

A SUPPLEMENT TO

PMP

Pest Management
Professional

2023 MERGER GUIDE

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ADVERTORIAL

Our Merger with Arrow!



“When looking for a home for our business, we wanted a family-owned and -operated company that provided great customer service and was passionate about how customers and employees are treated. We found that in Arrow Exterminators and are now proud to be part of the family.”

— **Jason Fleming**
Owner, Ideal Pest Solutions

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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Call today for your confidential conversation.

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

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Trust experts to take you on your merger and acquisition journey

PROFESSIONAL ADVICE ALLOWS YOU TO GET THE BEST DEAL AND PROTECT YOUR INTERESTS

By **Kevin Burns** | Chief Development Officer, Arrow Exterminators

You won't get a second chance to sell your pest control company, so you have to get it right the first time.

Seek the advice of experts with mergers and acquisitions experience, preferably in the pest control industry. Professionals such as certified public accountants, tax advisors and business attorneys specializing in mergers and acquisitions will guide you through the process. They will ensure you negotiate the best price for your business, reduce tax liability, protect employees, and retain customers.

Experts also will explain what you should expect. To find reliable help, ask pest control industry colleagues for referrals, and be sure to check references.

Consult with professionals

Deciding to sell your company is a big step fraught with emotion for many pest management professionals (PMPs). Advice from objective, trusted professionals will add value to your deal and help you protect your interests. They also will help you navigate documents critical to your sale, including the confidentiality agreement, letter of intent, purchase agreement, non-disclosure agreement, as well as employee and supplier contracts.

PMPs arrive at the decision to sell for many reasons. They may not have family members willing or able to take over their businesses. Health issues — their own and/or a family member's — may make running a business difficult. Perhaps they feel it's time to retire and relax. Some leave the pest control industry behind to pursue different careers. Whatever your

reason for selling your company, it's in your best interest to work with professionals who will offer solid advice.

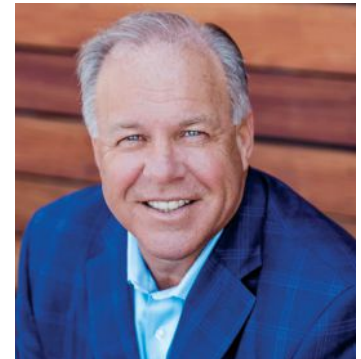
We understand the hard work that goes into owning a pest control business. We pride ourselves on the care the Arrow Exterminators team offers owners, employees and customers during the merger process.

Starkey and Imogene Thomas founded our Atlanta, Ga.-based company in 1964. They are the parents of company Chairman Joe Thomas — a 2009 *Pest Management Professional* Hall of Famer — and grandparents of CEO Emily Thomas Kendrick. Arrow Exterminators is still owned and operated by the Thomas family today, and is now the second largest family-owned pest and termite control company in the United States ranked by revenue. Earlier this year, Arrow Exterminators was named a Top 5 USA Workplace as well as Top Large Workplace by *The Atlanta Journal Constitution*.

Make informed decisions

On the pages of this Merger Guide, you'll find trusted advice from professionals, as well as data and analysis from surveys conducted specifically for the pest control industry. Arrow Exterminators is proud to be a sponsor of this Merger Guide because it aims to help PMPs make informed decisions as they consider their future.

To get started, make a phone call or write an email. You can reach me at 800-281-8978 or kburns@arrowexterminators.com.



KEVIN BURNS



Seeking a smooth transition

PMP's exclusive survey exposes company owners' concerns

By Diane Sofranec | PMP Senior Editor

Pest control company owners get great satisfaction from running their own businesses. Those who answered *Pest Management Professional's (PMP's) 2023 Merger Survey* shared the positive aspects of owning their companies: being an independent and locally owned company, giving back to their communities, embracing family values, leaving a legacy, enjoying their work, growing at their own pace, and fostering relationships with loyal customers.

But sometimes the sale of a pest control company is inevitable. A buyer often steps in when an owner is ready to step away from the business, but does not have a family member willing or able to take over.

Many of the PMPs who answered this year's survey expressed concerns about their employees after a sale. One said he would want to know his employees and customers would be happy. Another mentioned he would want assurances that his employees' jobs would be secure and the transition smooth.

When asked, "Can merging with a larger pest management provider help an acquired business improve career opportunities and employee retention?" 66 percent of respondents agreed that it could. Ten years ago, in 2013, 58 percent of respondents answered yes to that same question.

It's common for acquiring companies to ensure employees will be well taken care once the transaction is complete. Typically, sellers meet with employees to personally reveal the sale and then allow buyers to directly address concerns about compensation, benefits and job duties. Because employees are a key company asset, a smooth transition with minimal disruption is critical.

