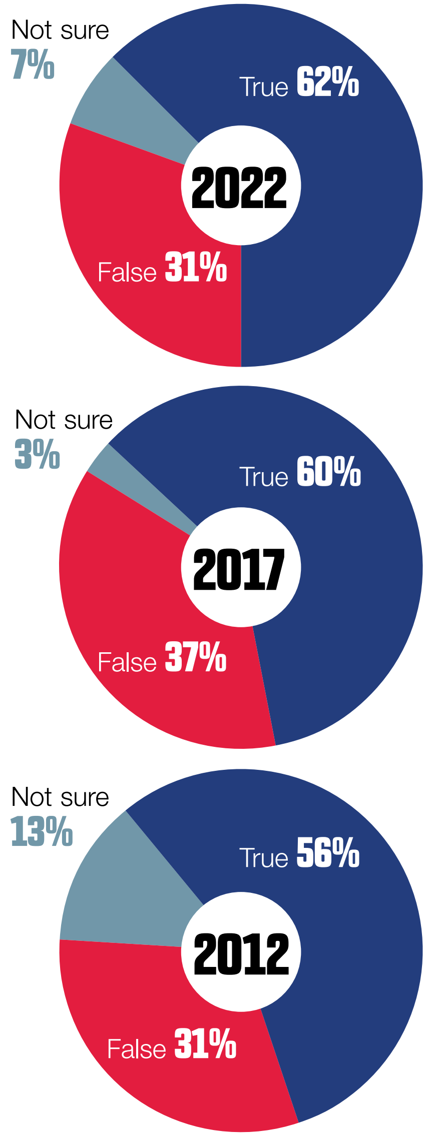
Although PMPs were able to continue providing pest control services during the COVID-19 pandemic, they were not immune to the affect it had on workers. Like most businesses, pest control companies are looking for ways to hire good workers and retain the ones they already have, as employees leave the workforce entirely, or quit to take jobs in other industries.

Indeed, a company merger may be just what it takes to compel some employees to stay put. At a time when workers are switching jobs in droves, it may be just the positive change they need. PMP

You can reach SOFRANEC at dsofranec@northcoastmedia.net or 216-706-3793.

Name Your Price

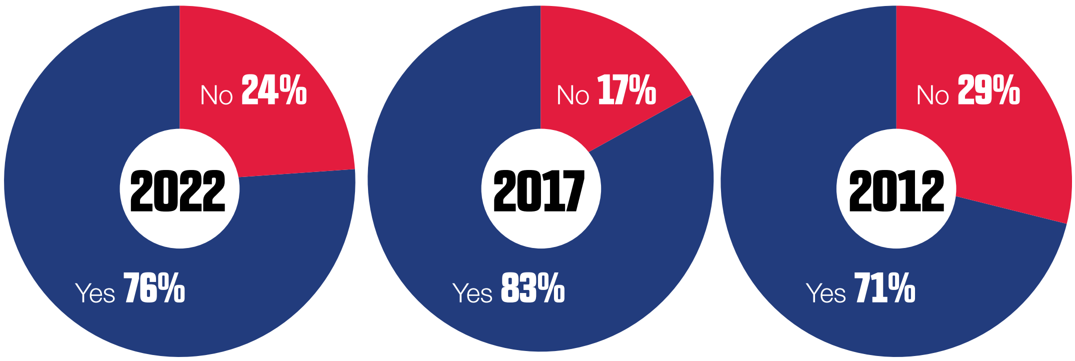
Every business is for sale; the only real question is, for how much?



Global merger and acquisition volumes in 2021 topped **$5 trillion** for the first time, Dealogic data show.

