

BUSINESS SERIES:

Exit Strategies for ABA and Related Health Organizations

Presenter

Karen Chung

Subject Matter Experts

John Benfield

Robert Caines



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Karen Chung, CPA, MBA

Karen is the Founder and CEO of Special Learning. She started the company in 2010 upon learning about the effectiveness of Applied Behavior Analysis (ABA) and the reality that over 95% of the world did not have access to **quality** ABA. As an entrepreneur with over 20 years of business experience, she started Special Learning to leverage existing and emerging technology to make quality ABA resources and services available to parents, educators and professionals around the world.

Karen's entrepreneurial experience includes starting and growing a diversity retained executive search firm specializing in placing women and minority executives in leadership positions of Fortune 1,000 companies. Her investment banking background includes working with various venture capital and private equity companies to facilitate deal flow while representing CEOs of rapidly growing companies seeking to raise equity and debt capital for various middle market businesses and commercial real estate developers. Her corporate background includes various leadership and functional roles in Fortune 1,000 and middle market companies. Her additional entrepreneurial activities include owning and operating high end boutique

She graduated with a Masters of Management degree from Kellogg Graduate School of Management of Northwestern University. She is a Certified Public Accountant and a recipient of the Elijah Watts Sells Award from the American Institute of Certified Public Accounts (AICPA).



John Benfield

John is a senior business executive with a career that spans over 40 years growing and existing businesses in both private and public markets. He possesses a unique ability to spot industry trends that others miss and developing and implementing plans to successfully identify and give dimension to new growth and revenue stream opportunities and to effectively align resources and execute against them. His background spans diverse industries which includes consumer package goods, manufacturing, early education, and digital educational content, and others.

Jon started his career with the Colgate-Palmolive Company in various sales, brand management and senior level positions. After Colgate-Palmolive, he became Chairman, CEO and President of CoActive Marketing Group, which he led through leveraged buyout and a successful IPO traded in the NASDAQ exchange. He subsequently led CoActive to become a Top 20 marketing and sales promotion agency in the U.S., with 250+ employees and \$130m in revenue.

After his departure, he founded Wall & Madison, LLC, a management consulting firm dedicated to assisting start-ups and turn-arounds by providing founders with expertise and hands on support necessary to grow their companies. While with Wall & Madison, John co-founded StarWalk Kids Media, a digital publisher creating eBooks for children served on a streaming software platform. In December 2015, he helped lead a transaction that resulted in Starwalk Kids Media's sale to Isabella Products, Inc.

As a co-founder and Managing Partner of Paley Madison Partners, he is a pioneer in leading one of the first ESOP programs under the Wall Main Street Employee Ownership Act.

Subject Matter Expert



Robert Caines

Founding Partner / Managing Partner
Paley Advisors

Bob is an entrepreneur and mergers and acquisitions executive with over thirty years of business startup, growth and management experience.

He founded Paley Advisors in 2014. From 2002 to 2014, Bob served as one of three Managing Partners at Paley Dixon, Inc., the New York City-based buy-side intermediary and advisory firm, founded in 1979. There, he and partners Sarah Cooke and Richard Paley grew Paley Dixon into one of the top five buy-side intermediaries and advisory firms of its size in the US and Canada.

Previous to Paley Dixon, Bob held senior-level sales and sales management positions at Hummingbird, BrightStar, NetEra and ADP. In the early 1990's, Bob and partners founded Cable Channels, the cable television electronic program guide software firm.

Bob currently serves as Treasurer and member of the Board of Directors of Kensington House Corporation. He previously served as Treasurer and member of the Board of Directors of The Salmagundi Club, as Treasurer and member of the Board of Directors of the Ali Forney Center and as a member of the Advisory Board of the Peccadillo Theater Company.

Bob holds a Bachelor of Architecture degree from the College of Engineering at the University of Notre Dame and a Master of Business Administration degree from the Thunderbird School of Global Management.

