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WEBINAR

**M & A Outlook for Business Owners & Sellers
in 2025: Opportunities Under a New Presidency**

**Tues, Dec 10
10:00AM PST**



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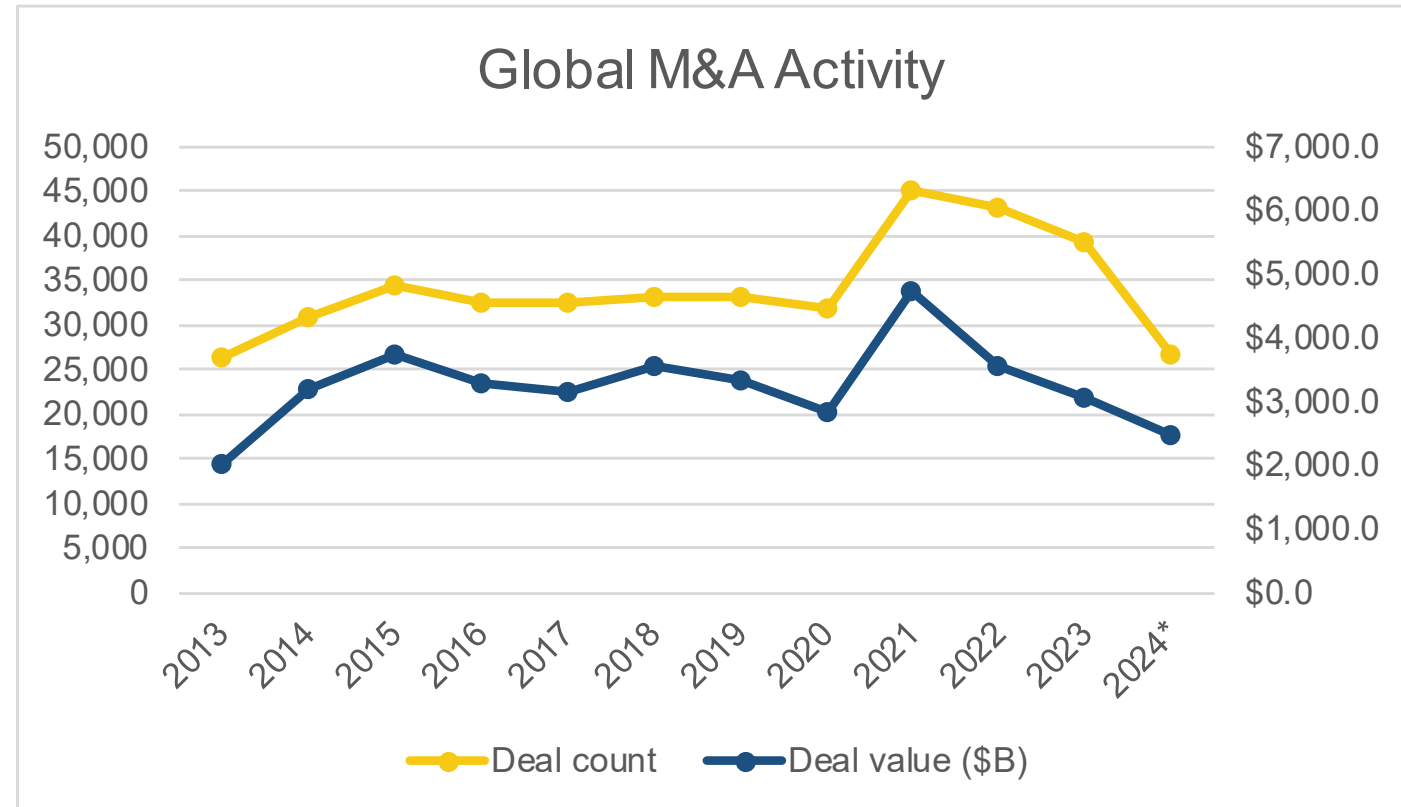
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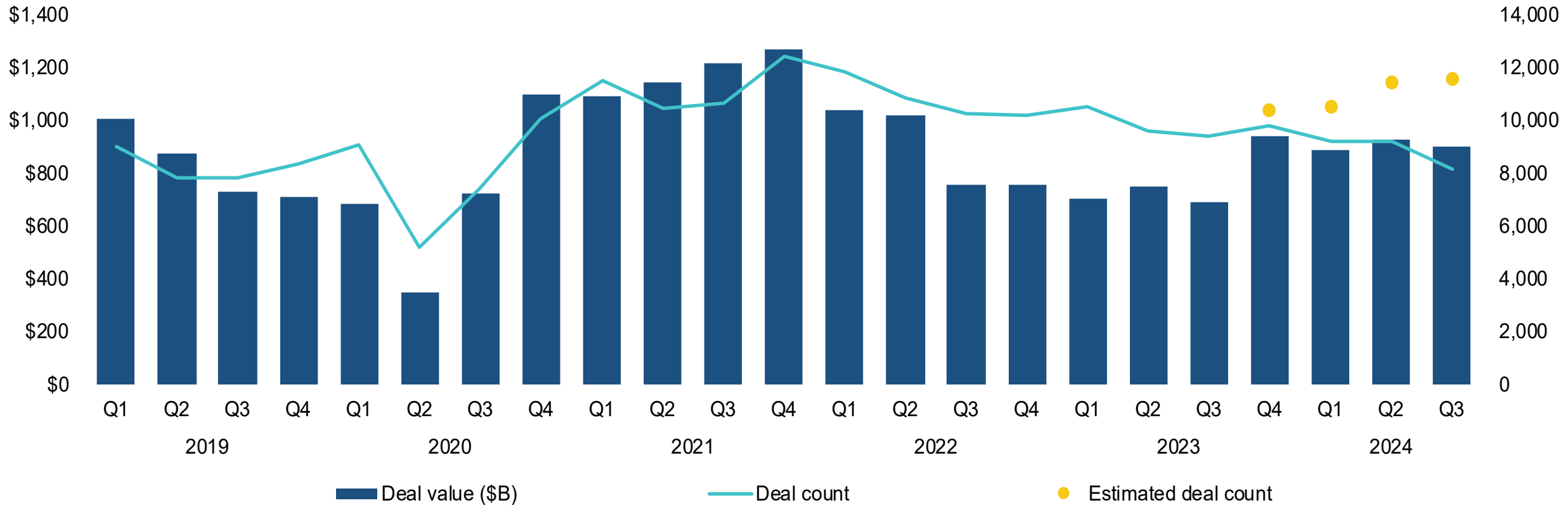
M&A Activity: 2024 Review

