

BUILDING A WINNING BUSINESS STRATEGY.

GRAY, GRAY & GRAY'S
YEAR END PLANNING SEMINAR
THURSDAY, DECEMBER 1, 2022



Welcome



Jim DeLeo, MBA, CPA/MST
Leading Partner
Gray, Gray & Gray

Today's Agenda

- Tax and Audit Update
- Technology and Cybersecurity Update
- Break
- Strategic Business Planning Panel
- Trends in M&A and the Equity Markets



Tax and Audit Update

Tax Update



Speakers



Kelly Berardi, JD, LL.M.

Partner

Gray, Gray & Gray
kberardi@gggllp.com



Brad Carlson

Partner

Gray, Gray & Gray
bcarlson@gggllp.com



Derek Rawls, CPA, MST

Partner

Gray, Gray & Gray
drawls@gggllp.com

Massachusetts Additional Tax on Income Over One Million Dollars

- Additional 4% state income tax on that portion of annual taxable income in excess of \$1 million
- Income level will be adjusted annually, by the same method used for federal income-tax brackets, to reflect increases in the cost of living
- Revenues from this tax will be used, subject to appropriation by the state Legislature, for public education, public colleges and universities; and for the repair and maintenance of roads, bridges, and public transportation
- **Applies to tax years beginning on or after January 1, 2023**



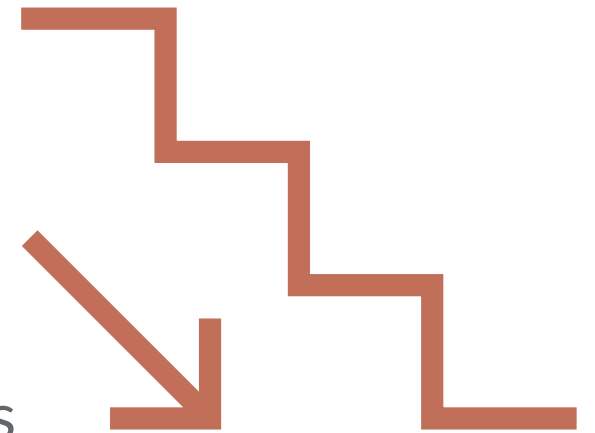
Capitalizing R&E Expenditures

- **For tax years beginning after December 31, 2021**
- Taxpayers are required to capitalize and amortize all R&E expenditures that are paid or incurred in connection with their trade or business which represent costs in the experimental or laboratory sense
- Costs for U.S.-based R&E activities must be amortized over 5 years
- Costs for foreign R&E activities must be amortized over 15 years
- Although there is bipartisan support for legislation postponing this change, the timing for potential enactment is unclear and the ultimate outcome is not certain

Bonus Depreciation

After 2023, bonus depreciation will drop, as follows:

- 80% for property placed in service in 2023
- 60% for property placed in service in 2024
- 40% for property placed in service in 2025
- 20% for property placed in service in 2026
- 0% for property placed in service in 2027 and later years



Businesses will continue to have the benefit of Section 179

Limitation on Interest Deduction 163(j) §³

- Applied to taxpayers with gross receipts over \$27 million in 2022
- The limitation is back to 30% of adjusted taxable income (“ATI”) for tax years after 2021
- Depreciation, amortization, and depletion are no longer added back in computing ATI



THE INFLATION REDUCTION ACT

Clean Energy Tax Credits for Homeowners



- Tax credits extended to 2032 incentivizing homeowners to add solar/wind power systems
- Eligible homeowners could qualify for a 30% tax credit
- After 2032, a 26% tax credit would apply until 2034
- Tax incentives also included for the purchase of energy-efficient water heaters, heat pumps and HVAC systems
- Rebates for these items can add up to as much as \$14,000
- **These rebates take effect immediately**



Rebates for Electric Vehicle Purchases



- Existing tax credits for purchase of a new electric vehicle extended through December 2032
- Credit applies to any “clean” vehicle, including hydrogen fuel cell cars within price limits
- Vehicles must be assembled in North America and be priced under \$80,000 for trucks and SUVs and under \$55,000 for all other types of cars
- Qualified buyers of new vehicles receive a \$7,500 credit, applied at the point of sale
- A new \$4,000 tax credit would also apply for the purchase of qualified used electric vehicles
- The credit is available to married couples filing a joint return with income less than \$300,000 per year and single tax filers with income under \$150,000
- **Credits are effective immediately, but starting in 2024, qualifying vehicles must meet other requirements for American-made components, including batteries**

Expanded IRS Enforcement

- \$80 billion in funding over 10 years designed to allow the IRS to pursue more tax enforcement
- Purpose is to boost tax collections through increased audits and other enforcement actions
- **Expanded funding begins immediately**



15% Corporate Minimum Tax

- Applies to most U.S. corporations that earn more than \$1 billion in profits
- While under current law, these firms are subject to a 21% corporate tax rate, many pay less or no federal tax
- Under this change, a new minimum 15% tax would apply based on annual income posted in a corporation's financial statement, rather than the corporation's taxable income
- **Effective on January 1, 2023**
- Corporations can claim certain credits to reduce their tax liability
- A special carve-out provision in this law applies to subsidiaries of private equity firms that amass more than \$1 billion in profits annually
- Private equity firms that own various subsidiaries with profits totaling more than \$1 billion are exempt from the 15% minimum tax