Housekeeping

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2. If you experience technical issues during the webinar, contact GotoWebinar directly by calling (877) 582-7011.
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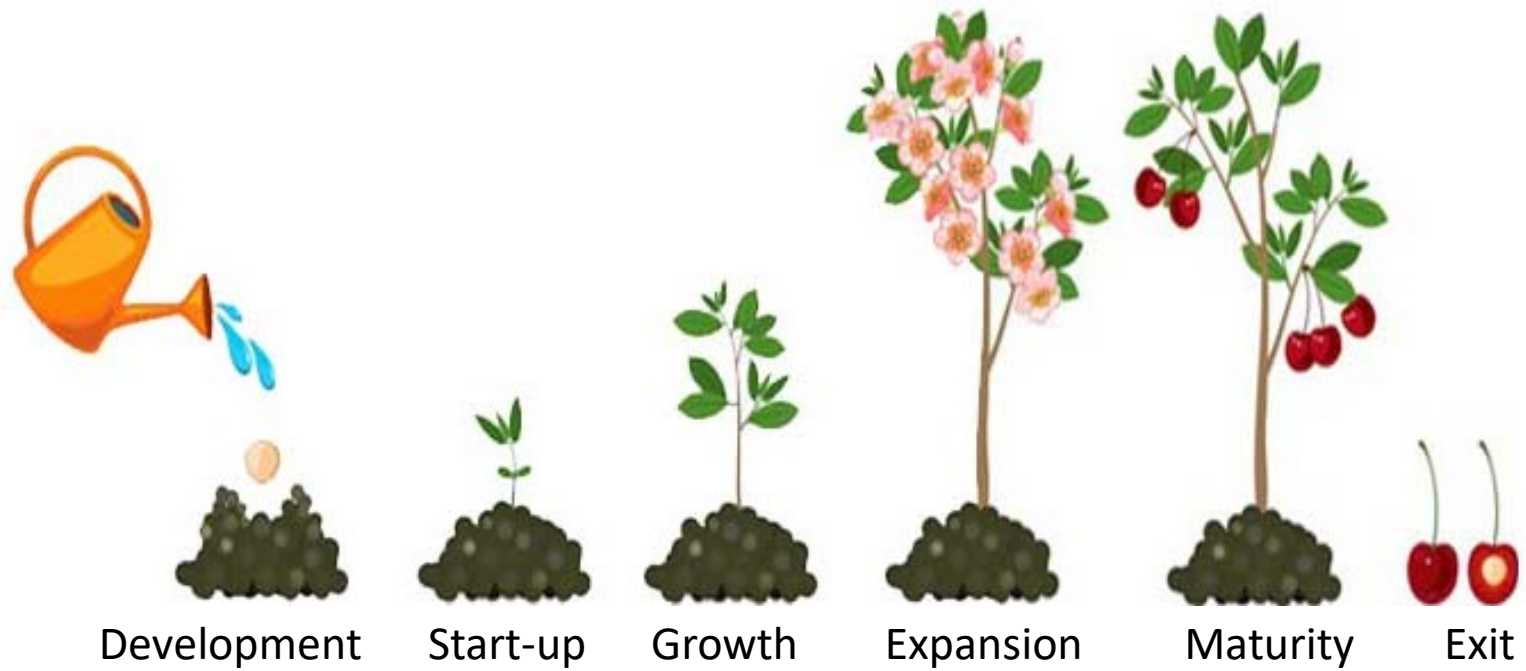
Outcomes

1. Participants will be able to list 6 common exit strategy options.
2. Participants will be able to describe the impact of various exit to clients and employees of ABA organizations.
3. Participants will be able to identify key elements of the Main Street Employee Ownership Act.
4. Participants will be able to describe the benefits of an ESOP program.

