



In this article we present some aspects that school owners should take into account when planning to sell a school. By "school" we mean a network of childcare centers, preschools, K-12 or any other type of school, but it also includes a single location or school.

The initial questions that I must answer

There is a number of initial questions the owner(s) must answer:

1. Does the sale make economic sense? In other words, what are the earnings that the school will give me if it continues to operate as it is today? Is the present value of all future dividends or distributions net of taxes greater than the price I will get after paying taxes and advisors in the process?
2. What am I going to do with the proceeds of the sale? What will be the rate of return of those proceeds?
3. Are all owners onboard about selling the school?

Is it time to sell my school?

This question always arises among owners when they face certain problems: acute competition from other schools, succession problems, liquidity problems (the school is not generating cash flows), low profitability (when compared to other schools), conflicts among owners, capital needs for other more profitable businesses, among others. To sell or not to sell becomes a real dilemma for school owners.

From the moment the decision of selling the school is made, the owners have a long way to go until the transaction is closed. It will be necessary to determine the appropriate moment to start the process: entry of new competitors in the market, getting close to retirement, appetite from buyers, among others.

Is my school ready to be sold?

Some of the questions that need to be answered are:

1. Does the school have all key documents about its operation readily accessible?
2. Does the school have a good data system in place such as to produce recent financial statements, payroll registers, enrollment information, billing information, student lists, etc.?
3. What are the key addbacks and adjustments to the income statement to calculate the adjusted EBITDA of the school?
4. What might be the tax consequences of the sale under different price scenarios?

Firm Overview

Mergium Advisors specializes in selling schools and other educational institutions. We also do capital raising, and related advisory services (including business valuations) in the education and other sectors.

Education Focus

- K-12
- Preschools
- Childcare centers
- Special Education
- Autism services (ABA in school, centers, and homes)
- Colleges & Universities
- Continuing Education & Training
- Education Technology
- Language Training and Tutoring
- Publishing & Instructional Materials

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All these are considerations prior to take a decision to sell a school that will allow you to be more prepared for the sale process and increase the probability of a successful transaction.

Can I sell the school by myself?

Unless you have already closed several business sales by yourself (perhaps with your attorney and tax consultant), you should always hire an M&A Advisor. The value add of hiring an M&A Advisor is that you can focus on running your business, save yourself the stress of the process, and bring on board a knowledgeable person or team that does this type of work on a day to day basis. Thus, our recommendation is to hire one after you check out their experience, deal sizes they have managed, experience in closing transactions, and working relationship with buyers.

What do I sell: assets or shares?

Even though most school sales take the form of asset sales, the sale of a school can take the form of a shares sale as well.

If the sale takes the form of an asset sale, then you will be selling all the tangible and intangible assets of your school. When the transaction takes the form of an asset sale, then, after closing, you would keep your corporation or LLC, with the assets and liabilities not included in the deal. If the deal becomes a shares deal, then you would be selling the shares of your corporation or the membership interests in your LLC.

Asset and share deals have different tax implications for you. Information on this is not in the scope of this article. Thus, for this reason, once your advisor does a valuation of your school and an appraisal of the real estate, you must consult your tax advisor regarding the tax implications of selling your school under different scenarios.

Will I be selling 100% of my school?