Tax on Stock Buybacks

- Corporations have commonly repurchased their own stock to boost the value of its shares
- The Inflation Reduction Act adds a 1% tax on the value of stock buybacks corporations choose to execute, **effective January 1, 2023**



EXISTING TAX LAWS SET TO EXPIRE DECEMBER 31, 2025



Key provisions affecting individual taxpayers are scheduled to expire at the end of 2025:

- Top tax bracket for individual taxpayers, estates and trust income reverts to 39.6% [*from the current 37%*]
- The 12%, 22% and 24% individual income tax rates will also move higher
- The unified estate and gift tax deduction, valued at \$12.06 million per individual in 2022 [*effectively \$24 million for a married couple*] will be cut approximately in half
- Ability to utilize certain lifetime gifting strategies will be limited, because of a reduced lifetime gift tax exemption **beginning on January 1, 2026, if not earlier**
- Ability to implement certain estate planning and wealth transfer strategies at death will be greatly limited, because of a reduced estate tax exemption **beginning on January 1, 2026, if not earlier**

CHANGES

PROPOSED
“GREEN BOOK”
CHANGES

Individual Income Tax Brackets

Raise the top individual tax bracket to 39.6% from the current 37% level and reduce applicable income thresholds from:



- \$539,900 to \$400,000 for individual tax filers (other than a surviving spouse)
- \$647,850 to \$450,000 for married couples filing a joint return
- \$539,900 to \$425,000 for heads of household
- \$323,925 to \$225,000 for married couples filing a separate return

Minimum Tax

- New 20% tax rate on total income, generally inclusive of unrealized capital gains
- Would apply to taxpayers with total wealth (net of liabilities) exceeding \$100 million
- Provisions include the ability to pay a minimum tax liability in nine equal installments in the first year
- In subsequent years, the minimum tax liability would be payable in five equal installments over the course of the year
- Payments of the minimum tax liability will be treated as a prepayment credit that can be applied towards subsequent capital gains realized in the future to avoid double taxation of capital gains
- Because of various factors that go into the calculation of meeting the \$100 million threshold, taxpayers should be aware that the minimum tax is fully phased in for taxpayers with wealth in excess of \$200 million
- **The proposal would be effective for taxable years beginning after December 1, 2022**

Tax Rate on LTCGs & Qualified Dividends



- New top tax rate of 39.6% would apply for high income taxpayers
- Combined with the Net Investment Income Tax (NIIT) of 3.8%, the result for those affected by the change would be a federal tax rate on long-term capital gains and qualified dividends of 43.4%
- The higher tax rate would apply only to the extent that an individual's taxable income exceeds the applicable threshold amounts indexed for inflation after 2023:
 - \$1,000,000 for married couples filing a joint return
 - \$500,000 for married couples filing separately
- **If enacted, it is proposed that this change would apply retroactively for gains and dividends received on or after the date of enactment**

Estate/Gift Taxes

- Unrealized gains on appreciated assets transferred by gift during life or held at death would be treated as a “realization event” for tax purposes and taxed as if the underlying property was sold
- The unrealized gain of property transferred by gift during life or held at death would be subject to a \$5 million lifetime exclusion for a single tax filer
- Any unused exclusion during life can be applied towards the unrealized gain on property held at death
- Also, the proposed exclusion would be portable and may be used by a surviving spouse
- This results in an effective aggregate exclusion amount of \$10 million that married couples filing a joint return can use towards unrealized gains
- **These rules would become effective on transfers, or for property owned by individuals who die after December 31, 2022**

Increase C Corporation Tax Rate

- From 21% to 28% effective for tax years beginning after December 31, 2022
- For taxable years that begin after January 1, 2022, and before January 1, 2023, only the portion of the taxable year in 2023 would be subject to the 28% tax rate

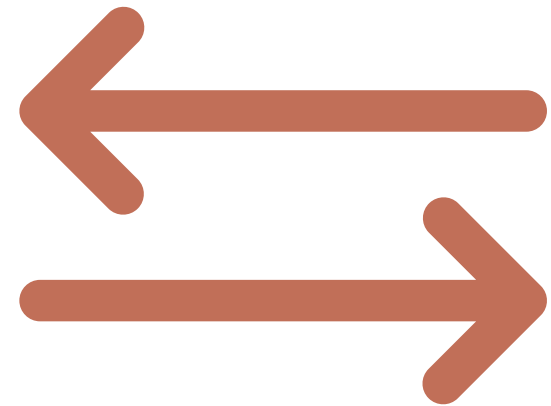


Carried Interest

- Tax-carried profits interests in a partnership, regardless of the character of the income at the partnership level, would be treated as ordinary income and be subject to self-employment taxes
- This would apply to partners holding the interest and providing services to the partnership with taxable income exceeding \$400,000
- The interest would only be treated as a long-term capital gain if there were a three-year holding period
- **The new law would be effective beginning after December 31, 2022**