Downloadable Tools and Resources

- Main Street Employee Ownership Act EXPLAINED

Business Lifecycle

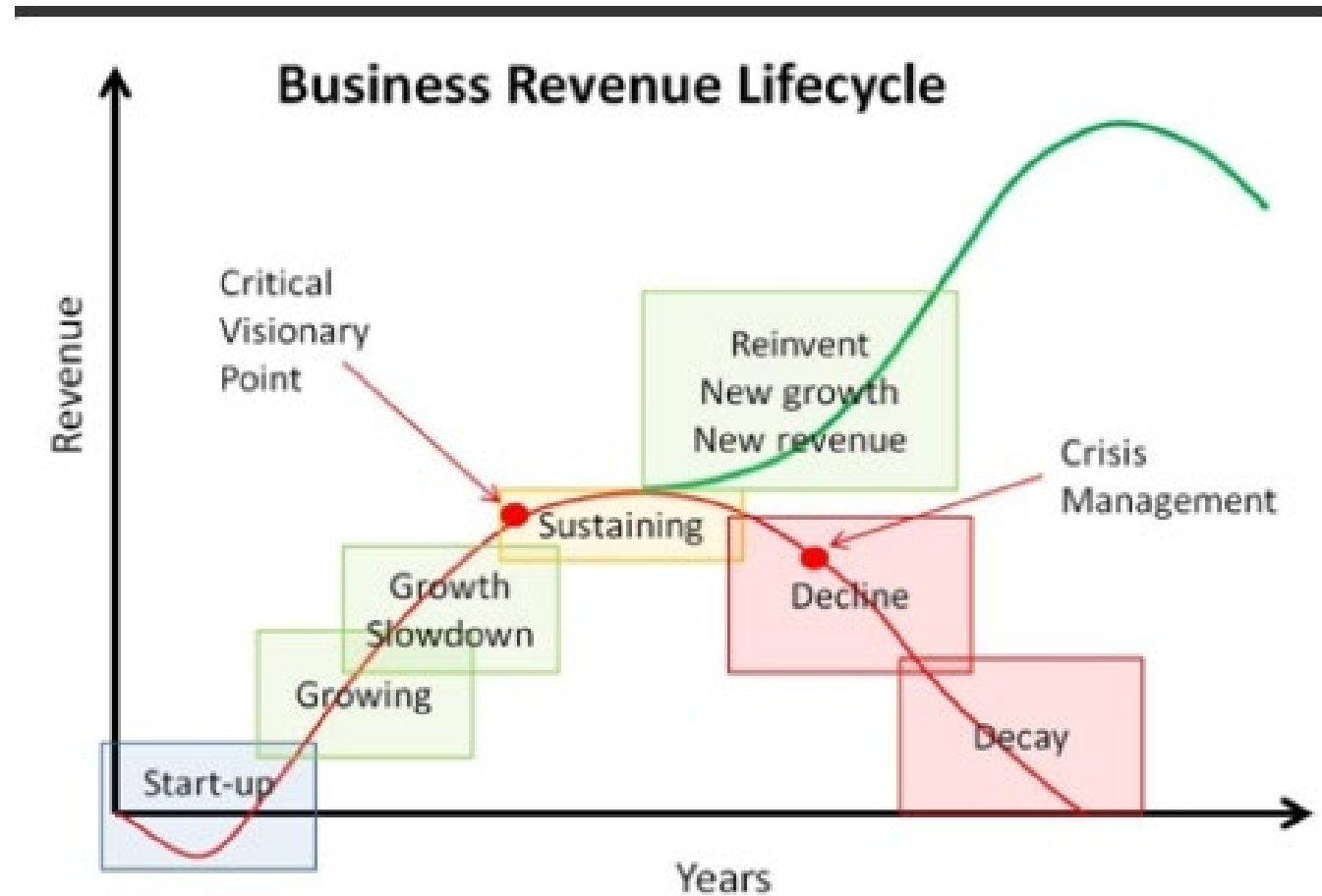


Business Is Hard!

Start-up Failure Rate (2014) Bureau of Labor Statistics

- 20 percent fail by year 2
- 30 percent fail by year 3
- 38 percent fail by year 4
- 44 percent fail by year 5