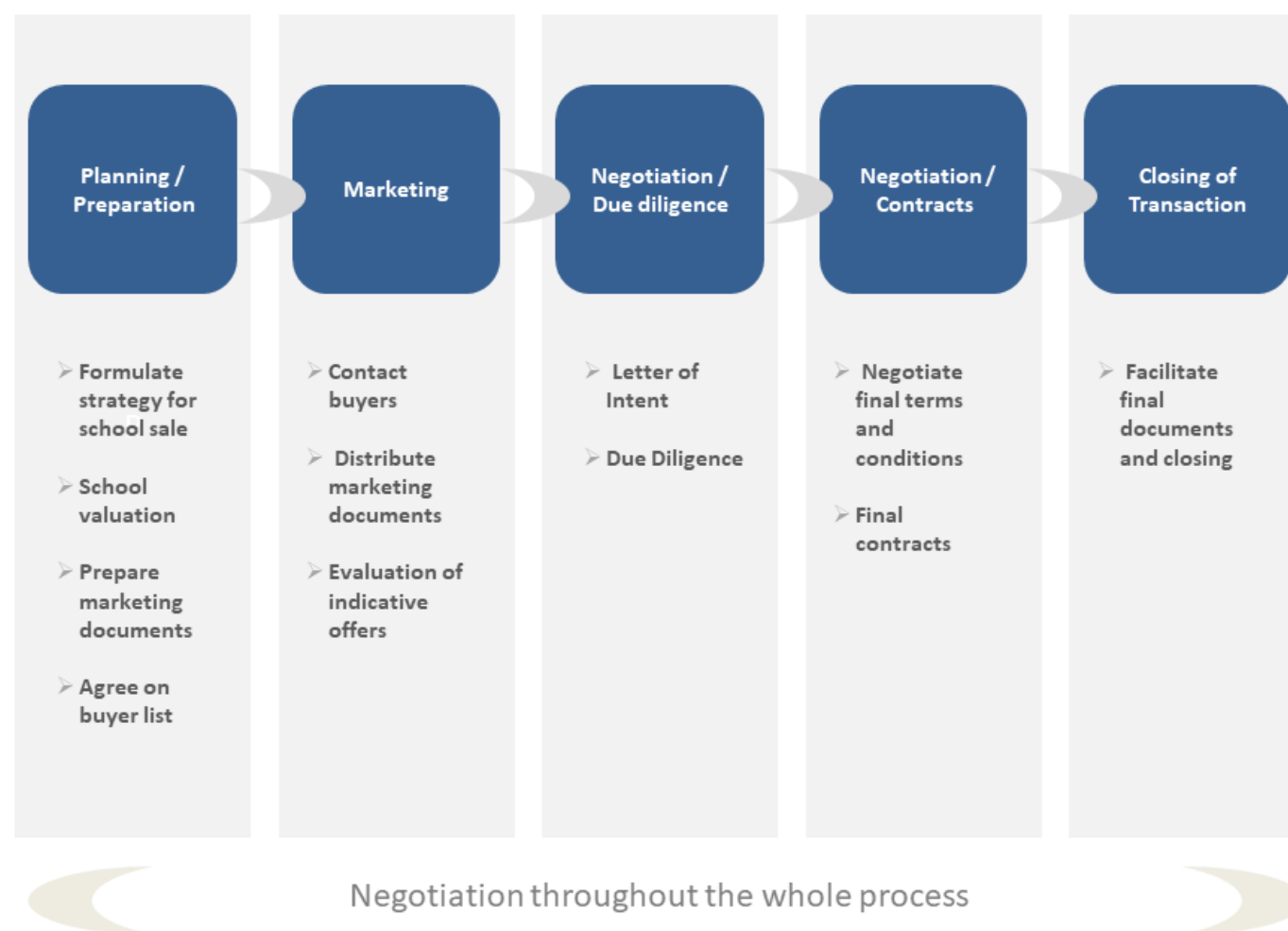
Most of the transactions in our marketplace take the form of selling 100% of the school. However, we also run into situations in which the seller wants to bring a minority or a majority buyer. If you bring a majority or minority buyer to your school, most likely your transaction will become a securities transaction subject to federal and state securities laws.

What is the role of the M&A advisor in selling my school?

The role of your M&A advisor is to manage the deal for you. The advisor should take you and manage all the following phases and activities:

How to Sell a School

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What type of M&A Advisor should I hire?

The first recommendation that we have is not to hire an advisor from other state unless that advisor belongs to a broker dealer, member FINRA/SiPC with license to operate in your state or that advisor meets your state requirements to sell businesses (e.g. in some states is for the advisor to have a real estate brokerage license). If your advisor does not have any of these requirements be careful. Even if your transaction is closed, it can run into legal problems after closing.

