NATIONAL 8(a) ASSOCIATION

ALASKA REGIONAL CONFERENCE

JUNE 20-23, 2022 — ANCHORAGE

Mergers & Acquisitions

Jon DeVore, Birch Horton Bittner & Cherot & Kenneth Dodds, Live Oak Bank

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Ken Dodds

Moderator/Speaker

Ken Dodds

VP Industry Expert

Live Oak Bank

Past Performance

FAR 12.206, 13.106.2(b)(3), 15.305(a)(2)

At most agencies, incumbents win the majority of the work

The FAR allows firms to claim the past performance of "predecessor companies" and "key personnel." FAR 15.305(a)(2)(iii).

After a contract is novated, there is a process to change the contractor's identity for CPARS. Section 1.6 https://www.cpars.gov/documents/CPARS-Guidance.pdf.

Acquisition Leads to Expansion

Access to New Agencies

Retain Strong Technical, Management and/or Business Development Team

Access Revenue and Cash Flow

How is Value Determined

Valuation will be determined based on your EBITDA as well as other factors.
What is EBITDA?

EBITDA – or earnings before interest, tax, depreciation and amortization – is an indicator commonly used by prospective buyers or investors to measure a company's financial performance.

In its simplest form, EBITDA is calculated by adding the non-cash expenses of depreciation and amortization back to a company's operating income. Below is the basic formula:

EBITDA = Operating Profit (EBIT) + Depreciation (D) + Amortization (A)

Identify add backs that the company has such as officer comp, cars, leases, etc.

Multiples

2-3x- 8(a), state government, subcontract, civilian, low margins

4-5x – multiple capabilities, prime, BICs, large backlog, strong pipeline, higher or employee-based size standards

6+ - Full and Open, Cleared Work, High Margins, Long-Term Contracts

Backlog

Companies with 20M revenue, 50M in awarded contracts/orders

Company A – 5% Net Margins - $2.5 Million

Company B – 10% Net Margins - $5 Million

Company C - 20% Net Margins - $10 Million

Company D – 25% Net Margins - $12.5 Million

SBA 7(a) Loans

- $5 million max
- Lower down payment needed
- Regularly paid back over 7 years (up to 10 years allowed)
- No covenants
- Personal guarantee of all 20%+ owners
- Rollover equity not allowed, seller must exit business 12 months after sale
- No earnouts

Conventional

- Unlimited ceiling
- Higher Down Payment
- Shorter amortization
- Financial covenants to be expected
- More flexibility in deal structures (rollover equity, earnouts, mezzanine)
- Can be combined with SBA 7(a) if deal is eligible for both and larger than $5MM

Legal Considerations

8(a) Waivers and Change of Ownership

Size and Status Recertification

- Contract Specific Issues

Eligibility for Recompetes

Facility Clearances

Acquiring Entity vs. Division

- Inheriting revenue/employees
- Which contracts require recertification

Contact Information

Ken Dodds

Ken.dodds@liveoak.bank

703 673 6835

www.liveoankbank.com

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