Beginning of the recovery:

- Mixed 2024 M&A activity from slow 2023
- Cautious Optimism:
- US: Fed Reserve (1 rate cut so far in 2024)
 - 2-3 cuts projected for next year
- New Administration entering the White House
 - Control of House & Senate
- Recovery or Recession?



M&A Activity: Deal Review – Quarterly Basis

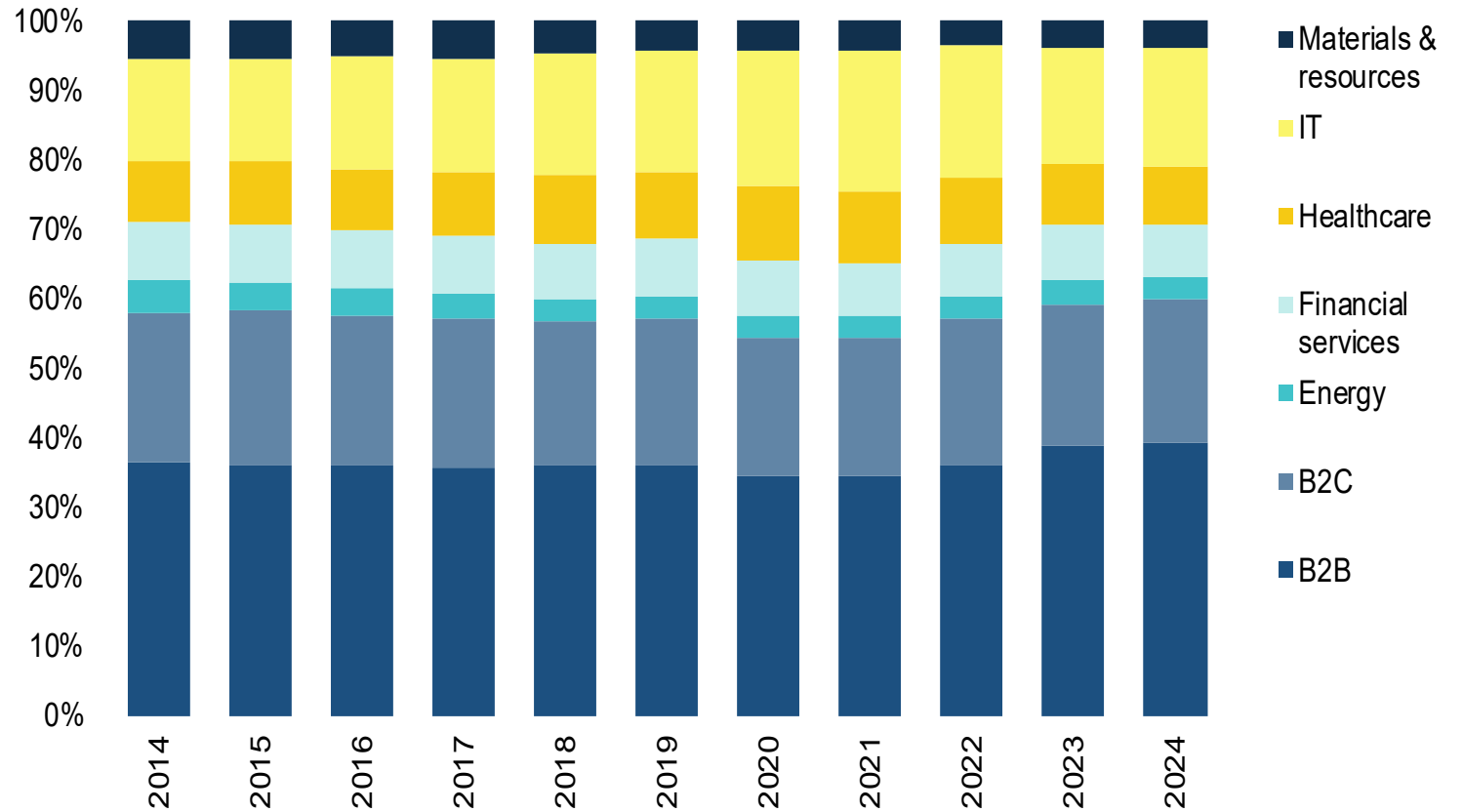




M&A Activity: Share and Volume Trends

Top Trending Sectors:

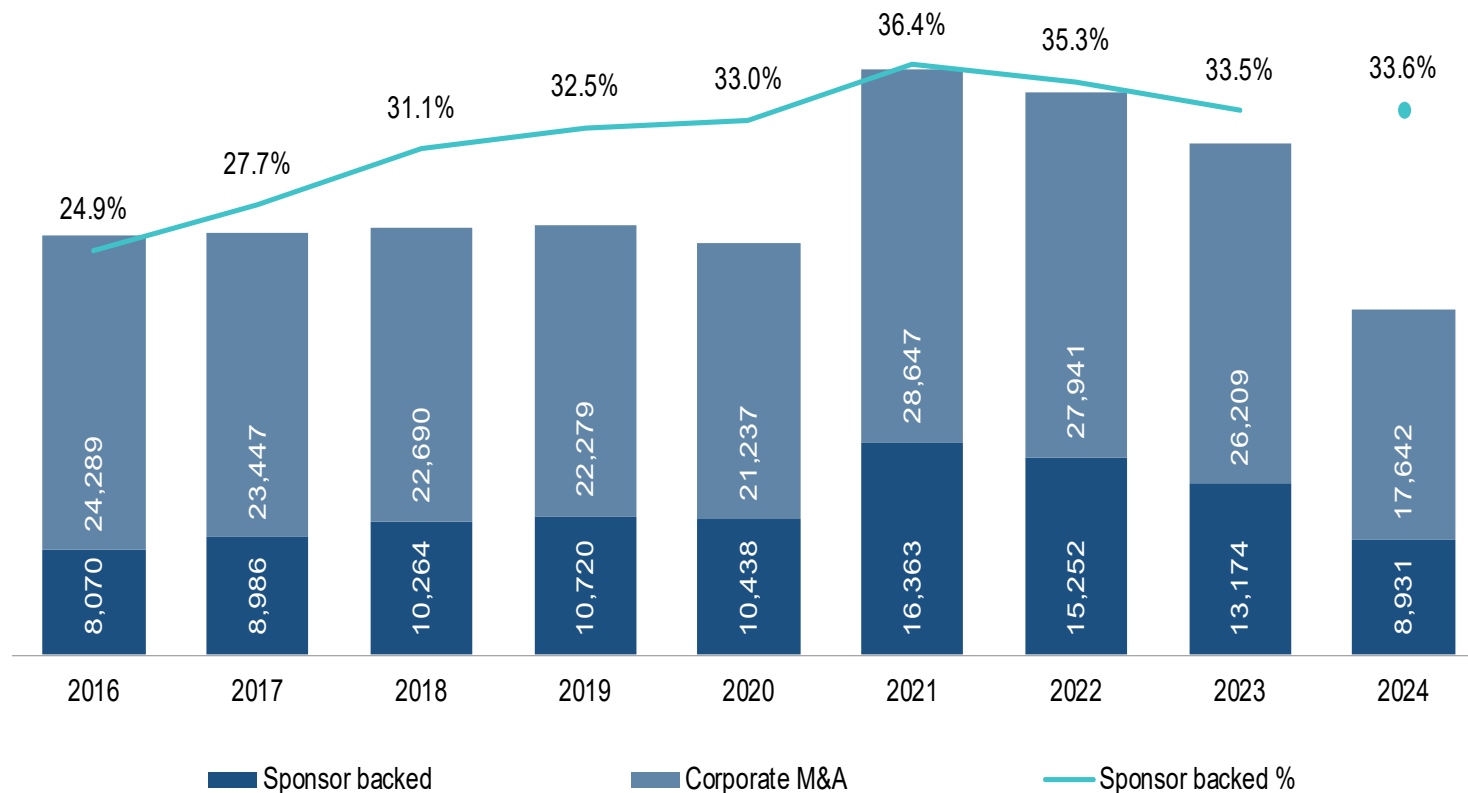
- **B2B: products & services (39%)**
 - 24% of total deal value
- **B2C: direct to consumers (21%)**
 - 15% of total deal value
- **Technology: software & internet (17%)**
 - 23% of total deal value
- **Healthcare: pharma / biotech (8%)**
 - 10% of total deal value
- **Financial Services: (8%)**
 - 12% of total deal value
- **Energy: oil and gas (3%)**
 - 10% of total deal value
- **Infrastructure: (4%)**
 - 4% of total deal value





M&A Activity: Strategic vs Private Equity

- Private Equity represents 33% of total completed deals
- Invest across all deal sizes (main street to large cap)
 - Younger, “1st Gen” PE are more flexible on their minimums
 - Some PE will spinoff a sister division for main street
- Most PE platforms will make multiple add-on acquisitions
 - Complimentary, new products, new markets