What are the sales methods to sell my school?

Sales methods vary from transaction to transaction. Here we will mention two typical methods: auctions and flexible processes.

Auctions or competitive bids are appropriate when there are many interested parties, which is the case for quality schools. The flexible process is preferred by buyers. It might be more adequate when the sale process might be difficult because of the school situation.

How to value my school?

Your advisor should value your school using methods like EBITDA multiples and the Discounted Cash Flow method. You can read more about valuation methods in the following articles (school valuation considerations and how to value a company)

The school valuation is a tool that will be used during the whole sale process and that will become critical in the negotiation phase.

If you are selling the real estate as well, an appraisal of the real estate must be done as well in the planning phase.



What marketing documents should my advisor prepare?

To market your school, your advisor should prepare several documents to market your school. It is not in the scope of this article to detail those. The M&A advisor should use different documents for different phases of the sale process.

What are the forms and conditions of payment?

Typically, school closings are cash closings. However, in some rare situations payment could be made with stock of the buyer. In other instances, part of the consideration could be financed by the seller (specially in small transactions).

Most payments are made at closing; however, the deal can include future installments and payments subject to future performance of the school (earnouts).

Who could buy my school?

We would categorize three type of buyers: private investors (specially for small deals), strategic and institutional buyers.

Strategic buyers are basically national, regional, or local school operators, who already operate in the industry and that potentially can create synergies by acquiring the school.

The institutional buyers are basically private equity funds specialized in the education industry. There are funds that look for transactions with annual EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) greater than \$1-\$2 mm. Thus, they typically acquire at least small network of schools or larger schools. After closing, they invest (or provide access to) capital to acquire other schools, increase profitability through building infrastructure (back office improvements, facilities improvement, etc.), expand geographically (open new schools) or increase density where the school already operates, hire personnel, and bolster and solidify the school balance sheet. The final objective of school acquisition by these investment funds is to resell the schools to a larger private equity firm, to another school operator, or in larger deals, to take the company public. If the owner remains with a stake at the school, this would be an opportunity for them to have another liquidity event. Typically, private equity funds invest for a time horizon of 3 - 7 years.

As you can see, the sale process of a school involves activities that demand a lot of time, planning and specific technical knowledge. The support of external advisors will help so that owners focus on the day to day operation of the school. External advisors should include financial, legal, and tax advisors. the owners will set the guidelines of the process, approve the planning, set the terms of the sale, and make the key decisions during the process.



Why engage Mergium to Sell Your School?

We are specialized and experienced in Early Childhood and K-12 school sales

- We specialize in selling schools and school real estate.
- More than 20 years doing mergers and acquisitions and Big Four experience.

Our Buyers are National School Operators

- Our focus is to sell to qualified buyers that are either institutional investors (like private equity funds) or large national school operators. These buyers have clear investment criteria, know the industry, and have plenty of capital for cash closings.

We Maximize your Sale Price

- We have working relationships with large national operators and school real estate investors. By selling to these buyers, the sale price of your school will be maximized.
- We run well structured competitive bids offering your school to as many qualified buyers as possible. We bring to the process as many qualified buyers as there are currently in the marketplace.

We do your school Pre-Engagement and Preliminary Valuation at no cost to you

- We do this to provide a preliminary price range so you have a key parameter to evaluate if it is the right time to sell your school.

We sell your Real Estate

- If the buyer does not acquire your real estate, we assist you in leasing it to the buyer and then finding a real estate investor to acquire it.

We give you Peace of Mind

- We keep the confidentiality of the process and cause no disturbance to your business operation.
- The sale of your school could be done as a share or asset sale. In a shares sale, which is a securities transaction, your advisor must be affiliated to a broker dealer, member of FINRA. Members of Mergium are representatives of StillPoint Capital, a broker dealer. Your transaction with us will not incur in any risk of breaking federal securities laws. Most brokers/advisors do not have securities licenses.