



# Opus Connect

## San Francisco Deal Connect

October 8, 2020



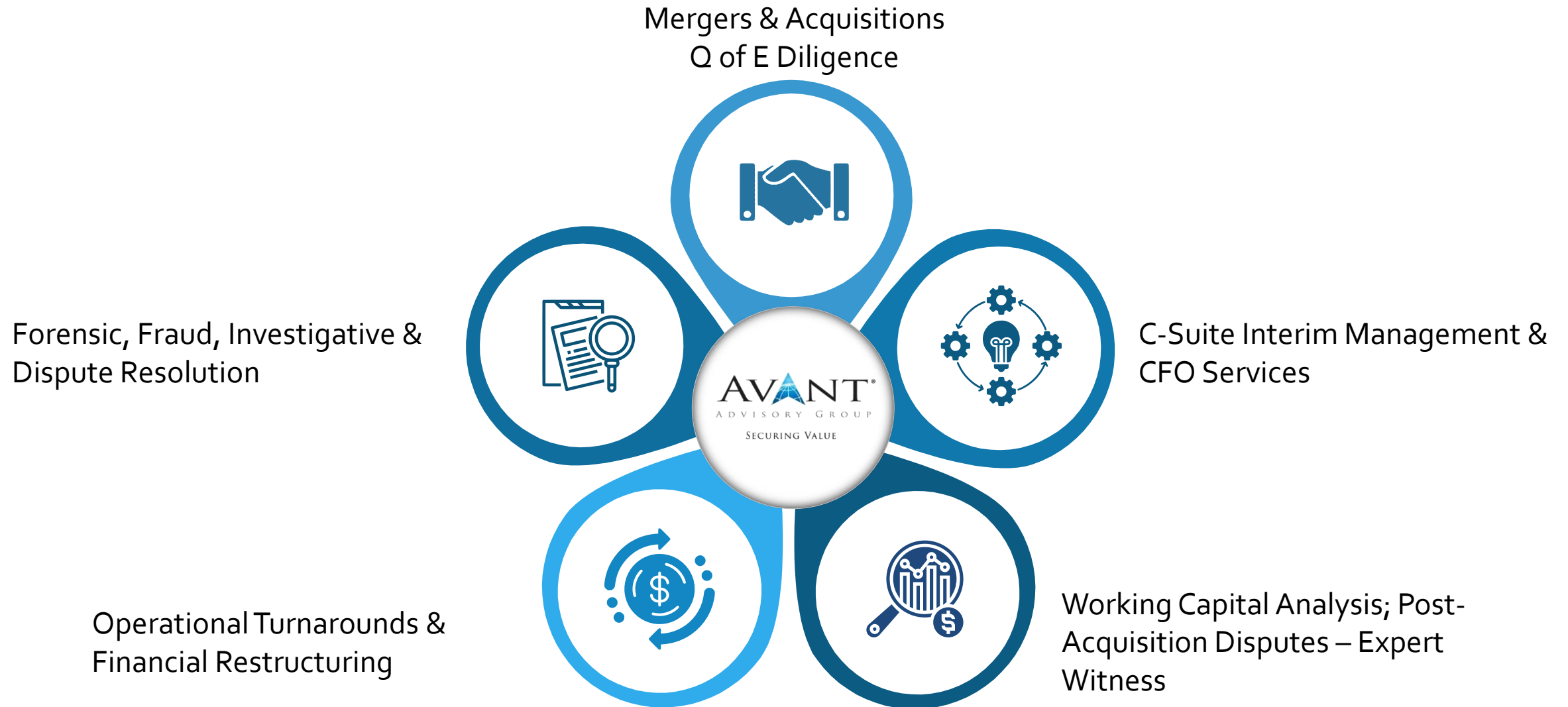
# About Us



Avant Advisory Group sets the bar as a premier, operationally focused-financial advisory and management consulting firm. With a focus on middle-market companies, we combine our financial and operating skills with senior-level management experience to help clients identify value opportunities and implement improvements in cash flow and profitability.

Also, our forensic accounting and investigation mastery can make a substantive difference when analyzing potential financial misstatement and in performing financial Quality of Earnings (Q of E) due diligence. Many clients find our financial guidance and operational expertise particularly valuable during periods of transition such as required in performing CFO Services and interim C-Suite Management.