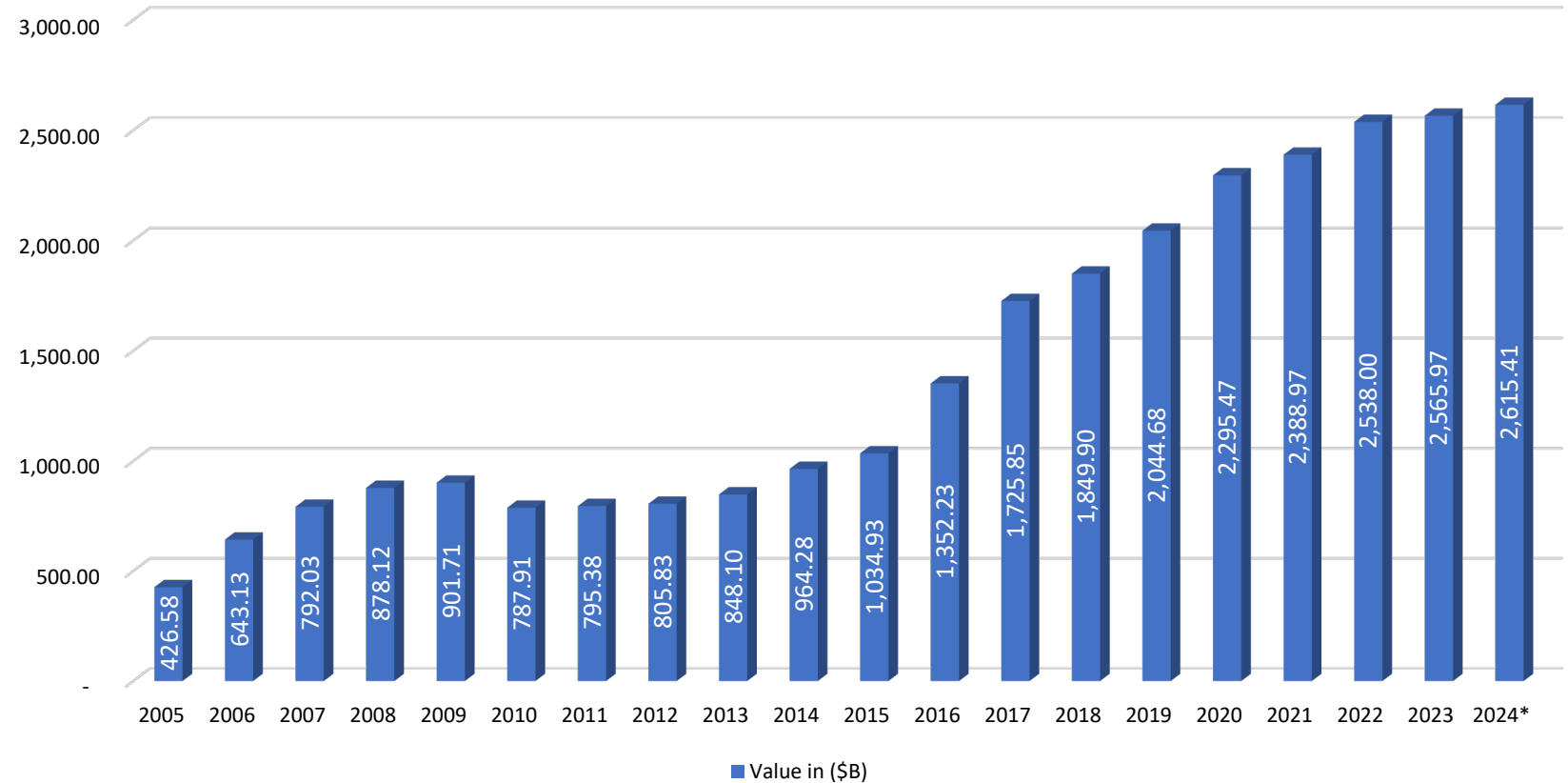




M&A Activity: Private Equity

- Private Equity “dry-powder” is at all-time high: \$2.6 Trillion
- Deal Volume projected to grow by 18% in 2025
- Sector Highlights:
 - renewable energy,
 - healthcare, and
 - Technology
- Focus on ESG

Global Private Equity Dry Powder

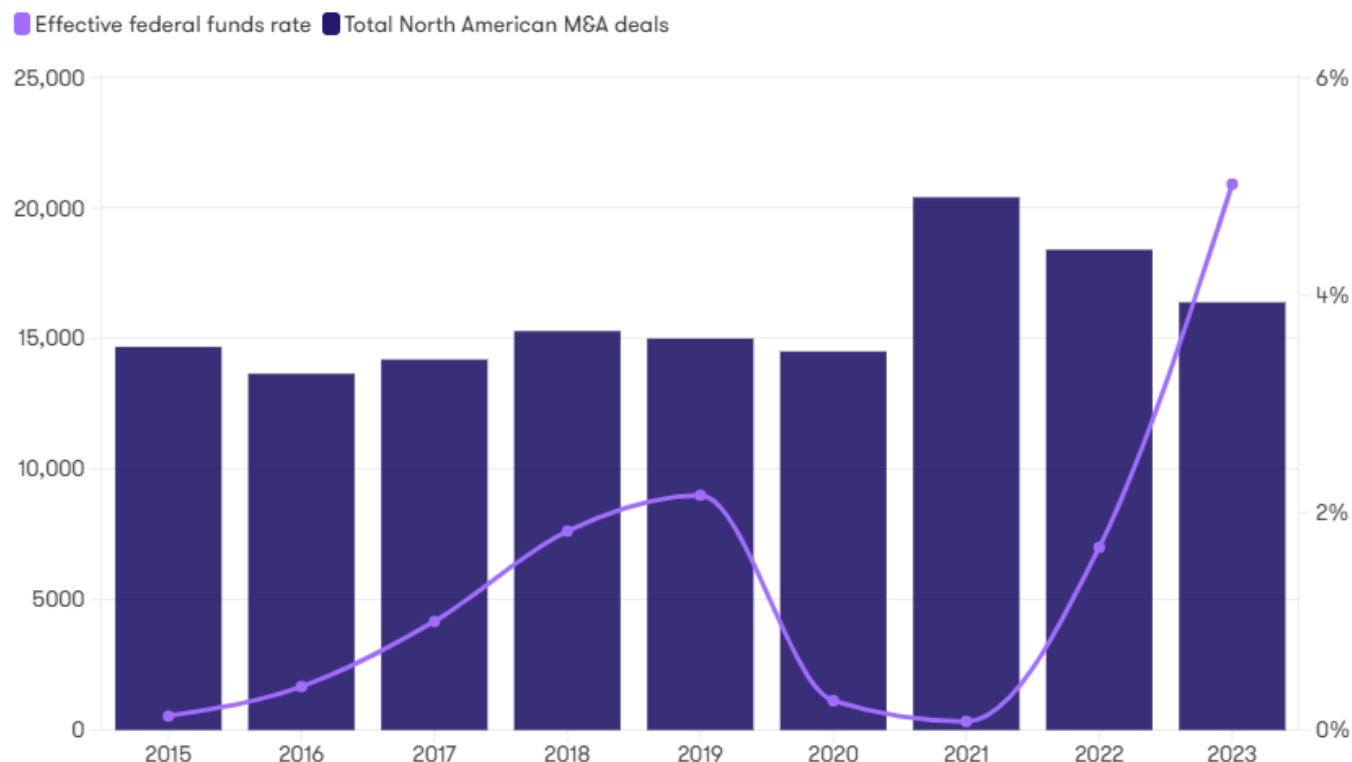




M&A Outlook: Interest Rate & Annual Deal Volume

- Keys to look for:
 - Declining Interest Rates
 - New Tariffs
- Both Strategics & PEGs have increased optimism going into 2025
- PE firms are still faced with a higher cost of capital for leveraged buyouts (LBOs)
- Level or reduced interest rates will sustain higher PEGs activity