Limits on Like-Kind (1031) Exchanges

- Currently Section 1031 exchanges allow taxpayers to defer the full value of the gain when exchanging real property for other real property
- The deferral of Section 1031 like-kind exchanges of real property would be limited to an aggregate amount of \$500,000 for each taxpayer (\$1 million for married couples filing a joint return) per year
- **This would take effect after December 31, 2022**



Depreciation Recapture

- The proposal would treat any gain on IRC Section 1250 property held for more than one year as ordinary income
- Depreciation deductions taken before the effective date would continue to be subject to the current rules and only be recaptured as ordinary income to the extent depreciation exceeds the cumulative allowances determined under the straight-line method
- Applies to non-corporate taxpayers with \$400,000 or more in adjusted taxable income (\$200,000 for married individuals filing separate returns)
- **Effective for depreciation deductions taken on IRC Section 1250 property in tax years beginning after December 31, 2022, and for sales, exchanges, involuntary conversions or other IRC Section 1250 property dispositions completed in tax years after December 31, 2022**

Previously Proposed Changes Not Included in the “Green Book”



- **Repeal of cap on Social Security taxes** [*6.2% tax on Social Security for each employer and employee applies to the first \$142,800 of income in 2022. While some expected this cap to be removed, nothing to that effect was included under these proposals*]
- **Change to gift and estate tax exemptions and tax rates.** As previously indicated, the current lifetime unified exemption amounts and tax rates for gift and estate remain at their elevated levels, with the current rules phasing out in 2026
- **SALT limitation.** There was much discussion of eliminating the maximum \$10,000 deduction for state and local (SALT) taxes, but that issue is not addressed in the “Green Book”
- **Subject income from pass through entities to 3.8% net investment income tax**

Q&A



Audit Update

ASC 842 Leases



Speaker



Rich Hirschen, CPA, CGMA

Partner

Gray, Gray & Gray

rhirschen@gggllp.com

What is a Lease?

- A contract that provides the right to use an asset for a period of time in exchange for consideration
- Lease must identify a specific asset
- Lessor must not have the ability or would not economically benefit from substituting the asset
- Lessee has the right to control the use of the asset during the lease term and obtain all economic benefits from the use of the asset



What is Not a Lease Under the Standard?

- Intangible assets
- Assets under construction
- Biological assets
- Exploration of or use of minerals, oil, natural gas and similar nonregenerative resources
- Inventory

Types of Leases for Lessees

Finance leases

Operating leases

What is a Finance Lease?

- Ownership of leased asset transfers to the lessee at end of the lease term
- Lease contains an option to purchase asset that is reasonably certain to be exercised
- Lease term is for a major part of the remaining economic life of the asset
- PV of lease payments equal or exceed substantially all of the assets FV
- Asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term

What is an Operating Lease?

- Anything **not** a finance lease



What are the Big Changes Under the New Standard?



- For operating leases, the balance sheet will now have:
 - Right of use asset
 - Lease liability
- For financing leases no major changes vs capital leases



How Do I Determine the Asset and Liability for Operating Leases?

- The lease liability will be the present value of the lease payments
 - Lease payments include fixed payments, variable payments linked to an index (use the index at commencement) less lease incentives. Do not include variable payments
 - Use the incremental borrowing rate or risk-free discount rate
 - Use lease term including options that are reasonably certain to be exercised
- The right of use asset equals the lease liability + initial direct costs + prepaid lease payments – lease incentives received

Interest Rates

- **Incremental borrowing rate** – rate the lessee would have to pay to borrow on a collateralized basis over a similar term and economic environment
- **Risk free discount rate** – go to [treasury.gov](https://www.treasury.gov)



The screenshot shows the U.S. Department of the Treasury website. The header is blue with the Treasury seal and the text "U.S. DEPARTMENT OF THE TREASURY". Below the header is a navigation bar with five tabs: "ABOUT TREASURY", "POLICY ISSUES", "DATA", "SERVICES", and "NEWS". The "DATA" tab is highlighted with a yellow underline. Below the navigation bar, the "DATA" section is divided into three columns. The first column is titled "INTEREST RATES" and lists: "Daily Treasury Par Yield Curve Rates", "Daily Treasury Par Real Yield Curve Rates", "Daily Treasury Bill Rates", "Daily Treasury Long-Term Rates", and "Daily Treasury Real Long-Term Rates". The second column is titled "FEDERAL FINANCIAL DATA" and lists: "Your Guide to America's Finances", "Monthly Treasury Statement", and "Daily Treasury Statement". The third column is titled "QUARTERLY REFUNDING" and lists: "Debt Management Overview and Quarterly Refunding Process", "Most Recent Documents", "Archives", and "Webcasts". Below the "QUARTERLY REFUNDING" section, there is a section titled "INVESTOR CLASS AUCTION ALLOTMENTS".