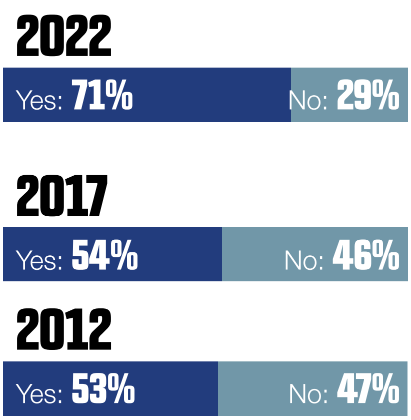
Better Service

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



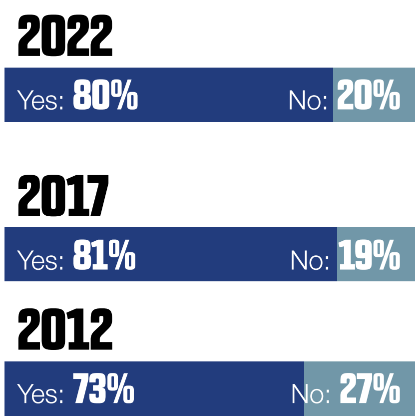
Processes and Policies

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



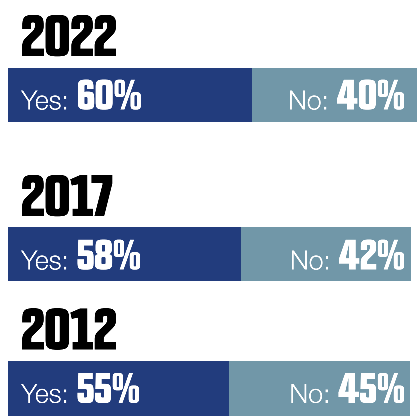
Bigger Brand and Budget

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



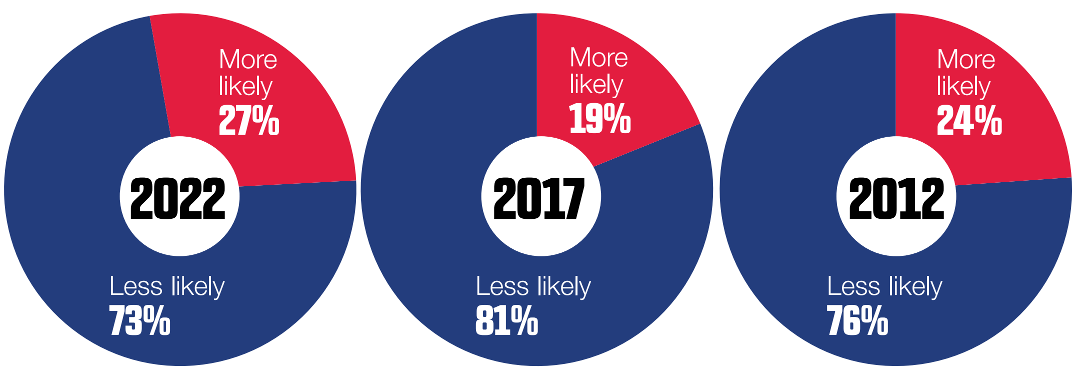
Career Opportunities and Retention

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?



How to determine your endgame

By Dan Gordon, CPA | *PMP* Contributor

What are your short- and long-term plans? Are you setting yourself up properly for the sale of your business, as well as for after the sale?

Identifying your options is paramount. Many sellers get caught up in the price they can get for their company. But what does it matter, if it's not enough to satisfy your future needs?

One of the most overlooked areas is identifying your financial needs after the sale. You need to be realistic in terms of what you currently have, and what you will receive from the sale of your company after taxes and fees are paid.

IDEAL EXIT PLAN

If your needs and current resources are congruent with the value of your business, then a deal becomes much more feasible. But how do you maximize what you keep from a deal, and how do you make sure there is enough for retirement or whatever you are interested in doing after the sale?

It's important to hire the proper advisors, such as a certified public accountant (CPA) to help structure a deal so taxes are minimized and the cash you receive is maximized. In addition, a wealth advisor can help craft a life plan that determines how much you will need each year to live in a manner to which you are accustomed.

When crafting your future exit plan, you need to consider these questions:

1 Have you put together a solid financial plan for after the sale? Depending upon when you sell, you may have a lot of life to live. Will you be taken care of by the proceeds, or will you be seeking another job after the sale? Your wealth advisor, in crafting a plan, will need to consider pensions you may have, social security, your current nest egg and the one created by the sale of your business. What returns can you expect to get on your principle? And are those returns enough?

2 How will your firm be valued by the acquirer? Do you have a large customer base that provides recurring revenue? Is the recurring revenue profitable revenue? Businesses that answer "yes" to both of these questions usually are worth more than those that don't.

3 Is your business in order such that you will pass purchaser due diligence? This is an extremely important point, as a purchaser will want to "look under the hood." If your operation is sloppy and the books and records are a mess, this will make a potential buyer uneasy and may reduce the price and/or scare them away.

4 Have you crafted a plan that will maximize the after-tax proceeds? At the end of the day, the price you get for your firm is not as important as what you put in your pocket. Uncle Sam will want his share of the proceeds, and it's extremely important to get the proper advice on your options for structuring a potential deal early in the process from a competent CPA or tax attorney.