North American deal volume vs. yearly average EFR





M&A: Mitigating Future Risks

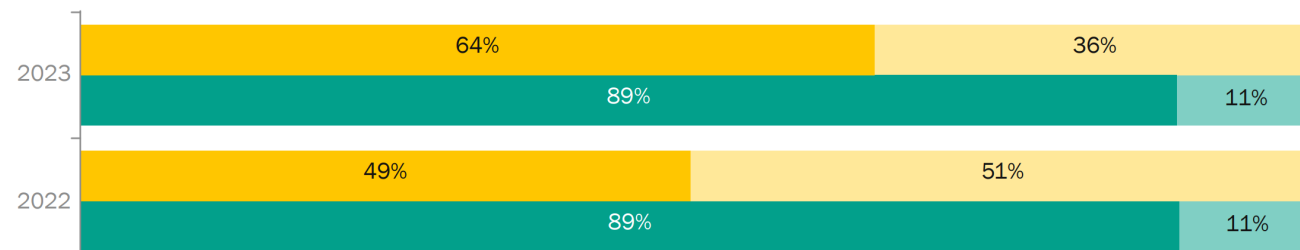
- **Undisclosed Price Increases** (works both ways)
- **Inventory Issues** (quality of systems & supply chain challenges)
- **Accounts Receivable** (slow pay customers)
- **Cyber Security** (advanced security systems)
- **Third Party Claims** (compliance & systems)
- **ESG Advantage** (Environmental, Social, Governance)
- **Rep & Warranty Insurance** (supporting smaller transactions)



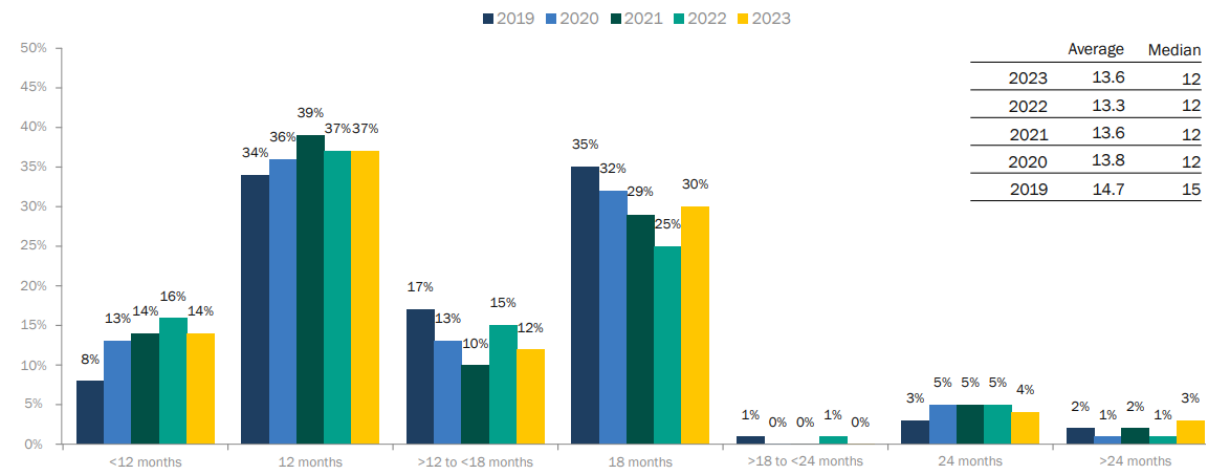
Select Material M&A Legal Term Trends

Indemnification:

- The number of transactions with no survival of seller's general representations and warranties decreased in 2023
- The median survival period for seller's representations and warranties went back down to 12 months and the average held steady



SURVIVAL PERIOD (2023 MEDIAN: 12 MONTHS)



	Average	Median
2023	13.6	12
2022	13.3	12
2021	13.6	12
2020	13.8	12
2019	14.7	15

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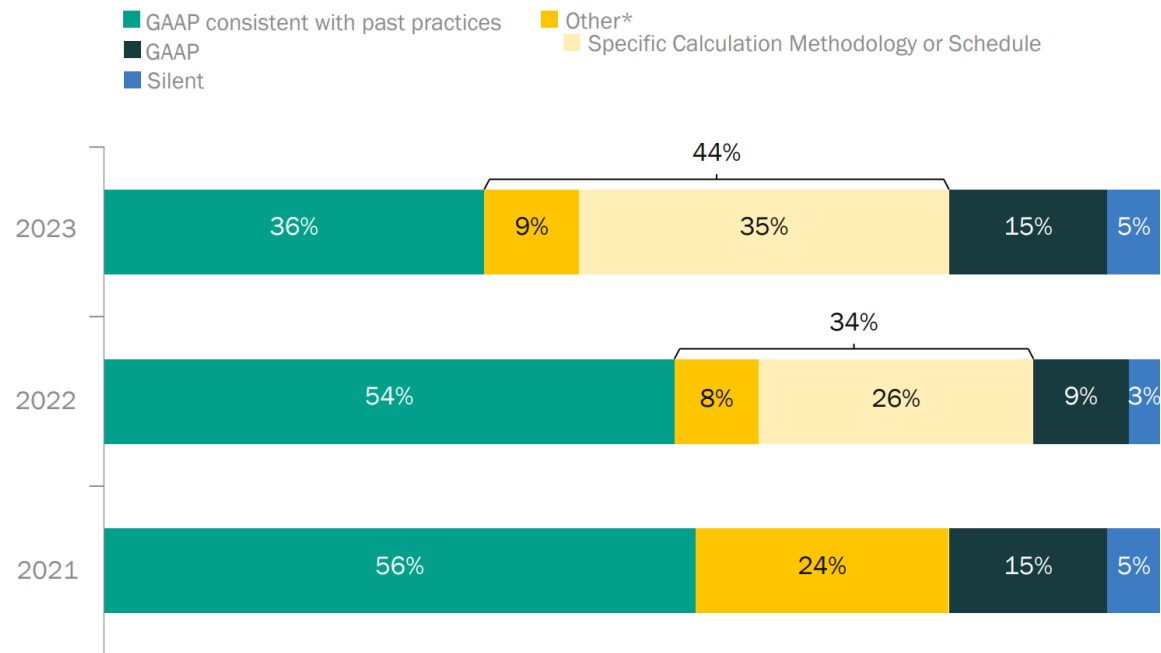


Select Material M&A Legal Term Trends

Purchase Price Adjustments:

- The “worksheet” approach is now used on more than one third of deals
- “GAAP consistent with past practices” is no longer a majority when establishing accounting practices

SUBSET: DEALS WITH POST-CLOSING PURCHASE PRICE ADJUSTMENTS



* “Other” methodology includes, among other things, non-US accounting guidance (e.g., IFRS) and, prior to 2022 deals, a specific calculation methodology or schedule.