ABOUT TREASURY	POLICY ISSUES	DATA	SERVICES	NEWS
INTEREST RATES	FEDERAL FINANCIAL DATA	QUARTERLY REFUNDING		
Daily Treasury Par Yield Curve Rates	Your Guide to America's Finances	Debt Management Overview and Quarterly Refunding Process		
Daily Treasury Par Real Yield Curve Rates	Monthly Treasury Statement	Most Recent Documents		
Daily Treasury Bill Rates	Daily Treasury Statement	Archives		
Daily Treasury Long-Term Rates	HOW YOUR MONEY IS SPENT	Webcasts		
Daily Treasury Real Long-Term Rates	USAspending.gov	INVESTOR CLASS AUCTION ALLOTMENTS		

When Do I Record the Asset and Liability?

- **At the lease commencement date** – the date the lessor makes the leased asset available for use by the lessee and the date when the lessee obtains the right to use the leased asset



What About the Income Statement?

- No changes!
- Operating leases – rent expense recorded on a straight-line basis over the life of the lease
- Finance leases – depreciation/amortization and interest expense



What Needs to be Disclosed?

- On balance sheet the right of use asset and lease liabilities.
 - Operating and finance leases must be shown separately.
 - Lease liability should show current and long-term portion if using a classified balance sheet
- Either on income statement or in footnotes show the total lease expense
- In footnotes - provide sufficient information for a user of the financial statements to evaluate the amount, timing, and uncertainty of cash flows from leases including:
 - Current period lease cost from finance leases
 - Current period lease cost from operating leases
 - Variable lease costs
 - Future lease payments
 - Weighted average remaining lease term
 - Weighted average discount rate
 - Lease accounting policy elections

What are the Major Changes for Lessors?

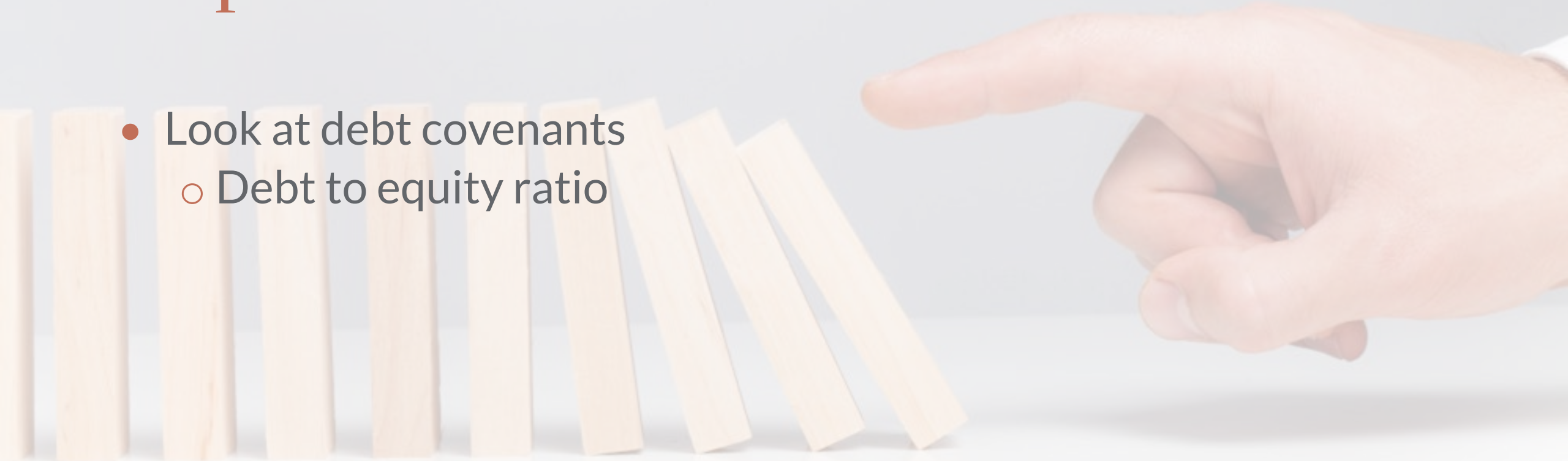


- Only initial direct costs are capitalized
- Initial direct costs are those costs that would not have been incurred had the lease not been executed



Impact

- Look at debt covenants
 - Debt to equity ratio



When is This Effective?

- For private companies, **fiscal years beginning after December 15, 2021**



Is There Software That Can Help?

- Yes! The calculations and disclosures needed to properly apply ASC 842 are very complicated. We strongly recommend using lease software.
- We have partnered with **LeaseJava**
- The software calculates the initial transition entries, the monthly journal entries, and all of the disclosures. The software can also aggregate all of the leases for an organization and produce reports of the journal entries and disclosures by company. LeaseJava is cloud based which means it can be accessed by you at any time.