One notable barrier to selling appears to be tax laws, as 64 percent of survey respondents said they would be less likely to sell for this reason. Six years ago, 81 percent said they would be less likely to sell — although that year, the 2017 Tax Cuts and Jobs Act was signed into law. While there's no getting around paying taxes on the sale of a business, expert advice will ensure sellers have no regrets once their deals are done. **PMP**

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Name Your Price

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

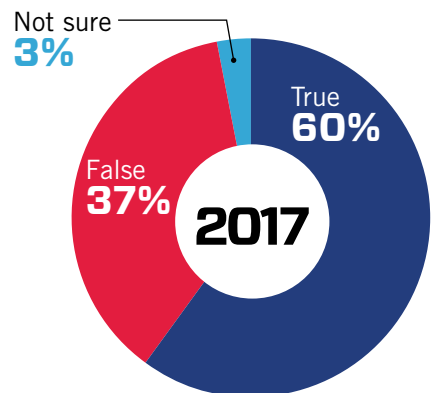
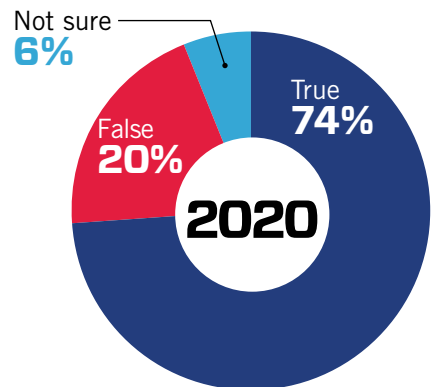
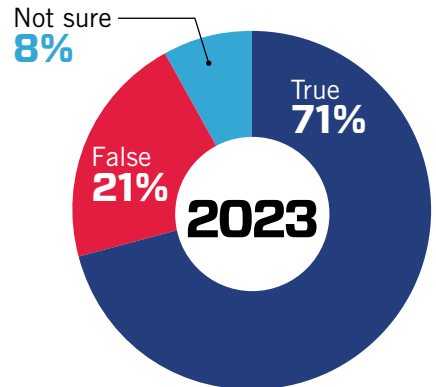
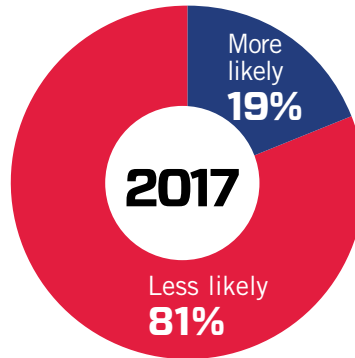
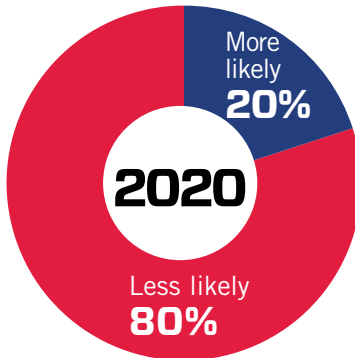
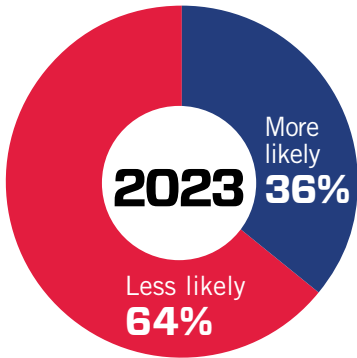
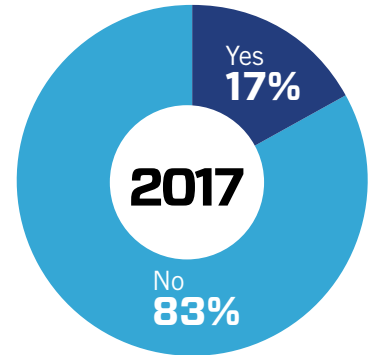
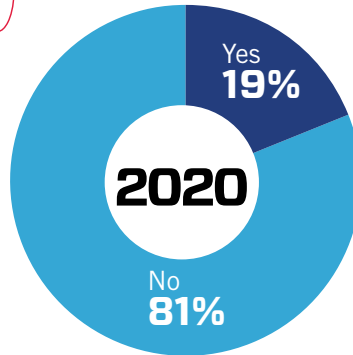
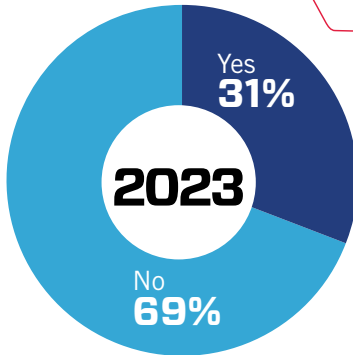


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Better Service

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

Processes and Policies

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

2023

Yes: **69%** No: **31%**

2020

Yes: **68%** No: **32%**

2017

Yes: **54%** No: **46%**

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?