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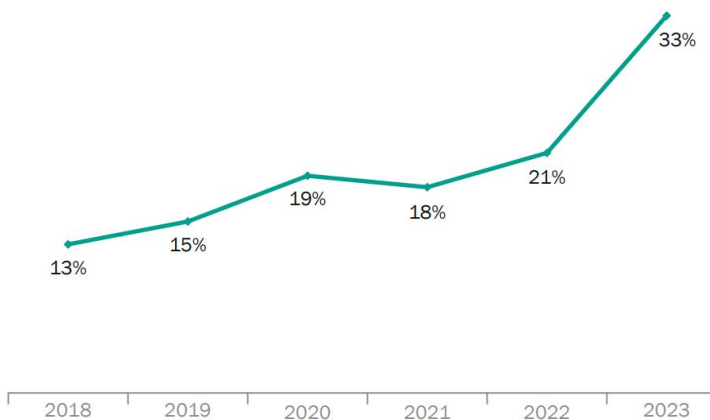


Select Material M&A Legal Term Trends

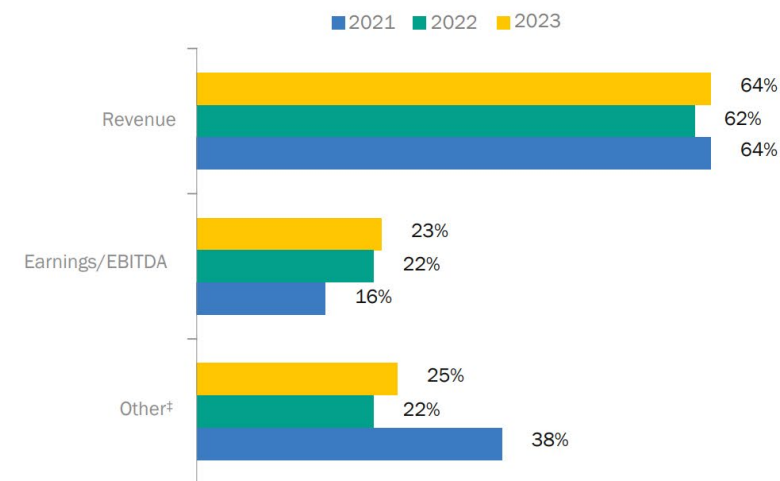
Earn Outs:

- One third of 2023 transactions included an earnout
- See trend of more than 50% increase year over year
- The amount of contingent consideration tied to earnouts also ticked up slightly

EARNOUT INCLUDED



EARNOUT METRICS†



* For a more detailed analysis of SRS Acquiom's Life Sciences deals, please see the 2023 SRS Acquiom Life Sciences M&A Study.

† Earnouts can include more than one metric, such as a combination of revenue and earnings.

‡ Examples: unit sales, product launches, divestiture of assets.

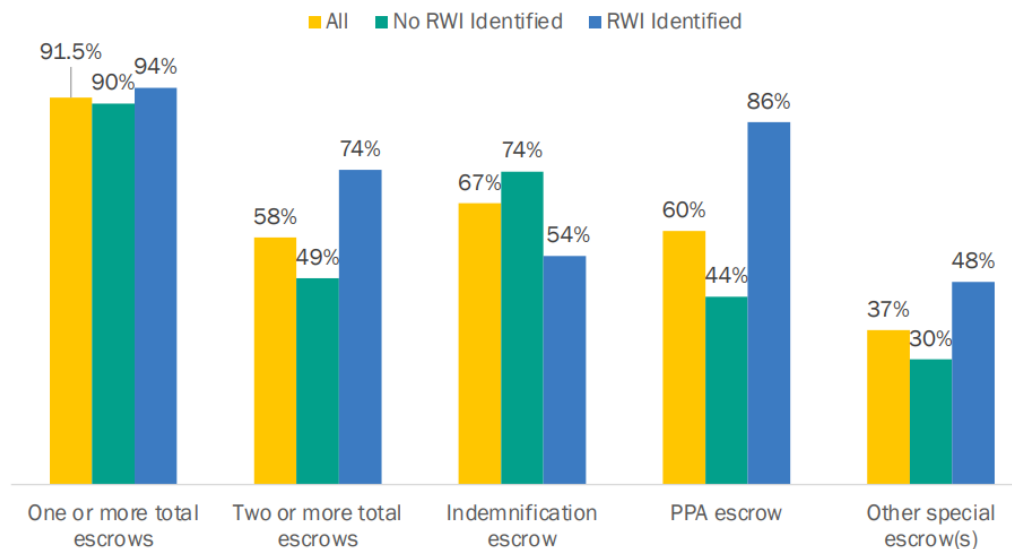


Select Material M&A Legal Term Trends

Escrow(s):

- Special escrow on the rise
- One half of deals with RWI including an escrow for something other than general indemnification or the purchase price adjustment

PERCENTAGE OF ALL DEALS THAT INCLUDE AN ESCROW, BY CATEGORY



* Includes holdbacks

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AGGREGATE SIZE OF ALL ESCROWS AS A PERCENTAGE OF TRANSACTION VALUE

	Average	Median
All deals	11.1%	10.0%
No RWI Identified	14.1%	12.5%
RWI Identified	4.3%	2.5%