Q&A



Technology and Cybersecurity Update

An Overview of Sage Intacct

Speaker



Bill Constantopoulos

Director

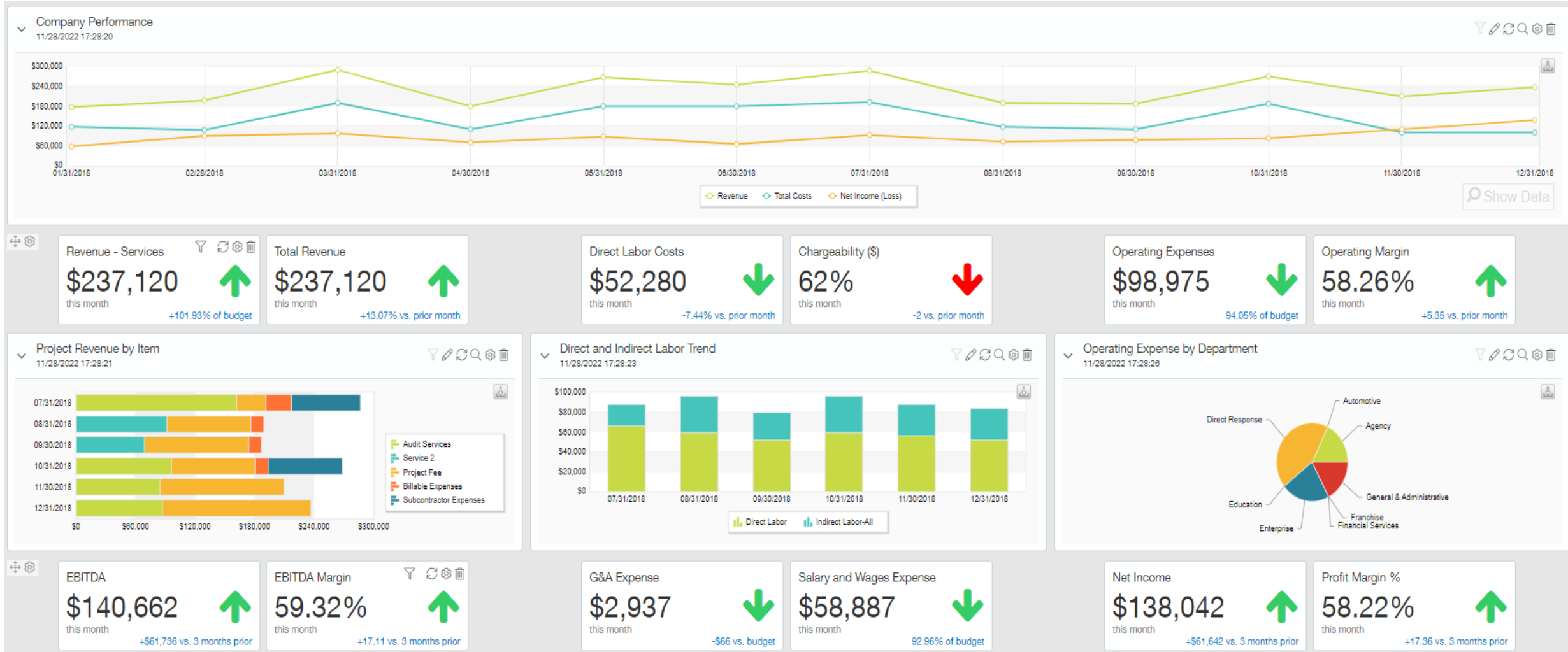
Gray, Gray & Gray

bconstantopoulos@gggllp.com

What is Sage Intacct?

- Cloud-based ERP (Enterprise Resource Planning) system designed to automate accounting and reporting processes (unrelated to legacy Sage products i.e. Sage 50, 100, 300, etc.)
- Real-time data tracking with drill-down to source transaction(s) with unlimited document storage (enables organizations to go paperless)
- Open API architecture allows for seamless integration with external applications flowing data into Sage Intacct
- Exclusive AICPA endorsement

Industry Leading Reporting & Dashboards



Dimension-based Financial Statements

- One-click consolidated reporting
- Slice and dice by:
 - Entities/Locations
 - Departments/Cost Centers
 - Line of Business/Revenue Stream
 - Projects/Grants
 - Purchasing/Billing Items
 - Customers/Vendors/Employees
- Build and maintain your own financial statements
- Configured directly within the system without IT reliance

Profit and Loss - by Department (in USD)

