

# Stay Tuned The M&A Sector of the Building Services Industry:

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*Opinion: Gary A Penrod*  
*Gary Penrod and Associates, Inc.*  
*843.681.6588 x 11*  
*Gary@garypenrod.com*

### **STAY TUNED** – *A Periodic Update Of The Building Services Industry's M&A Sector*

In the last issue of *Stay Tuned*, I addressed the issue of uncertainty among business owners because of the possible changes in the tax code. At that point, it was anyone's guess about what would happen. We no longer have to guess, although the exact impact for individuals and their company may still be unknown until it is studied further. However, it is clear that individuals and companies will be paying more to the government. In addition to that, there is the impact of *The Affordable Healthcare Act* (Obamacare) that must be analyzed. I have heard a variety of ways with which company owners are preparing to deal with this reality, however, there remains a feeling of uncertainty about the various scenarios that are being analyzed about how to best deal with it. One thing is certain: The Affordable Care Act will impact every business owner; it is just a question of how and how much! This will be playing out for the next few years.

**A Feeling of Pessimism Dominates.** It is more common now than even in the darkest days of 2009 and 2010. Then, it was *confusion* causing the uncertainty; now, as reality settles in, the cause of the pessimism seems to be the *stark reality* about what must to be done to stay ahead. For the small business owner, it truly is a *cliff* that, unless there is bold thinking, planning and execution, they are at risk of falling over. That is the pessimism that all of us feel on the dark days; however, in reality, there is still good news and there will be ways found to avoid disaster, thus making for sunny days too. The sunny days may not be quite as bright as in the past, but still sunny.

**Defeating The Pessimism.** The best way, I guess, is to think about what has to be accomplished within one's own company and to control those things that can be controlled. It's not an easy task some of the time, but being a businessperson requires a special kind of person that is able to juggle the situations that one finds oneself in. *The Affordable Healthcare Act* will certainly take some thought and planning. It is more of a problem for smaller, non-union companies that for larger, unionized companies. Those caught in the middle are companies that are not unionized and have more than fifty employees. The fear, of course, is that if the cost is passed on to the customer, it will trigger a re-bid situation. Everyone has faced that before and dealt with it effectively. It will be that way this time too.

**Is Selling One's Company The Answer?** Maybe; if the time is right, but not necessarily if the time is not right and one is simply not able at this time to deal effectively with the problems that have besieged most businesspeople. It is better to not consider selling while under duress. Find a way to get out from under and build up again, getting to a point where the company is in a better position to be sold. It will take a little time, but the chances are good that it will be time well spent.

Selling one's company is a personal choice. It is not within the scope of an advisor's (Lawyers, CPAs, M&A Intermediaries) responsibility to tell one when to sell. Their responsibility is to help one see the pros and cons for each path, providing one with the best information available. Making the decision to proceed is difficult for many and often will not be made 100% when the process of selling begins. For many, clarity begins as the process continues through closing. Depending on the situation and those providing advice during the process, the reality of one's new life comes into focus, so that there is 99% certainty as the ink is put to paper. Be prepared to never know for certain that the correct decision was made until viewed in retrospect!

**2012: The Year That Was.** From my perspective, 2012 was not necessarily what I expected. It was clear to me that the looming capital gain tax rate increase, significant other tax increases and *The Affordable Healthcare Act* all would all provide the impetus for a banner year for transactions in the building services industry. Certainly, there were some transactions completed, but not the number that I anticipated. I am still not certain why, but it is apparently the case across the board among small and middle market companies among all industries, according to William Blair Company's *Merger Tracker* for Q3, 2012. Maybe it is because entrepreneurs simply like the challenge of facing a difficult situation, meeting the challenge and then moving on to sell, or not sell. Or, it may just be that the sale of one's company is simply a stepping stone for shareholders moving on to a new venture and that they are exercising caution now about moving on, feeling that *staying put* is the more prudent position for right now. We'll see what happens in 2013!

**2013: The Year That Will Be.** I am somewhat reluctant to make any prediction about M&A activity within the building services industry for 2013, however, I do believe that 2013 will be, at least, as good as 2012, if not a tad better. Why? I think that now that everyone has some idea about what the future holds in spite of some lingering uncertainty, those that have managed their companies well for the past several years and are now at an optimum point in their personal life, will go on to begin the selling process if that has been a goal for them. While cognizant of the business climate, they are satisfied that their companies are ready and they, personally, are ready too. So, while I am not predicting a banner year, I do think that it will be a good year. One thing is certain: qualified buyers are ready and do have the cash.

**How Have The Economic Challenges of the Recent Past Affected Value?** While some will argue that there has been a negative impact on overall market valuations for companies within the building service industry, I do not necessarily agree. Yes; a company that has *not* performed as well as in the recent past and has been slow to grow will see some negative impact of their market value, however, those companies that have successfully met the challenges that have faced them, will see no decline in value in my judgment. I will agree that some buyers will make the effort to devalue a prospect company because of the economic downturn. It may work for them sometimes, but not always for a good company with astute shareholders and advisors. There will always be a qualified buyer that recognizes value.

We'll have to see how 2013 unfolds. Challenges remain; however, a good company with a good management team can hold the line on value in my view.

**What Can Be Done To Hold The Line?** Nothing new here; it's the same as in the past: Stay alert to changes, have an effective marketing plan and growth implementation plan and go about doing business while keeping the goal post in sight. Growth is a good thing so long as it is productive growth and not growth just for the sake of increasing the top line. Provide opportunity and challenge for management, allowing them to contribute and share in the company's success. Finally, for the operator-shareholder: Be a visionary, trying to avoid being caught up in the weeds and always looking ahead.

Here is to success for all companies that are engaged in the building services industry, whether or not selling one's company, or buying a company is a goal for 2013! *Happy New Year.*

*STAY TUNED!*

A handwritten signature in cursive script that reads "Gary".

*PS. I invite you to contact me directly about any question or comments that you may have about what is written here. Also, please feel free to contact me about any questions that you may have about the acquisition process, market valuation or about companies that may be for sale. If selling your company or, buying a company is being considered, please contact me with the assurance of complete confidentiality.*

*We are actively seeking companies that may be considering a sale that are located in the Western, Midwestern and Southeastern states in response to qualified buyers that are seeking to acquire good companies of all sizes. gp.*