Subset: 2023 deals with an indemnification escrow

SIZE OF GENERAL INDEMNIFICATION ESCROWS AS A PERCENTAGE OF TRANSACTION VALUE

	Average	Median
All deals	8.1%	9.4%
No RWI Identified	10.8%	10.0%
RWI Identified	2.0%	0.5%

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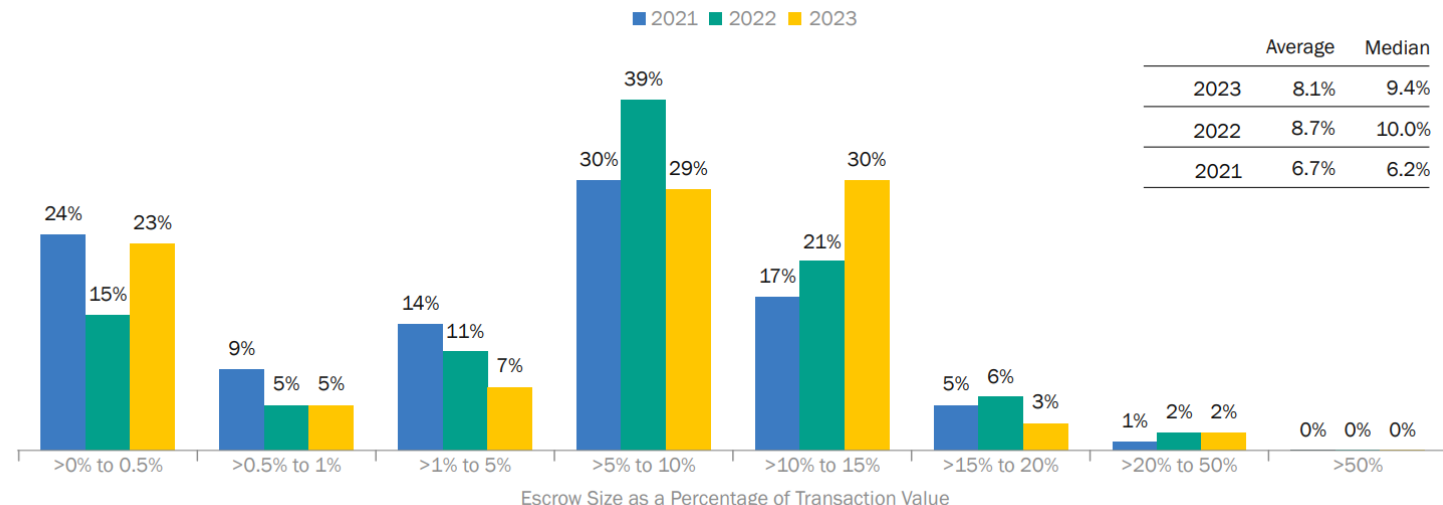
Select Material M&A Legal Term Trends

Escrow(s):

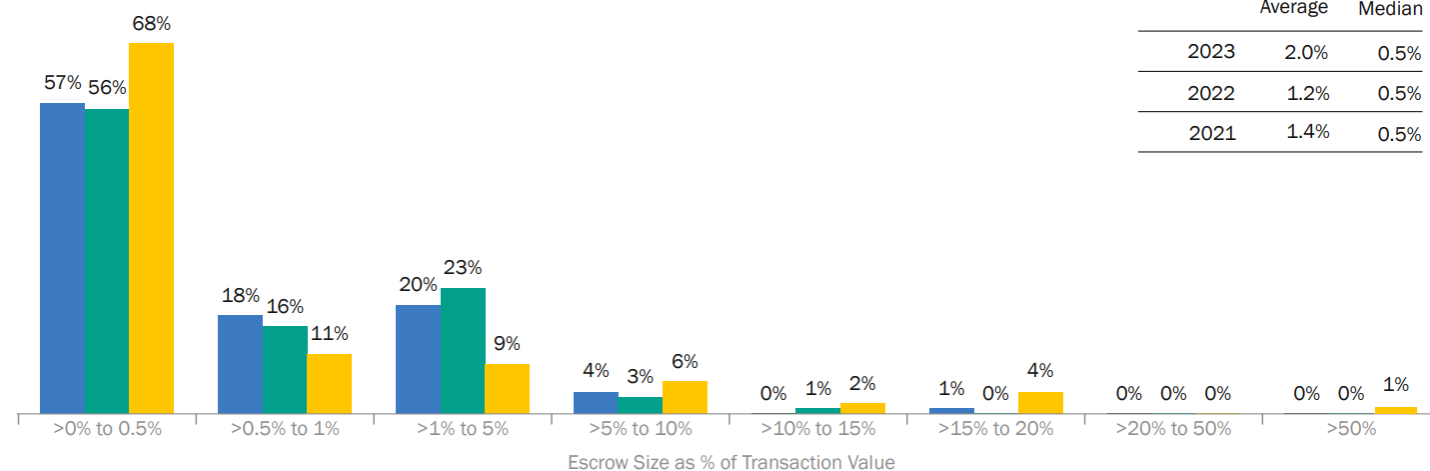
- *Without* Representation & Warranty Insurance

vs

- *With* Representation & Warranty Insurance



	Average	Median
2023	8.1%	9.4%
2022	8.7%	10.0%
2021	6.7%	6.2%



	Average	Median
2023	2.0%	0.5%
2022	1.2%	0.5%
2021	1.4%	0.5%



Reps & Warranty Insurance Trends

- **What:** Special insurance policy designed to cover losses resulting from breaches of representations or warranties
- **Goal:** Minimize exposure
- **Why:** Average escrow amount reduced from 12.3% to 2.3%
- **When:**
 - Frequently used in deals valued above \$50 M
 - Growing in smaller deals as premiums have decreased
 - Incorporated at time of letter of intent with Buyer (more leverage to negotiate)