	Agency Month Ending 12/31/2019	Direct Response Month Ending 12/31/2019	Enterprise Month Ending 12/31/2019	IT Month Ending 12/31/2019	Marketing Month Ending 12/31/2019	General & Administrative (All) Month Ending 12/31/2019	All Departments Month Ending 12/31/2019
▼ Revenue							
▶ Revenue - Subscriptions	34,426.25	-	-	-	-	-	34,426.25
▶ Revenue - Services	-	582,265.31	-	-	-	-	582,265.31
▶ Revenue - Other	-	14,300.00	-	-	-	-	14,300.00
▶ Intercompany Sales	-	-	10,450.00	-	-	-	10,450.00
Total Revenue	34,426.25	596,565.31	10,450.00	-	-	-	641,441.56
▼ Cost of Revenue							
▶ Cost of Goods Sold	5,600.00	11,200.00	-	-	-	-	16,800.00
▶ Cost of Services Revenue	-	76,000.00	-	-	-	-	76,000.00
Total Cost of Revenue	5,600.00	87,200.00	-	-	-	-	92,800.00
Gross Profit	28,826.25	509,365.31	10,450.00	-	-	-	548,641.56
▼ Operating Expenses							
▶ General and Administrative Expenses	4,167.57	13,713.79	1,769.39	999.03	1,186.35	2,185.38	21,836.13
▶ Marketing and Advertising Expenses	2,410.19	2,780.99	3,196.70	1,977.58	2,348.39	4,325.97	12,713.85
▶ Depreciation and Amortization Expense	1,242.52	1,433.68	1,996.40	1,019.51	1,210.66	2,230.17	6,902.77
▶ Payroll and Related Expenses	50,960.31	101,227.51	79,861.27	9,733.42	10,706.74	20,440.16	252,489.25
▶ Utilities and Facilities	1,741.52	2,009.45	6,043.14	1,428.94	1,696.87	3,125.81	12,919.92
▶ Operating and Maintenance Expenses	2,300.40	3,854.31	89,551.31	1,887.50	2,241.42	4,128.92	99,834.94
▶ Taxes and Insurance	1,132.75	1,307.01	1,793.18	929.43	1,103.69	2,033.12	6,266.06
Total Operating Expenses	63,955.26	126,326.74	184,211.39	17,975.41	20,494.12	38,469.53	412,962.92
▼ Other Income (Expense)							
▶ Other Expenses	(34.93)	(40.30)	(185.71)	(28.66)	(34.03)	(62.69)	(323.63)
Total Other Income (Expense)	(34.93)	(40.30)	(185.71)	(28.66)	(34.03)	(62.69)	(323.63)
Net Income (Loss)	\$(35,163.94)	\$382,998.27	\$(173,947.10)	\$(18,004.07)	\$(20,528.15)	\$(38,532.22)	\$135,355.01

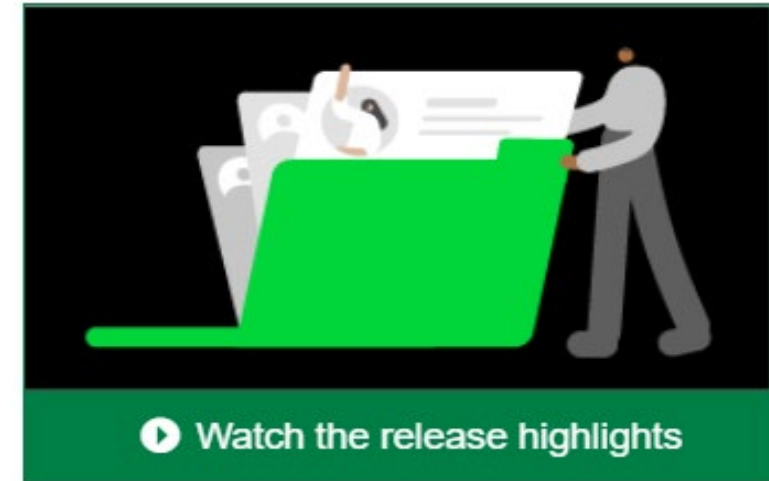
Powerful Capabilities

- Automated intercompany posting & elimination entries
- Multiple currencies in GL
- End-to-end subledger workflow including approvals
- Role-based permissions for segregation of duties
- Automated bank feeds/reconciliations
- Statistical record keeping including KPI calculations
- Custom rules, controls, documents, etc.
- Additional modules include: Fixed Assets, Inventory, Contract Management, BvA Spend Management, Dynamic Allocations, Project Costing & Billing, etc.

Constantly Updated with New Features



- 50 new features/quarter automatically released
- Recent new features include:
 - Month-end close checklists (auditable and reportable)
 - Automated dunning notices for overdue AP
 - AI GL Outlier Assistant
 - Sage Intacct Payroll powered by ADP
 - Sage Intelligent Time – AI powered timesheets
 - Non-profit restriction release
 - JE/CC transaction auto-creation via bank feeds
 - Dynamic screens to show list screen & transaction detail simultaneously
 - Vendor payment automation (after approvals satisfied)



Release	Release Date
Release 1	February 17, 2023
Release 2	May 12, 2023
Release 3	August 18, 2023
Release 4	November 10, 2023

FASB & IRS Accounting Standards



- ASC 606: Sage's Contracts and Revenue Recognition module were updated in 2018 to ensure all SAAS/subscription-revenue customers met compliance
- 1099 NEC1: Sage Intacct was updated for tax year 2020 and released functionality to easily update Vendors and AP detail to the new designation (from MISC-7)
- ASC 842: New lease accounting standards goes into effect 1/1/23 – Sage on track to release new leasing module by 1/31/23 to ensure customers meet compliance requirements
- **What rules will change next? Sage Intacct will be prepared**

Enhanced Integrations/Automation



The Integration Problem

- Each client of ours has varying integration needs
- Many organizations are looking to automate data flow/processes to enable scalable & responsible growth
- By not implementing integrations, employees at enterprise organizations can't access the data they need in the apps they use every day
- This creates data silos, where employees are forced to search for data in disparate systems, duplicate data entry efforts and forced to routinely context-switch across applications to accomplish tasks
- **Workato is the solution**



Overview of Workato

What is Workato?

