

# CLEAR VIEWPOINTS

*From Industry Leaders We Know and Respect*

**PKF** Clear Thinking  
A PKF O'Connor Davies Company

## **Q: You have more than 30 years of experience in investment banking and corporate development, what initially led you down this career path?**

A: It found me. After five years as a CPA with a large international firm, I joined a public company in a role where I was responsible for SEC reporting. Within a year into the role, the company was selling two subsidiaries and I was tapped to work on both deals, eventually leading the smaller of the two deals. Basically, baptism by fire. I really enjoyed all aspects of mergers and acquisitions (M&A) transactions. Within a year, I moved into a new role as VP of corporate development involved with all acquisitions, dispositions, operational improvement, strategic planning and investor relations. Several years later, I co-founded my first M&A firm and have led middle-market M&A teams over the past 25 years.

## **Q: Is there a business philosophy that you live by?**

A: When we started PKF Investment Banking, we developed a guiding mantra for all our employees to embrace, which drives the culture of the firm. This mantra is our philosophy on how we deliver superior client service and transaction outcomes and is the wisdom derived from almost 30 years of providing investment banking services to privately owned companies. The five-point mantra is: Think Boldly to Achieve Optimum Results; Hold Confidentiality in the Highest Regard; Pay Attention to the Details and Plan Ahead; Be Transparent and Keep Clients Well Informed; and Always Act in our Client's Best Interest. I think one very important aspect of running a successful business is communication. As a leader you need to make sure people know what the goals and vision are for the business, what is expected of them, provide constructive feedback and an open, safe environment to share ideas and debate issues.

## **Q: What was investment banking like during the pandemic?**

A: At the beginning of the pandemic, March 2020 through June 2020, many deals that were in process were paused or cancelled. New deals were delayed going to market. This was driven by the significant level of uncertainty about the impact of COVID on the economy and the level of disruption to business sectors. Closed M&A deals in Q2 of 2020 dropped by 40% from the Q1 2020 level. The Q3 level rebounded but not back to normal levels. Then Q4 was a record quarter followed by a record breaking 2021 year and a solid year of M&A activity in 2022. All through the pandemic, there was heightened due diligence around the current and future impact to the business due to COVID – “how has this business sector been impacted by COVID and what are the implications for this sector post-COVID.” As advisors representing sellers, we needed to recast earnings to normalize the negative or positive impacts of COVID and understanding any supply chain disruptions to the business, as well as the sustainability of price increases to customers during COVID. From a deal execution standpoint, management presentations and due diligence that would normally be done in person were conducted via video conferencing in 2020 and 2021, but to a much lesser extent in 2022. For the first time in my career, I signed up a client and closed the transaction without meeting the client in person. Today, we are back to more meetings in person but fewer than what was typical prior to COVID.

## **Q: What is your outlook for the investment banking industry in 2023? Are there any trends or topics that are driving change?**

A: Our transactions are in the lower middle market (LMM), which we define as deal sizes of \$10 million to \$200 million.



### **Robert F. Murphy | Senior Managing Director, PKF Investment Banking**

Robert Murphy has over 30 years of experience in investment banking and corporate development. Prior to joining PKF Investment Banking, Bob co-owned two M&A firms, and held several senior operating and financial management positions, including as a financial officer and SVP of Corporate Development with a public company.

Bob's investment banking expertise includes work on over 300 financial consulting and M&A sell-side and buy-side engagements. He has closed deals in industries such as distribution, manufacturing, business services, healthcare and IT, as well as many complex cross-border transactions. He has closed deals with private and public companies and private equity firms in nine countries on four continents.

Bob is well regarded for his business expertise, objective and honest advice, attention to detail, negotiation skills and professionalism. He also is a former CPA.

I mention this because the activity and outlook are different in our market than the much larger transaction marketplace. We expect 2023 to be an active market but with M&A activity lower than 2022 levels. Driving M&A activity is the significant level of funds held by financial buyers that need to be invested, cash on strategic balance sheets, aging baby boomers, and owners that managed through COVID and do not want to manage through another downturn or crisis. In terms of deal structure, we've seen an increase in the use of earn-outs and seller notes. These terms help to bridge the value gap between buyer and seller, especially where buyers have concerns about potential adverse impacts to the business if there is a recession. Earn-outs and seller notes also serve to offset lower returns due to higher interest rates. Increased interest rates have not had a material impact on deal value and activity in the LMM, as these deals are not leveraged as much as larger deals, where the loan syndication market has significantly tightened.

**Q: What are the key skills needed to be an effective investment banker?**

A: It's a unique skillset, especially within the financial services industry. M&A transactions can involve a lot of emotion on the part of the seller, which is understandable when an owner has spent most of their waking hours over decades building a business. To start with, an investment banker needs to have knowledge of the market, financial and analytical expertise, as well as strong sales and negotiating abilities. Then, managing the deal process and negotiating a successful closing inevitably demands focus, persistence, creative problem solving, and a keen understanding of one's client – as well as understanding the interests of the party on the other side of the table.

**Q: You were recently a presenter on the “Selling Your Privately Owned Chemical Company” webinar. Can you share some key takeaways from the webinar?**

A: One of the key takeaways was being properly prepared. The consequences of not being prepared include receiving a lower value, unfavorable deal terms or no deal at all. Preparation starts with “getting your house in order.” A brief list includes: your financial information is accurate on an accrual basis, monthly financial information is timely, working capital (inventory/receivables) are in order, at least a one-year forecast is provided, properly tracking KPI's, in compliance with regulatory laws, IP is properly documented, and



documentation with customers, vendors, permits, tax, and HR matters are in order. Beyond this basic preparation, an owner should obtain a realistic value for the business, engage the right professionals (M&A advisor, corporate lawyer, tax professionals, etc.), conduct tax planning to minimize income taxes, be able to articulate a specific growth plan for the business and identify and mitigate potential risks a buyer may have.

**Q: What pitfalls should an owner avoid when selling their company?**

A: This is a great question. Here is a list of some of my favorite ones: **A)** Not being fully prepared to speak with buyers and manage due diligence; **B)** Not hiring an attorney who is experienced in M&A; **C)** Lack of detail in the letter of intent; **D)** Selecting the wrong buyer; **E)** Discussing value with a buyer before hiring an M&A advisor; **F)** Not having a virtual data room prepared ahead of a letter of intent; **G)** Not addressing tax structuring/planning early in the process.

**Q: What are some of your personal interests?**

A: I have lived fulltime in Florida for 3 years and love doing just about anything outside – swimming, biking, snorkelling, golfing and pickleball. I have now started to play in pickleball tournaments, and my golf clubs rarely get any use. My other main interest is spending time with my 3 wonderful daughters and granddaughters. I am also always looking for a good fiction or nonfiction book to read.

**About PKF Clear Thinking LLC**

PKF Clear Thinking LLC offers advisory services that help companies succeed, at any stage of their life cycle, with clear direction and practical, actionable solutions. The Firm engages with healthy companies to create value and works with troubled companies to preserve value. Our track record and years of experience working on hundreds of successful engagements has propelled us to become a trusted and respected advisor.

PKF Clear Thinking LLC is a subsidiary of PKF O'Connor Davies LLP, a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, PKF O'Connor Davies has 18 offices in New York, New Jersey, Connecticut, Maryland, Massachusetts, Florida and Rhode Island and more than 1,400 professionals providing a complete range of accounting, auditing, tax and management advisory services. For more information, visit [pkfct.com](http://pkfct.com).