2023

Yes: **76%** No: **24%**

2020

Yes: **79%** No: **21%**

2017

Yes: **81%** No: **19%**

Career Opportunities and Retention

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

2023

Yes: **66%** No: **34%**

2020

Yes: **55%** No: **45%**

2017

Yes: **58%** No: **42%**

Reputable representation

Consider these key points when choosing an attorney to represent you in a sales transaction

By Mark Ruff | PMP Contributor

Mergers and acquisitions in the pest control arena are complex transactions that require an experienced attorney with at least some knowledge of our industry. Long gone are the days when an attorney would hang his or her shingle out and take on any case that came through the door.

The practice of law has evolved such that an attorney can only competently represent a client in a few select areas. In short, the attorney you grew up with or the one who prepared your will may not be the best choice when you are buying or selling a pest control business.



Desirable attributes

Here are a few points to consider when selecting an attorney to take you through the merger and acquisition (M&A) process:

→ **Legal experience.** It is fair to ask about an attorney's experience. How many M&A transactions has he or she completed? You certainly do not want to pay an attorney to learn this area of the law. Is the attorney actively handling similar transactions? Is he or she familiar

with the current market trends for our industry? Does the attorney have experience working with your broker, certified public accountant (CPA) or financial consultant? Can he or she handle all aspects of the transaction, or will multiple attorneys be necessary?

→ **Industry knowledge.** It is vital that your attorney have at least a working knowledge of how a pest control company operates to effectively communicate with you and assess your risk in the transaction. Our industry often uses acronyms and slang such as GHP (general household pests), IPM (integrated pest management), IGR (insect growth regulator), prepaids, retreat only, etc., and there is no Babel app to help others learn the lingo. Sometimes I feel like a tour guide in a foreign country explaining to co-counsel or a CPA what was just said.

In addition, a buyer will require a seller to execute an indemnity provision for pre-closing liabilities, such as termite damage claims. In such cases, your attorney needs to assess your risk by discussing your claims history, whether

How to Find a Lawyer

When it's time to sell your company, you will need expert advice to ensure the process runs smoothly. How do you find a trusted attorney?

→ **Ask colleagues.** Seek out fellow pest control company owners who recently sold their companies, and get their honest opinion about the experts who worked with them on their mergers and acquisitions (M&A). Many successful pest management professionals (PMPs) have remained in the pest control industry after selling their companies, either as consultants or owners of new businesses, and would welcome the opportunity to share references.

→ **Check pest control industry resources.** Trade publications (like this one) and pest control industry websites often include advertisements from companies that specialize in M&A. State and national pest management associations also would be able refer you to PMPs who have been through the M&A process.

→ **Ask experts.** If you use a firm to handle your company's taxes or accounting, ask whether they can recommend a lawyer with M&A experience. Experts tend to have a vast network of professionals who work in related fields.

When you do find an attorney, be sure to ask for references and then check them. The sale of your company is too important to leave to someone who lacks the experience your deal requires.

annual inspections occurred, and any conducive conditions addressed. More important, you must have insurance available to cover a claim after the closing occurs.

Finally, an understanding of regulatory matters affecting the transaction is critical, especially when it comes to licensing and the buyer's ability to operate the business after the closing of the deal.

→ **Sterling reputation.** Attorneys are famous for arguing how many angels can dance on the head of a pin. The wrong attorney can collapse a deal by being overly aggressive and not understanding market boundaries.

For example, I was involved in a transaction where the lead counsel, contrary to my advice, had convinced the client (with whom he played golf) that the buyer would waive taking a \$63,000 deduction for deferred revenue (prepays) from the purchase price. The attorney was caustic and demeaning in his negotiations, and the buyer walked away from a \$4 million deal. The client ultimately sold his business at a significant discount.

So, when interviewing an attorney, ask whether he or she would mind if you could obtain a few references from recent clients (respecting the confidentiality of their respective transactions, of course). The opinion of a satisfied client speaks volumes about an attorney.

Another suggestion would be to ask the buyer, seller or your broker for their opinions of the attorney and whether they would have any reservations on working with the attorney. It is a fair inquiry, as I am often asked for the same.

