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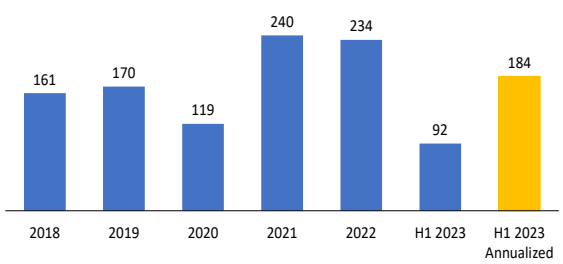
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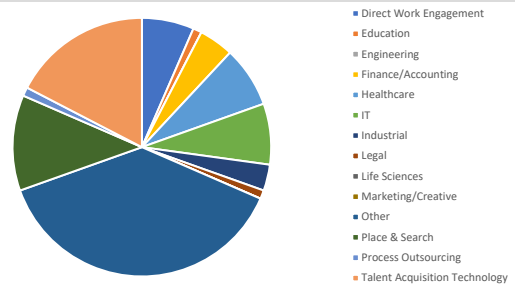
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State of the Market

North American Staffing M&A Deals



Deals by Staffing Segment – H1 2023



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Common Seller / Buyer Mistakes

Seller Mistakes

- Not building a strong management team to run the business
- Not having realistic expectations based on current market conditions
- Not engaging the proper professionals (or engaging them too late)
- Not being sufficiently organized / having proper financials and reliable projections
- Not identifying financial and legal problems in the business, and fixing them, before going to market
- Not having a dedicated person(s) to oversee the deal
- Not negotiating a sufficiently detailed LOI that contains all key deal terms
- Not defining net working capital and resolving working capital issues sufficiently early in the transaction
- Not structuring earnouts properly
- Allowing the process to drag out

Buyer Mistakes

- Not engaging experienced industry professionals who know how deals should be priced / structured, and will prepare documents / negotiate consistent with market norms
- Not understanding the most tax efficient way to structure a transaction
- Omitting key terms from the LOI (such as tax elections, escrows, and working capital requirements)
- Not doing sufficiently thorough due diligence (state and local taxes, nexus issues, misclassification, etc.)
- Not doing sufficient integration planning
- Not being mindful of cultural fit / alignment of values
- Allowing the process to drag out

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Best Practices for Sellers

- Use management retention agreements to build a strong management team that will remain with the business after a sale
- Make sure you have enforceable restrictive covenants / non-solicits and proprietary information agreements with key management employees and employees with significant client relationships
- Have realistic expectations - valuations have come down from 2021-2022, the amount of cash paid at closing has come down, and 2 year earnouts are the norm
- Engage experienced M&A professionals who understand the staffing industry and make full disclosure to them, have them do a business assessment and legal audit 1-2 years before you go to market, and clean up your financial and legal affairs.
 - Strategic buyers will expect reliable 1-2 year projections and PE buyers will expect reliable 5 year projections
 - Seller QoE reports are very helpful in this uncertain economy, and are expected if EBITDA exceeds \$5 million or there is a PE buyer
- Be organized - upload to a VDR before going to market all of the materials a buyer will request and be prepared to move quickly once an LOI is signed
- Assign a dedicated person(s) to oversee the deal - due diligence demands from a buyer will be significantly more extensive and burdensome than you anticipate in this market
- Do due diligence on the buyer, particularly if there is an earnout or a PE buyer and rollover or retained equity
- Negotiate a detailed LOI that contains all key business terms
 - Tie any earnout to Gross Profit rather than EBITDA, ask for proportional earnout payments and protective provisions, and ask for Representations and Warranties Insurance if the purchase price exceeds \$20 million

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Best Practices for Buyers

- Have in place an experienced internal and/or external M&A team, and plan for operational and HR integration in advance
- Do thorough operational, legal, accounting, tax and insurance due diligence (with particular current focus on the sustainability of business, state and local taxes, nexus, misclassification, cybersecurity, and ERC issues)
- Make sure there are or will be at closing enforceable non-competes / non-solicits by key management, and by current and departed employees who have / had significant client relationships
- Current deals may require more structure (less cash at closing and longer earnouts) and some may need to be priced on projected future earnings (rather than TTM earnings) if the seller's sales have been declining
- Prepare a detailed LOI containing all key deal terms (be sure to include tax elections, escrows, working capital requirements, terms of employment / consulting agreements for owners and key employees, tail insurance requirements, etc.)
- Consider offering Representations and Warranties Insurance if the purchase price exceeds \$20 million

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Q & A