5 What consideration have you given to a potential payout, and is this something that is acceptable? Do you need all your money up front to invest in another business or purchase that retirement house? Or will a payout work for you? If a payout works, you need to make sure the acquirer is financially stable. A little due diligence on potential buyers will help determine whether you may encounter problems collecting your payment in the future.

6 Have you thought about what happens to valuable employees after the sale? It's hard to build a pest control business without competent help. Many business owners want to make sure their valued employees are taken care of by the acquirer. If this is something that is important to you, make sure it's part of the plan. Ask potential acquirers what they would do with your employees.

Like selling any other asset, it's always easier to sell your business if it has been maintained and properly cared for over the years. If your current business philosophy and plan consider the endgame as laid out here, you will be in a much better position to maximize the fruits of your efforts when you do exit your business. PMP

GORDON owns PCO Bookkeepers, an accounting and consulting firm that caters to pest management professionals throughout the United States. He can be reached at dan@pcobookkeepers.com.

BROUGHT TO YOU BY ARROW EXTERMINATORS Beyond The Call.

Don’t leave money on the table

By Greg Clendenin | *PMP* Contributor

After my freshman year of college, I thought I knew plenty. I was ready to run a company, build a company from the bottom up, fix any business challenge, deal with any business issue, take on any challenge, remove any obstacle, create any needed policy or procedure or system, and go up against the toughest competitor.

What I did not know at the ripe old age of 19 is that I knew only enough to be dangerous. It is not uncommon for people who do not know what they do not know to actually think they know enough about a subject to do just fine.

As a sophomore in college, I did not know what I did not know. Not realizing you do not know what you do not know, and venturing off into areas where you know just enough to be dangerous, can be extremely costly.

It’s the same with selling your company. Regarding the purchase price, deciding to go it alone — even with the assistance of your certified public accountant (CPA) or attorney, who both are a very important part of your acquisition team — and not knowing what you don’t know, can cost you hundreds of thousands of dollars.

CONSULT ADVISORS

The incredibly important elements and details in the asset purchase agreement (APA) need to be negotiated fairly and squarely, and can even mean many tens of thousands of dollars in addition to the purchase price.

More than one seller has gone it alone in the acquisition process with negative consequences and results that could have been avoided. What if a seller received $6 million for their company, but did not know until it was too late that they could have received $7 million? One million dollars is real money. As the late Sen. Everett Dirksen (R-Ill.) famously said of questionable spending by the U.S. government, “A billion here, a billion there, and pretty soon you’re talking about real money.”

What if serious money is left on the table because details in the APA were not negotiated properly and fairly? In addition to the purchase price, there is real money to be lost if your APA is not reasonably negotiated.

NEGOTIATE THE DETAILS

Let’s take a look at some of the items included in APAs that are not usually given as much thought in the sale process as the purchase price, but can add up to real money. Do not come up short when negotiating the following, which are not listed in any order of priority:

- Liabilities.
- Holdback/escrow amounts.
- Payments made in advance.
- Security deposits.
- Net working capital calculations.
- Accounts receivable upper and lower limits.
- Inventory upper and lower limits.
- Adjustments to the purchase price.
- Transfer taxes on vehicles.
- Seller-owned buildings.
- Paid time off.
- Valuation of purchased assets.
- Calculation of adjusted EBITDA.
- Non-compete and transition services agreements.
- The structure, allocation and terms around the purchase price.

This is not a complete list, but it gives you an idea of how much there is to cover when selling your company. All of the items on this list mean money in your pocket or out of your pocket.

SEEK GUIDANCE

As owner and CEO of Middleton Lawn and Pest Control, I knew that as we grew, I needed to hire people who knew what I did not know. I knew I did not know everything about every business discipline, even though I graduated with honors from an elite business school and earned a master’s degree in business administration (MBA). I built my company into one of the largest in the industry before selling it in 2005.