→ **Fees and costs.** The attorney should be able to provide an estimate for his or her services, noting there is always the possibility of unanticipated issues or costs. However, cost should not be the sole determining factor in your decision, as an experienced and knowledgeable attorney works faster, is more efficient, and ultimately is more economical than an inexperienced attorney. Plus, a higher-priced attorney may pay for himself/herself by netting a higher divestiture price.

The attorney you choose will have an impact on the success of your transaction. Generally, you have only one chance to get it right. **PMP**



Ruff is an attorney who has primarily practiced in the pest control arena for the past 25 years. His Longwood, Fla.-based practice includes commercial litigation, commercial transactions involving mergers and acquisitions, and intellectual property rights. You may reach him at mark@mhrlaw.com.

Tax considerations in the mergers and acquisitions game

How to reduce the amount you pay in taxes, whether you're a buyer or seller

By **Dan Gordon, CPA** | *PMP* Contributor

Thinking about selling your business? Make sure you consider the tax issues.

Two important aspects in terms of tax planning as it relates to the mergers and acquisitions (M&A) process are *compliance* and *tax minimization*. A few strategies that are common are discussed below, but there are many others you should discuss with your tax professional.

Compliance issues

With respect to compliance, most states have exemptions to sales tax on assets purchased pursuant to a bulk sale — meaning an asset sale (see below for more on an asset sale). However, many states require sales tax to be paid on motor vehicles purchased pursuant to a bulk sale. You need to check with your state to make sure you are in compliance and determine who will pay the sales tax: the buyer or the seller.

When structuring a deal as an asset purchase (see below), the IRS Form 8594 must be completed and attached to the tax returns of both the buyer and seller. This form provides the IRS with details of how assets were divided among different classes for purposes of depreciation, amortization, and ordinary vs. capital gain treatment. For the IRS to verify the purchase price allocation was made consistently for both the buyer and the seller, the form is to be filed by both and should reflect the same allocations.

Tax minimization

The overarching theme when it comes to minimizing taxes relates to capital gains vs. ordinary income. Long-term capital gains are taxed at a lower rate

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(minimum 0 percent, maximum 20 percent). Capital gains apply to sales of capital assets that are held longer than one year.

Ordinary income can be taxed as high as 37 percent federally, plus state taxes. While it's easy to see why a seller would want a capital gain, a buyer would want deductions related to the sale at ordinary rates to reduce as much ordinary income for monies expended as part and parcel of the purchase.

This is where proper planning and negotiation between the buyer and the seller become important in reducing the tax burden of the seller while giving the buyer the maximum amount of tax benefit.

Asset sale vs. stock sale

In purchases and sales of companies, there are two main methods of structuring a deal. Depending on the objectives of the buyer and the seller, and after considering tax and legal alternatives, the parties will agree to either an asset deal or a stock deal. In our industry, most deals are asset deals, as they reduce legal liability to the purchaser and allow tax benefits to be shared by both the buyer and the seller.

In an asset sale, the assets of the company are sold to the buyer as opposed to the sale of ownership (stock) of the company. Included in the typical assets purchased category are trucks, cars, equipment, inventory, supplies, computers, furniture and fixtures, customer list, internet domain names as well as phone and fax numbers. While all these items get sold to the buyer, the seller is left with the corporation or limited liability company (LLC) that can either be used for another business or can be dissolved once the deal is completed.

By contrast, in a stock deal, the seller sells the stock or ownership in the corporation or LLC and passes the entire entity to the buyer.

Tax benefits in an asset deal

The tax benefits in an asset deal can be split between the buyer and the seller as agreed because the seller is interested in all gains being long-term capital gains, and the buyer is interested in deducting as much of the purchase price as quickly as possible at ordinary rates. This can be accomplished by allocating a large



portion of the purchase price to assets that can be depreciated quickly, as well as creating employment or consulting agreements with the seller that result in ordinary deductions to the buyer.

Asset deals afford this capital gain pass-through only with S Corporations and other pass-through entities. If you are a C Corporation making an asset deal, the entire gain will be ordinary, which is highly inefficient. But there are other strategies that can soften the blow if you are a C Corporation; check with your tax advisor.

Tax benefits in a stock deal

The tax benefits in a stock deal are mainly for the seller because the seller receives capital gains treatment as if he or she sold the stock in the stock market. The buyer must capitalize the purchase price as part of a cost basis for the shares acquired and can be used to reduce the gain when the shares are resold. Because there is very little tax benefit the buyer can derive from this type of sale, it usually takes more cash outlay for the buyer to pursue this type of transaction.