Nearly **50%** of start-ups fails within 5 years

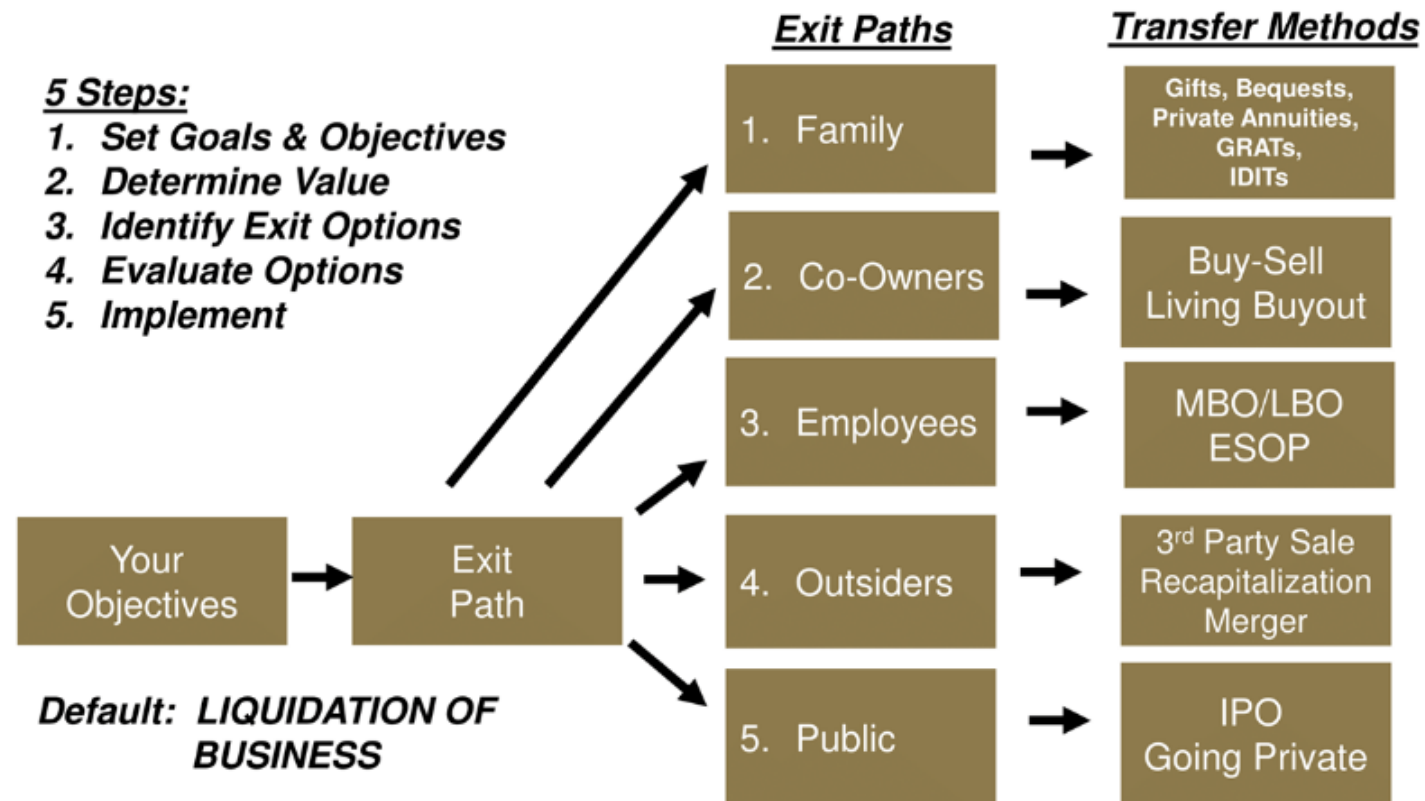


What is Your
Path? Start
with the End
in Mind



Importance of Exit Planning

America is facing a [wave of retirements](#) by baby boomers, who in 2012 (the most recent year for which Census data is available) owned nearly half of the privately-held businesses in America. Many of those will simply dissolve if the owner can't find a buyer or a family member to take it over.



Exit Considerations in the Field of ABA

Type	Revenue Targets	Valuation	Post Sale Control	Staff Impact	Client Impact	
Liquidation and Shutdown	N/A	N/A	High	Negative	Negative	May be on waitlist with other agencies
Transfer: Family Member(s)	N/A		High	Neutral	Neutral	High probability that business practices will remain unchanged
Sell or Merge: (non-Private Equity (PE) Financial Buyer)	\$2 to 3 million		Low	Negative to Positive	Unknown	<ul style="list-style-type: none"> Changes in clinical practices Changes in business practices
Sell: Employee Stock Option Plan (ESOP)	\$4 to \$6 million		High	Positive	Positive	High motivation to deliver quality services
Sell: Strategic Buyer	\$5 million and above		Low	Unknown	Unknown	<ul style="list-style-type: none"> Changes in clinical practices Changes in business practices
Sell: (Private Equity Buyer)	\$15 million and above		Low	Negative to Positive	Unknown	<ul style="list-style-type: none"> Changes in clinical practices Changes in business practices



What Buyers Look For

- Market size
- Industry growth rate
- Market demand
- Predictability of revenue/funding (recurring revenues)
- Profits
- Ability to scale
- Fragmentation (available deals for consolidation)
- Limited competition
- Available deal flow
 - A healthy company that is profitable in an industry that appears stable or growing.
 - A company with a management team and/or an owner that is not completely tied to the business and customers in a way that can damage the company upon their departure.
 - A business that can grow either through expansion of gross margins, acquisition of other companies, or the addition of new business.
 - A company that will be saleable in 5-7 years when it is time to exit (**PE Exit Strategy**).