# Our Services



# We Address a Variety of Concerns & Issues

## Buyer/Investor



- Quality of operations – Risks & opportunities
- Management assessment
- Business integration challenges
- Quality of reported financial information
- Identification of unusual & nonrecurring items
- Operational risks & contingencies
- Identification of debt-like items
- Operational & financial drivers
- Information technology – Planning & risks
- Purchase price adjustments/valuation

## Lender Concerns



- Cash flows & working capital
- Borrowing base requirements
- Loan covenant compliance
- Dilution, concentration & collection issues
- Inventory age & obsolescence
- Financial reporting & information systems
- Financial trends
- Vetting financial projections
- Management capabilities
- Accounting policies & procedures
- Company- & industry-specific anomalies

## Quality of Earnings



- Accounting issues affecting quality of reported earnings
- Revenue recognition practices
- GAAP adjustments & technical reporting issues
- Unrecorded liabilities
- Financial & operational abnormalities that skew recurring earnings
- Potential staffing adjustments
- Key assumptions & operational drivers that affect pro forma projections
- Working capital requirements
- Significant capital expenditures affecting free cash flows
- Seller & buyer due diligence

- Aerospace & Defense
- Agribusiness
- Automotive
- Broker Dealers
- Chemicals & Industrials
- Construction & Contracting
- Consumer Products & Services
- Customized Manufacturing
- Display Parts Manufacturer
- Engineering Services
- Entertainment
- Event Logistics
- Franchising
- Generic Pharmaceutical
- Grocery Retail
- Healthcare
- Hotels & Hospitality
- Industrial Manufacturing
- Leisure
- Mining & Extracting
- Minerals & Fertilizers
- Modular Buildings & Housing
- Motorcycle Parts Manufacturer
- Non-Profit & International Charity
- Plastics Manufacturing
- Professional Services
- Resorts
- Restaurants
- Route-Based Businesses
- Telecom, Media & Technology
- Theaters
- Transportation & Logistics
- Waste Management
- Wine Retailing & Distribution

# Selected Industries We Work In

We support private equity firms, family offices, lenders, and companies across multiple industries that include:



**Industrial Manufacturing & Assembly**



**Consumer Products & Services**



**Technology, Media & Telecommunications**



**Food Processing/Packaging/  
Restaurants/Retail**



**Real Estate, Construction & Infrastructure**



**Professional & Business Services**



**Transportation & Logistics**



**Healthcare Services, Products  
& Medical Devices**

# Importance of Q of E Diligence



- A CPA-performed audit cannot replace a financial Q of E due diligence as the focus and objectives are different.
- The audit is historically focused, i.e., on past financial information and is primarily balance sheet-driven rather than future and more cash flow-oriented as is a Q of E diligence.
- An audit and a financial diligence/Q of E are not interchangeable, nor equivalent. The purpose of the audit is to opine on the fairness of the financial statements as a whole, which is based on the concept of materiality.

# Importance of Q of E Financial Diligence



A Q of E is more focused than a financial audit. In fact, our firm analyzes items that the audit firm passed as immaterial, and we specifically include them in our EBITDA adjustments.

The Q of E's emphasis is on recurring EBITDA (not free cash flow), but we try to adjust for that too when we perform a full Q of E.

- EBITDA neutralizes capital and tax structure, while it is all encompassed in a financial audit.
- The Q of E seeks to determine operating profitability regardless of capital and tax structures.
- The Q of E attempts to identify operating profitability that includes expenses intrinsic to the business, i.e., core expenses only.
- Are expenses core or not? **Core expenses** form the basis for the business: guts, substance, nucleus, heart of the business.

Adjusted EBITDA measures the true **operating performance** of the business by including the core expenses, but removing extraneous income and expenses that are rare, unusual, and will not recur.

# Deficiencies in Q of E

The Q of E is focused on adjusted EBITDA, which is a proxy for cash flow, but has significant deficiencies.

- It is subject to abuse and manipulation.
- It may be a proxy for cash flow, but it is not the equivalent of free cash flow.

To compensate for the limitations of historical and pro forma adjusted EBITDA, we also consider the following in our full Q of E:

- Working capital requirements, particularly for growth working capital, when the valuation/price assumes high growth, and the required working capital assumes more than historical working capital
- Capital expenditures, both maintenance (including deferred) and growth capital
- Debt-like items that could impact the purchase price
- Projections

Completing these items is critically important, whether outsourced or done internally by the investor firm. I think they are all critical to the performance of a full financial due diligence.

Focus on adjusted EBITDA that accounts for both GAAP and pro forma adjustments alone is inadequate. Do not ignore other financial items, such as working capital requirements, debt-like items, CAPEX, and projections. Deals can get blown up or post-transaction fall out can occur as a result of one or all the others considered in a financial diligence.