Seek advice early

When looking to buy or sell a business, it's not the price you receive as the seller or the price you pay as the purchaser that is as important as the amount you keep or the amount you pay after tax benefits. If you are in the M&A game and you have identified a potential deal, it is always advisable to consult with your tax advisors early in the sale process. **PMP**



Gordon owns PCO Bookkeepers, an accounting and exit planning firm that caters to pest management professionals throughout the United States. You may reach him at dan@pcobookkeepers.com.

Ready to Move On

A PMP's M&A experience influences his decision to sell his firm

By Diane Sofranec | PMP Senior Editor

Leonard Myers worked for a number of pest control companies over the course of 35 years as a pest management professional (PMP). But in 2011, he and his wife, Karen, decided that since their children were grown, it was time to start their own company.

They launched Hutto Pest Services in Pflugerville, Texas, a family-owned and -operated business that offers residential and commercial general pest and termite control services. Twelve years later, they decided to retire and sell their business to Atlanta, Ga.-based Arrow Exterminators.

"We were a family company," Myers says. "Our employees were like family, and Arrow planned to keep all of them and take care of them."

Most customers, when they find out everybody's still there, they're good."

— Leonard Myers

The couple's son Len worked at the company and remained after the sale as service center manager. He assures his parents that, more than six months after the deal closed, it is going well.

At the time of the sale, the company had 16 full-time employees. When the Myerses informed the team of their retirement and subsequent sale, "there were a lot of tears and mixed emotions," Myers recalls. "Change is hard for anybody." Now employees enjoy better benefits and additional career opportunities.

Making a change

The decision to sell the company was not made lightly. Eight grandchildren played a role, but that was only part of the reason.

"I had a hard time separating myself from the company," Myers admits. "I worked almost every day of the week — we were closed on Sundays — for the better



part of 10 years. Even when I was on vacation, I was working."

As time went on, Myers realized selling the company would be the only way he could fully let go of his responsibilities.

"It has been an amazing ride," he adds. "The company got a lot bigger than I thought; it just kept growing and growing." Selling, he says, was the right thing to do.

From left: Arrow Exterminators' Tim Pollard and Emily Thomas Kendrick, Hutto Pest Services' Leonard and Karen Myers, and Arrow Exterminators' Kevin Burns.

Understanding the process

The Myerses started the acquisition process when they reached out to their certified public accountant, Dan Gordon, CPA, owner of PCO Bookkeepers & M&A Specialists — and *Pest Management Professional's* financial columnist. The date was June 1, 2022.

"We closed on the transaction March 1, 2023," Myers recalls. "But we pretty much decided in November/December whom we were going with."

Myers recommends hiring experts, such as lawyers and accountants, who are familiar with the merger and acquisition process. They will fill you in on what to expect and give you good advice, he explains.

"I know pest control. I can kill bugs and manage people," Myers quips. "But getting somebody to work with us was a good value and well worth the cost."

Myers had been through the acquisition process a few times before, when working for other companies. He recalls some experiences were good, while others were just okay. As a result, he pictured how it would be when he sold *his* company, and says he is happy to report the transition was smooth.

"Everyone's different on when to sell," Myers says. "It just depends on whatever becomes more important. We only have so much time." **PMP**

Sofranec can be reached at dsofranec@northcoastmedia.net or 216-706-3793.



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.

Tropicare Termite and Pest Control



"We really feel great about our choice to merge with the Arrow family. Their team impressed us. We know we made the right decision for our employees. Arrow really cares about how customers and employees are treated, and those were the two things we were really concerned about when we started to think about a sale. We are so happy to be able to offer our long-time customers an expanded range of services."

Marty Gagnon
Tropicare Termite and Pest Control
Land O'Lakes, FL

Falcon Lawn & Pest



"We first met Emily (Emily Thomas Kendrick, CEO of Arrow) in the 1990's, and we had talked with other members of the Arrow management team over the years. We always believed they would be the best fit for our employees, so this is a dream come true for us. Arrow is dedicated to hiring, training and retaining the best people, and we are so happy that this experienced team we've built over the years will be a part of the Arrow culture and have additional opportunities for growth."

Louis Witherington
Falcon Lawn & Pest
Orlando and Wildwood, FL

Boltin Pest Control



"We feel very fortunate to have connected with Arrow. We've talked to many companies over the years, and we know Arrow will take the best care of our employees due to their very strong family culture. They have greater opportunities for growth. After meeting Emily (Emily Thomas Kendrick, CEO of Arrow) and her team during the diligence phase, we knew we were selecting the right company."

Lacy Boltin
Boltin Pest Control
Dade City, FL

Call today for your confidential conversation.
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