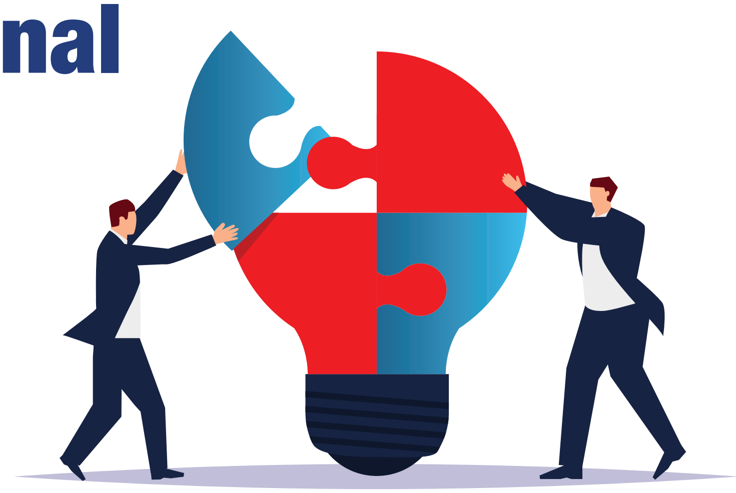
One of the most important things a seller needs to realize during an acquisition is that they do not know everything. Hiring a capable and experienced advisor to guide them and work for them throughout the process is a great investment, because we do not know what we do not know. PMP

CLENDENIN is CEO of The Clendenin Consulting Group (TheClendeninConsultingGroup.com). He was a CEO and owner in the pest control and lawn care industry for 40 years. He can be reached at gc@clendenincg.com.

PHOTO: SEZERYADIGAR/E+/GETTY IMAGES

Why mergers and acquisitions are not rational

By Kemp Anderson | *PMP* Contributor



When we think of finance, we probably think of balance sheets and bank statements. But there is a subset of financial studies that are connected to psychology and behavior.

Much like the stock market, mergers and acquisitions (M&A) in the pest control industry are subject to emotional swings. Most M&A advisors in our industry have been pointing out for years that multiples are at an all-time high, yet they keep increasing. That doesn't mean they won't fall, but this message taps into an owners' personal behavioral finance psyche, potentially cranking up emotions instead of defining a rational argument and process for when it's best to sell your company for you and your family.

The two pillars of behavioral finance are:

1. Cognitive psychology (how people think).
2. The limits to arbitrage (when markets will be inefficient).

BEHAVIORAL FINANCE CONCEPTS

How do the pillars translate to everyday life? Let's look at cognitive psychology.

In M&A, *mental accounting* could refer to an owner allocating money for specific purposes, such as acquiring a smaller pest control company. The act of acquiring a smaller company probably means increased route density, overhead efficiencies and improved margin.

Another example is an owner who hears about a crazy high multiple and thinks, "If so-and-so got X for their business, then I could sell mine for X+!." But these two examples are driven by very different parts of our brain. The first example is driven by logic, while the second typically is driven by emotion and lacks applicable context.

Herd behavior is another cognitive psychology where people tend to mimic the behaviors of a crowd. People tend to think, "If everyone is doing it, I should probably do it, too." A booming year for M&A transactions was 2021. Many pest management professionals (PMPs) are running for the door because taxes are low and/or multiples are high. Were these owners sitting down and doing the math on a tax increase really warranting selling? Would they benefit in the long run, or were they emotionally driven by messages in the marketplace? What about the herd behavior from the negative influence of inflation tugging on profit-and-loss statements, or interest rates influencing the cost of capital?

Herd behavior is fueled by an *emotional gap*, which refers to decision-making based on extreme emotions or emotional strains such as anxiety ("My friends are selling, should I, too?"), anger, fear (tax increase, inflation), or excitement (high multiples). Often, emotions are a key reason why people do not make rational choices. Again, this is a focus on behavior vs. rational financial thought, strategy and process.

Anchoring refers to attaching a spending level (buyers) to a certain reference. An example may include spending consistently based on a budget level, even in M&A. Most serial acquirers budget all levels of M&A activity including the transaction itself, due diligence, legal and accounting, integration and beyond. Buyers tend to be disciplined. If you are not experienced with transactions and M&A, most buyers will know and leverage that against you. Their

ILLUSTRATION: Z_WEI/ISTOCK / GETTY IMAGES PLUS/GETTY IMAGES job is to buy for the least amount possible. The right advisor will counter that on your behalf.

We are all guilty of these behavioral concepts in one way or another. It's human nature! But there's another behavioral concept that gets us in trouble more often than the rest: *self-attribution.*

Self-attribution refers to a tendency to make choices based on overconfidence in one's own knowledge or skill. In M&A, that's an inexperienced seller who thinks they know just as much, or more, than the next guy. If you have never sold a pest control company, why would you have the confidence to take on such an endeavor without preparing and being represented? This is the ideal scenario for buyers!