What Makes Autism Industry Attractive?

- Market Demand
- Availability of Funding
- Revenue Model Characteristics
 - Predictability of Revenues
 - Recurring Revenue
- Ability to Scale

	Description	Benefits	Payors	Estimated Size
School-Based Services	Therapists provide services alongside teachers in the classroom during the school day	<ul style="list-style-type: none">• Complements school curriculums, and clinicians provide added support for teachers	<ul style="list-style-type: none">• State and local school district funding• Medicaid	+ \$7 billion
Community-Based Services	Therapists come to the individual's home or meet in a clinic to provide counseling and therapies 2-3 times per week	<ul style="list-style-type: none">• Children learn in a natural/most comfortable environment• Increased parent involvement	<ul style="list-style-type: none">• State and local government agency contracts• Medicaid• Commercial Insurance	+\$10 billion



Notable Private Equity Deals in ABA

“With increased legislation and insurance coverage, private equity firms have entered the sector, seeking to invest in platform companies in the early growth stage of the industry.”

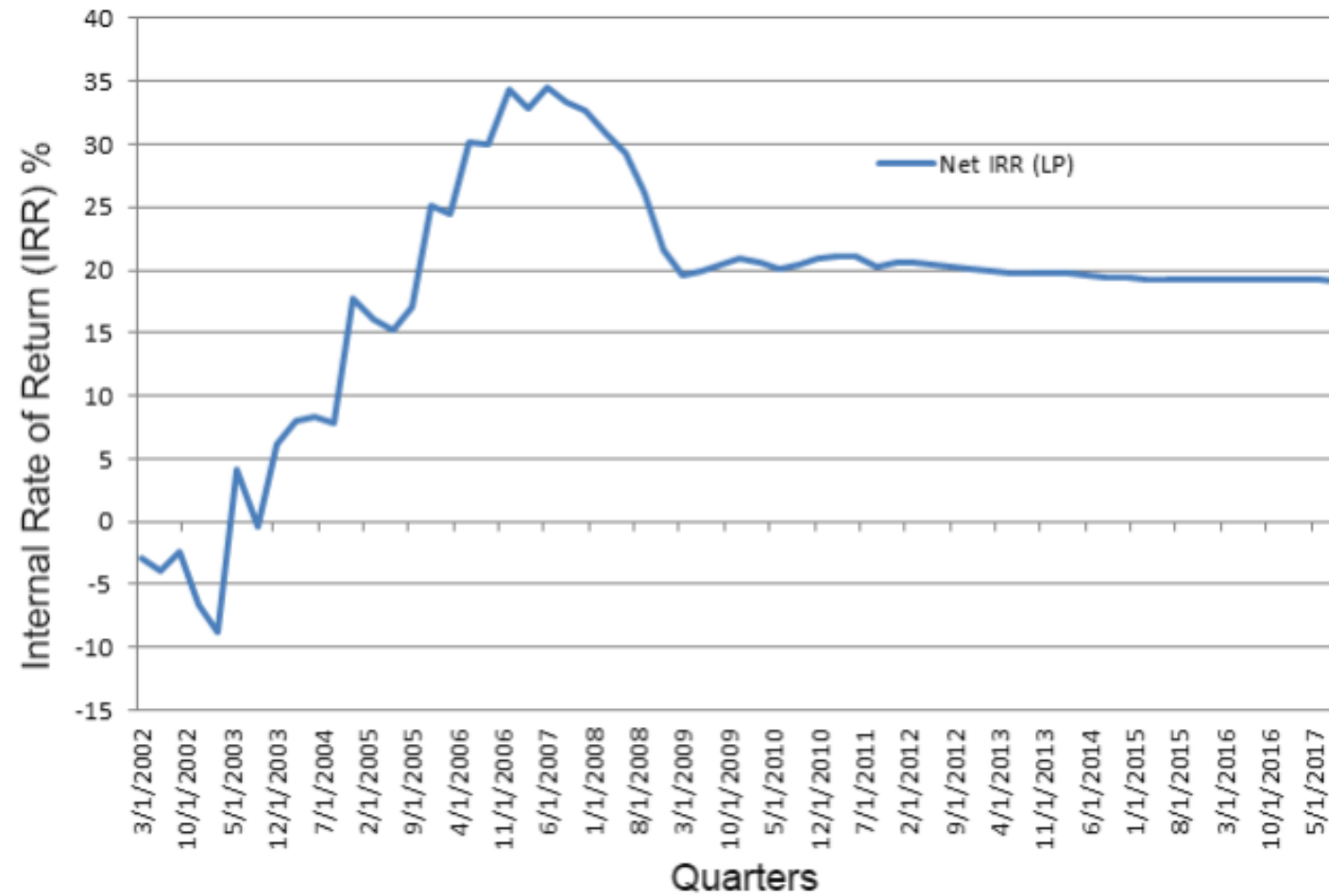


Private Equity Expected Returns

Life of Fund:
10 to 15 years

**Expected Deal
Horizon:**
5 to 7 Years

ROI Target:
30% to 50%



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Source: [Private Equity Funds: Leverage and Performance Evaluation](#)

Exit Options for Private Equity Firms

Strategic Sale (most popular)

Sale to a third-party purchaser, typically operating in the same vertical, willing to pay a premium for strategic gain - *i.e.*, new products, access to new markets.

Secondary buyout (common)

Sale to another Private Equity firm

- Business may require additional investment and PE firm is not willing / able to continue to invest
- Business may have reached the goal and there is a larger PE buyer.

Leveraged recapitalization

Partial exit strategy via taking on debt without selling the company.

Management Buyout Management or the promoters of the company buy back the equity stake from the PE firm.

Initial public offering (IPO)

“Going public” may offer highest return for PE sponsors depending on market conditions.

Liquidation. When all else fails...

Valuation (Risk) Factors

Macroeconomic Risk Factors

- CMS Fee Schedule / Reimbursement Rate
- Competition
- Market Demand

Organization Specific Risk Factors

- Revenue Diversification
- Expense Ratio
- Clinician Productivity

Certainty of Future Earnings

- Reliability and continuity of future earning capacity

Amount and Quality of Adjusted Net Cash Flow

Contingent Liability

- Lawsuits
- Investigations

5-minute Break

Overview of an ESOP Framework

Main Street Employee Ownership Act