Reps & Warranty Insurance Trends

- **Who:** Protects Buyer and / or Seller
 - Payment of premium is negotiated between Buyer and Seller
- **Typical Terms:**
 - Limits: **10%** of company value; Premium: **2-4%** of limits
 - Retention: **1-3%** of company value
 - Exclusions are common (known breaches, employee payroll & retirement account issues)
- **TRENDS:**
 - Utilized in 75% of PE deals and 64% of larger strategic acquisitions
 - Policy sizes decreasing (<\$50M): more available for most transactions
 - \$10-\$20M deal size not uncommon



2025 Outlook: Trends and Themes

- Slow and cautious going into the new year
 - New Administration will set the tone in Q1, '25
 - Benchmarks for 100-day plan (PEGs)
- Pent-up demand also offers a potential boost to more dealmaking
- Deal values looking to recover alongside rate cuts
- Look for an increase in supply chain diligence
- Disruptive technology (take out costs and appeal to new customer bases)
- Strategics continue take a higher % of deal share (less leverage needed)
- Data Analytics (Big data)





2025 Outlook: Trends and Themes

Market Trends

- Generational Shifts
- Sector-Specific Opportunities
- Secondary Buy Out (SBO)

Top Trending Sectors:

- B2B: products & services (39%)
 - 24% of total deal value
- B2C: direct to consumers (21%)
 - 15% of total deal value
- Technology: software & internet (17%)
 - 23% of total deal value

(See slide 6 for more details)



M&A Outlook: Company Value Drivers

Attractive Company Characteristics:

- Supply chain resilience
 - Local sourcing & multiple sourcing
 - Working closely with vendors
- Tech-enabled businesses
- Recurring revenue
- Above average margin profile
- Strong management team
- Conservative approach during market expansion



M&A Outlook: Company Value Drivers

Actionable Takeaways for CEOs:

- Focus on de-risking operations:
 - Diversifying customers & suppliers
 - Supply chain optimization
 - Key person dependency
 - Leverage technology
- Financials matter
 - Reviewed / Audited
 - Be prepared for a robust quality of earnings reports
 - Focus on growing profit margins
 - Provides confidence to a buyer
 - Lead to higher valuation multiples
- Build a strong management team is a top factor influencing acquisition decisions, second only to financial performance



Effective Tax Planning in Preparation for an M&A Transaction

- **Plan for how the sale will be taxed:**
 - Will it be taxed as capital gain or ordinary income? Or a combination?
 - Sellers generally prefer to sell stock or partnership interests
 - Buyers typically want to buy tangible & intangible assets which can be depreciated and amortized
 - Consider your business restructuring options early as it may reduce total tax liability related to a sale. It may even affect sale price and the buyer's willingness to close a purchase



Effective Tax Planning in Preparation for an M&A Transaction

- **Structuring Options**
 - Be sure to plan ahead!
 - How is the company currently structured?

Partnership or LLC?

- ✓ Sale of a partnership interest is a capital asset transaction
- ✓ In an asset sale, the sales price can be grossed up to cover tax costs associated with the asset sale

C or S Corporation?

- ✓ Some sales are considered stock sales for legal purposes but are treated as asset sales for tax purposes only
- ✓ Various tax elections are available to please everyone including IRC §338(h)(10), §336(e) and §368(a)(1)(F)



Effective Tax Planning in Preparation for an M&A Transaction

- **Purchase Price Allocation**

- This allocation should be discussed early in a deal negotiation. Both sides must agree on the allocation
- This gives an opportunity to depreciate asset purchases depending on the sales price allocation

- **Tax Projections**

- Expect for your accountant to work hand in hand with the M&A firm and/or tax attorneys to make sure the deal is as expected
- Numerous tax projections should be run; pre-close, at closing and post closing. These can span many months even after the deal closing



Effective Tax Planning in Preparation for an M&A Transaction

- **Fees for the Overall Transaction**
 - Depending on the size of the transaction, fees can be significant
 - Like any large transaction you need the right advisors in place to protect your interests





Will New Tax Legislation Change the Tax Implications?

- Neither of the recent large tax bills have much effect on M&A transactions
 - Infrastructure Investment and Jobs Act 11/15/2021
 - Inflation Reduction Act 2022
- No new tax bills on the horizon for now
- Previously enacted legislation from 2021 and 2022 still holds





Will New Tax Legislation Change the Tax Implications?

- Sales of QSBS stock of C corporations unchanged under the Inflation Reduction Act
 - The Build Back Better bill, which did not pass, had placed some limitations on stock sales of QSBS stock under Section 1202
 - The Inflation Reduction Act left this alone, which is a huge win for those selling this specific type of stock
- The SALT limitation was NOT modified under the Inflation Reduction Act
 - Though this was a huge goal of the original legislation it was ultimately left out of the IRA of 2022, leaving the state and local tax deduction at the maximum of \$10,000 for individuals



Will New Tax Legislation Change the Tax Implications?

- **AB 150**
 - A work around for the SALT limitation in the TCJA
 - Signed July 16, 2021
 - Allows pass-through entities to pay and deduct 9.3% of the pro-rata share of income
 - Requirements for a valid election



Will New Tax Legislation Change the Tax Implications?

- **Qualified Opportunity Zones**
 - TCJA established the Qualified Opportunity Zones
 - Deferral and exclusion of gains
 - While most of the gain reduction portion of this law has passed, there is still a deferral through 12/31/2026 (returns filed in 2027)
 - 10-year hold period for exclusion on appreciation in a Qualified Opportunity Zone



Will New Tax Legislation Change the Tax Implications?

- **Trump's Tax Plan**
 - Make the individual and estate tax cuts of the TCJA permanent
 - SALT limitation
 - Pass-through income deduction (199A)
 - 100% bonus depreciation
 - R&D expensing
 - Lower the corporate tax rate from 21% to 15%



Will New Tax Legislation Change the Tax Implications?

- **Trump's Tax Plan**
 - Deductions for interest on auto loans on US made vehicles
 - Child tax credits and credits for family caregivers
 - No changes in capital gain rates



Questions





Thank you!



Contact Your Presenters



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