Buyers love unrepresented sellers. Sellers don't know what they don't know, and buyers are happy to use that to their advantage every time. As the saying goes, "If you are the smartest person in the room, then you are in the wrong room." The buyers will be very nice and professional, but will gladly buy low.

BIAS IN BEHAVIORAL FINANCE

Confirmation bias. One example is when buyers in our industry have a bias toward accepting information that confirms their already-held belief in an investment or target company (seller). If information surfaces, investors may accept it readily to confirm that they're correct about their investment decision — even if the information is flawed. I refer to this as "deal lust," but it's also about ego.

An example could be a buyer needing and finding a business in a specific market and wanting it so badly they are willing to look past poor pricing, poor retention of customers and/or employees, or poor financial results by the seller. Serial buyers rarely get deal lust to this degree.

Experiential bias. This is when the outcome of a transaction tends to be biased toward a result expected by the human buyers and sellers. The inability of a human being to remain completely objective is the ultimate source of this bias. This is why I strongly suggest all sellers have representation. As an example, we completed a transaction a few years ago where there was a class action lawsuit against our client. While we were able to get the litigation settled just prior to close, the experiential bias from the buyer allowed the buyer's legal team to actually partner with and help the seller pre-close. In reality, the buyer probably should have disengaged until the litigation was settled, but they did the opposite and stayed engaged — and even supported a business they did not own.

Loss aversion. You've probably heard professional athletes describe hating a loss more than enjoying a win. This is the same concept. As a result, some investors might want a higher payout to compensate for losses. For this reason, valuation and negotiation experience is critical.

An example could be when private equity firms enter the pest control industry. The private equity firm buyer team is thinking they want to realize gains quickly, typically around five years. However, when an investment is losing money or underperforming, they will hold onto it because they want to get back to even or their initial entry price. Buyers tend to admit they are correct about an investment quickly (when there's a gain). However, investors are reluctant to admit when they made an investment mistake (when there's a loss). In other words, buyers gauge the performance of their investment based on their unique purchase price, disregarding fundamentals of the investment that may have changed over time.

Familiarity bias. This is when buyers invest in what they know. Familiarity bias is baked into the acquisition process. When buyers spend time "getting to know sellers," it can inherently lead to bias itself.

Behavioral finance allows for the observation of how psychological and social factors can influence the buying and selling of stocks, and even a pest control company. Broadly, behavioral finance theories also have been used to provide clearer explanations of substantial market movements like bubbles and deep recessions. Buyers and sellers' representatives have a vested interest in understanding behavioral finance trends in the pest control industry and beyond. These trends can be used to help analyze market price levels and fluctuations for speculation as well as decision-making purposes. Said differently, will transactions continue to rise in value, or have we hit our peak and prices are about to dip? Our industry is full of hearsay. Be careful what you believe. PMP

MORE ONLINE

To learn how to overcome behavioral finance issues, visit **PMPPestTalk.net.**

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 or visit KempAnderson.com.

ARROW EXTERMINATORS®

Join the Arrow Family

Family-owned and operated since 1964,
Atlanta-based Arrow Exterminators has grown to become the 2nd largest family-owned pest control company in the United States. Arrow attributes their success to passionate, highly trained team members who are committed to protecting not only our Family Culture, but everyone's quality of life...and doing it all with a Clear Conscience.

With you, we can.

DC Scientific • Alabama

"When I started considering this merger, I knew I wanted to find a company that would provide a great home for every one of my people and also needed one which provides exemplary customer service. I found that in Arrow Exterminators and we are proud to join the Arrow family and continue the legacy that my dad started over 55 years ago. I also looked for a company that would provide our employees with many growth opportunities and I know we have found that in Arrow."

Ann Majcher
DC Scientific

Exterminating Unlimited • Virginia

"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 and are very proud to now be part of the Arrow Family. We wanted to give our team members an opportunity to be with a company where we knew there would be growth opportunities as well as be able to offer an expanded range of services to offer our customers. All of my team members will continue their careers with Arrow Exterminators."

Craig Duncan
Exterminating Unlimited

5 Star Termite • Arizona

"I have been impressed with the entire Arrow team since we first started talking with other companies in the industry. I can tell Arrow has a special family culture which was very important to me as I analyzed my options. You could feel the family culture and the passion and excitement that the Arrow team showed. I'm truly excited that my employees will have many growth opportunities and Arrow will be able to offer an expanded range of services to our customers."

Shelby Hawkins
5 Star Termite

Call today for your confidential conversation.

Kevin Burns | 800-281-8978

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