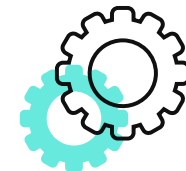
Workato is a low-code/no-code cloud native software solution designed to be a single platform for integration and workflow automation

What does this mean?

Makes it easier for anyone to implement API driven automations, to allow for seamless data flow across business applications

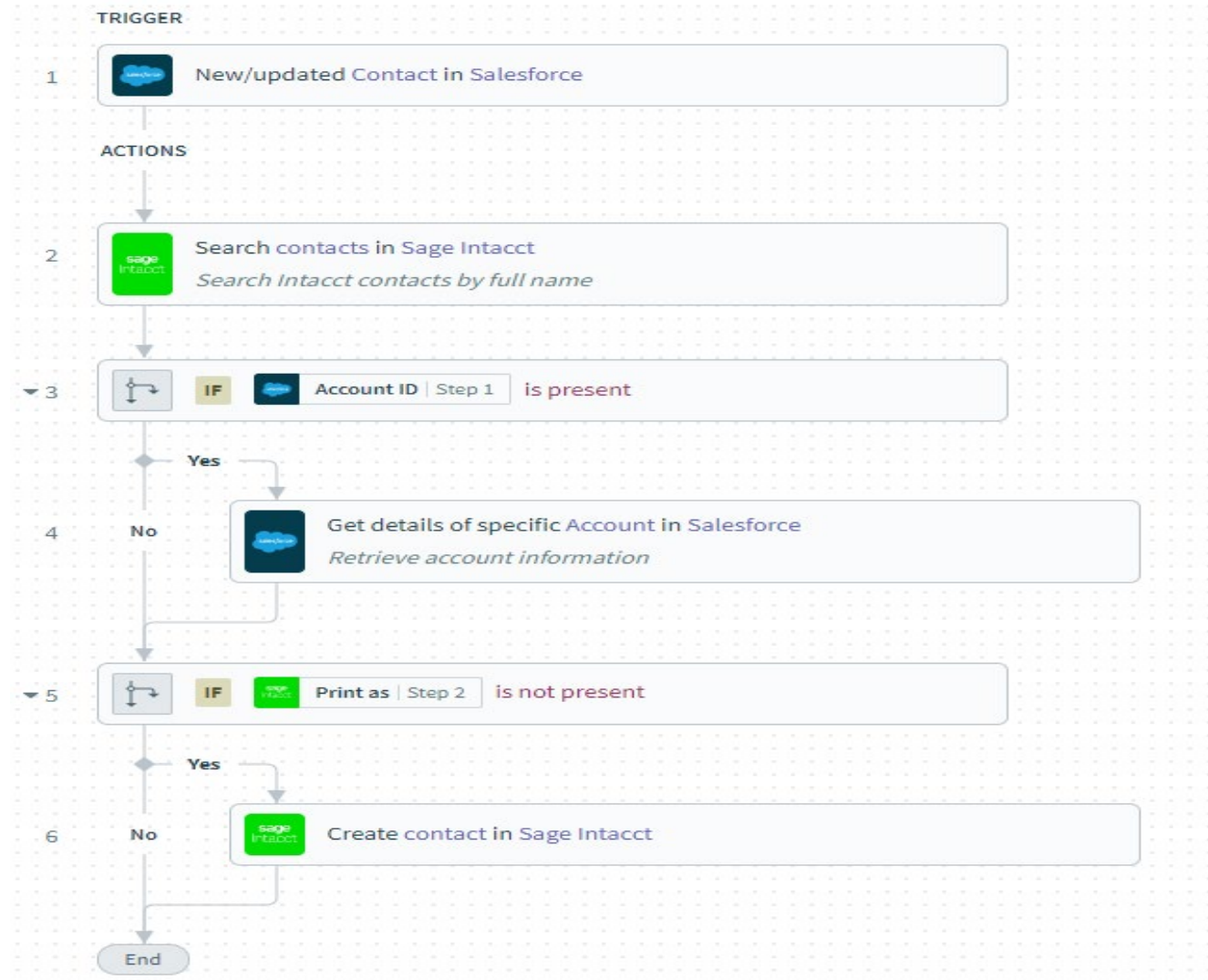
How does Workato accomplish this?

Recipes	Connectors	Triggers	Actions
Set of instructions to automate workflows	Pre-built connections to 1000's of applications – each connector consists of 'Actions' that can be taken	Conditions that prompt an action to occur automatically	Each connector consists of actions that can be taken (i.e. create a record)



Workato Recipe Example

- Automating contact record information between Sage Intacct & Salesforce to ensure customer data is always synchronized
- Rudimentary example shows a tiny fraction of what is possible
- What would you love to be able to automate/integrate in your business?