# Case Study – Findings

- **CLIENT:** Private Equity-Owned Strategic Acquirer
- **INDUSTRY:** Construction & Demolition Disposal & Waste Hauler; Transportation
- **BUYER'S TRANSACTION OBJECTIVES:** Synergistic add-on to platform company — EBITDA growth, multiplier increase, resulting in higher valuation; geographic expansion, service line additions and revenue diversification, resulting in reduced operational risk
- **SELLER'S TRANSACTION OBJECTIVES:** Recapitalization; exit strategy
- **TARGET:** Family-owned; steady growth; highly profitable; represented by excessively aggressive, highly invested and unethical broker
- **ASSIGNMENT:** Financial due diligence/Q of E assessment; calculation of working capital target, identification of debt-like items and determination of capital expenditure requirements; preparation of pro forma projections
- **TRANSACTION PRICING:** Based on EBITDA multiple
- The deal was nearly jeopardized by the broker by overly “managing” the diligence process.
- Avant reviewed and assessed over 50 management EBITDA adjustments and related issues.
- Avant’s analysis of related party rents determined the inclusion of property taxes and insurance.
- Avant’s finding and related adjustment saved the buyer an estimated \$350K for this item alone.
- Avant identified \$600K of adjustments to management’s adjusted EBITDA that resulted in an approximate \$3.5M purchase price reduction.
- Avant’s analysis of working capital and the related calculation highlighted management’s overstatement which resulted in additional price adjustments. Avant assessed the target as having a low Q of E.

Based on Avant’s findings, the client realized purchase price savings resulting from EBITDA and working capital adjustments exceeding \$4M.

# Team Leader



**James F. Davidson**

CM&AA, CM&AP, CPA, CFF, CFE, CGMA,  
CIRA, CTP, CBA

- ▶ M&A Diligence – Q of E, Operations, Tax
- ▶ Forensic Accounting
- ▶ Fraud Investigations
- ▶ CFO & C-Suite Services
- ▶ Financial Restructuring
- ▶ Operational Turnarounds

Jim Davidson has more than 30 years of experience in M&A due diligence – Q of E, operations, IT, and tax; forensic accounting; fraud investigations; CFO & C-Suite services; financial restructuring & operational turnarounds.

He has led hundreds of sell-side & buy-side due diligence assignments, assessing Q of E, carve-out reporting, and post-acquisition integration for both high growth and financially distressed companies. Jim has served in executive positions at both public and private companies ranging to multibillion-dollar firms. After 10 years with Big Four firm PricewaterhouseCoopers, including in the Transaction Advisory Practice, Jim spent another 10 years on several boards of directors and in various financial and executive positions, including as president & CEO, CRO, COO, CFO, chief accounting officer & corporate controller of a \$3-billion-revenue SEC registrant. In that capacity, he led multiple acquisitions, including post-transaction integrations.

# Team Leader (San Francisco)



**Joe Alouf, CPA**

▶ Distressed – Financial Restructuring and Operational Turnarounds

▶ CRO/CFO/COO C-Suite Interim Management

▶ Financial & Operational Diligence

Joe Alouf has over 30 years of experience in corporate finance, operations, investment management, and restructuring of public, private, and international companies, ranging from entrepreneurial to billion-dollar+ revenues, across multiple industries. He developed his specialized expertise over many years since early in his career working in the distressed loans department of a major bank, managing non-performing loans for a Texas commercial bank, and as Group Head of Prudential Capital's Restructuring Group, overseeing \$3B+ of distressed debt and underperforming equity investments.

He also led a Prudential Capital team that originated over \$400M annually in equity and debt placements with middle-market companies of \$10M+ EBITDA. As a result, his expertise is particularly deep in:

- Crisis management, reorganizations, recapitalizations
- CRO/CEO/COO/CFO interim management
- Buy-side & sell-side diligence

Joe is a veteran of the IDF (Airforce Intelligence) and currently serves on the Boards of the Catalight Foundation (Easter Seals) and the Behavioral Health Provider Network. He holds an active California CPA with a Master's in Business Administration Degree from New York University and a Bachelor Degree in Economics and Mathematics from Queens College.

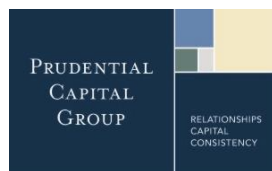
# Our Clients



Z CAPITAL PARTNERS



INDUSTRIAL GROWTH PARTNERS\*



**AURORA**  
RESURGENCE

BalmoralAdvisorsLLC

BalmoralFunds



**VICTORY PARK**  
CAPITAL

**WELLS  
FARGO**





SECURING VALUE

A large, light blue diamond shape with a white border, centered on the slide. It is flanked by two smaller, dark blue diamond shapes, each composed of four smaller diamonds. Horizontal lines extend from these side diamonds towards the left and right edges of the slide.

# Thank You !

**Avant Advisory Group**  
*Newport Beach Office*

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*New York City Office*

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*Los Angeles Office*

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