Q&A



An Overview of Cybersecurity

Speaker



Nate Gravel, CISA, CISM, CRISC
Cybersecurity Consultant
Gray, Gray & Gray
ngravel@gggllp.com

Agenda

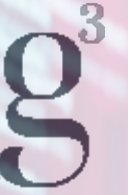
- **Top Threats Facing Our Clients**
 - Phishing
 - Malware/Ransomware
 - Credential Theft/Account Takeover
- **Mitigation Measures**
- **Key Takeaways**

Top Threats: Phishing

- **Still Most Common Attack Vector**
 - Over 90% of Breaches Involved Social Engineering (Verizon DBIR)
 - Most Common Social Engineering Method
- **Often Incorporates Other Attack Methods**
 - Malware
 - Credential Theft/Account Takeover
- **Unfortunately, It Still Works!**
 - In 2022, Nigerian Prince E-mails Still Have 1% Success Rate



Top Threats: Malware/Ransomware



- **Disproportionately Affects SMBs**
 - According to Verizon DBIR, 67% of Malware Victims Had Less Than 1,000 Employees
- **Volume of New Malware Overwhelms Traditional Antivirus Solutions**
 - Estimated 350,000 New Malware Variants Every Day
- **One of the Most Lucrative Businesses in Cyber Crime**
 - Ransoms Set Higher than Ever Before
 - Some Attackers Sell Data Regardless of Ransom Payment

Top Threats: Credential Theft/Account Takeover



- **Relies on Weak and/or Reused Passwords**
 - An 8 Character Password Can Be Cracked in 5 Hours or Less
 - Over 80% of Recent Survey Participants Use the Same or Similar Passwords for Most Online Logins
 - Attackers Openly Share Stolen Credentials/Cracked Passwords Online
- **Most Commonly Occurs in Office 365**
 - Attackers Compromise Account and Send E-mails to Contacts
 - Create Rules to Redirect Incoming Messages/Delete Sent Messages

Mitigation Measures: Our Advice to Clients

- **Perform Risk Assessment/Gap Analysis**
 - Assess Security Operations (People, Process, Technology)
 - Assess Administrative, Physical, & Technical Controls
- **Perform Vulnerability Assessment/Penetration Testing**
 - Internal/External Network
 - Cloud Services (Office 365, etc.)
- **Perform Social Engineering Exercise**
 - Simulated Phishing
 - Simulated Spear Phishing



Key Takeaways

- Train/educate
- Invest in all 3 core components of security posture:
 - Protection
 - Detection
 - Response
- Test (retest) and don't be afraid to fail



Q&A



Break

Strategic Business Planning Panel

Moderator

Panelists



Bryan Pearce
Director
Gray, Gray & Gray
bpearce@gggllp.com



Kristin Draper
President
Draper Knitting



Tom Kearns
President
DSK | Dewing Schmid
Kearns Architects +
Planners



Clayton Turnbull
Chief Executive Officer
The Waldwin Group

Trends in M&A and the Equity Markets

Speakers



Jim DeLeo, MBA, CPA/MST
Leading Partner
Gray, Gray & Gray
jdeleo@gggllp.com



Rich Frizzell, CPA, MSA
Director
Gray, Gray & Gray
rfrizzell@gggllp.com



Justin Klunder, CFA
Chief Investment Officer
Gray Private Wealth
jklunder@grayprivatewealth.com

What We'll Cover

- ✓ Preparing Your Business for Sale
- ✓ Understanding Valuation
- ✓ Importance of Assembling a Team of Advisors
- ✓ Quality of Earnings Reviews – What are they and why are they important
- ✓ Importance of Financial Planning Prior to Sale
- ✓ What to Do With the Sale Proceeds

Preparing Your Business for Sale

- Start this process a minimum of two years *prior* to going to market
- Clean up any personal expenses that may be running through the business as well as any uncertain tax positions
- Understand key areas of the business that can adversely affect the valuation and address them:
 - Revenue recognition
 - Customer concentrations
 - Vendor concentrations
 - Unusual accounting practices
 - Federal or state tax examinations
 - Industry-specific areas
 - Cluttered/over-levered balance sheet
 - Accuracy of monthly reporting



Preparing Your Business for Sale (continued)



- Identify your exit strategy
 - Sale of stock or assets
 - Assemble a team of advisors with expertise in transactions
- Confirm that the business is in good standing with federal and state taxing authorities, as well as with the Secretary of State
- Incentivize Management to increase valuation for a potential transaction
- Prepare documents for the data room to support valuation
- Know the strengths and weaknesses of the business better than anyone else – and prevent surprises during due diligence
- Consider making the investment in having externally prepared financial statements completed by a reputable CPA firm

Valuation

- Understand the concept of Earnings Before Interest, taxes, depreciation and amortization (EBITDA)
 - What is it?
 - How is it calculated?
 - Identify any add-backs to EBITDA
 - What is the impact on valuation?
- Understand the concept of working capital
 - Why is it important?
 - How is it calculated?



What is a Quality of Earnings Review? ³

- Used by a buyer to evaluate valuation and assist with obtaining financing for the transaction
- Used by a seller to support valuation and the cash flows of the business
- Added scrutiny of the numbers
- Can help facilitate a transaction
- Another means of adding credibility to the seller's financial information

Q&A



Contact Us



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Gray, Gray & Gray, LLP
150 Royall Street, Suite 102
Canton, MA 02021
www.gggllp.com
781.407.0300