Main Street Employee Ownership Act

The average participant in an ESOP today has a share in their company worth \$119,691, on top of any other retirement savings, allowing them to build equity in their job just like they might build equity in a house.

[Main Street Employee Ownership Act](#) was signed into law in November/December 2018

Goal

- Address wealth inequality in America.
 - Help more workers to own a piece of the company they work for.
 - Shrink the gap between people who make money on investments and those who work for a living.
 - Level the economic playing field and keep small businesses alive when their owners die or move on
-
- **Main Street Employee Ownership Act vs. ESOP**

Main Street Employee Ownership Act

Characteristics of an ESOP Program

- Workers pay nothing to participate
- The company (newco) takes out a loan to buy the shares from the previous owner or shareholders, then divides the shares among the employees.
- Profits from the employee-owned portion of the company are tax-free, so the tax savings can be used to pay off the loan.
- As co-owners of the company, employees have the right to vote on major events like mergers and spinoffs
- But the Management team still handles day-to-day decisions.
- Newco creates a stock option program that stipulates when stock is granted, when it vests and how it can be liquidated
- The company must buy back an employee's shares at fair market value soon after he or she retires or leaves the company.

Applying the Main Street Employee Ownership Act Framework in Practice

Industry: Non-Emergency Medical Transport
(NEMT)

Background

Pros / Cons of Mains Street Ownership Act

PROS

- Benefits to owner (seller)
- Benefits to employees
- Benefits to customers

CONS

- Complexity
- Transaction Cost (\$500K and above)

Seller Considerations

Available exit options for the entrepreneur(s)?

Sale considerations

- Financial
- Non-financial

Final decision (and reasons behind)

Buyer (ESOP Sponsor) Considerations

What made the ambulatory industry a good fit for the Main Street ESOP model?

What are the characteristics of an attractive target?

Revenue Target

- Initial platform company
- Follow-on investment companies

Profit Target

- Initial platform company
- Add-on investments

Sales Multiple

Process to Implement ESOP in ABA

1. Gain understanding of industry
2. Gain understanding of business dynamics
3. Source deals
4. LOI
5. Negotiation
6. Hire Trustee
7. Form Board of Directors
8. Find best funding source / structure
9. Close funding
10. Executive team
11. Create ESOP program
12. Operate as an ESOP

Impact of ESOP Model in Field of ABA

Benefits

- Ability to substantially improve the business
 - Trustee to provide oversight
 - Board of Directors with objectives that are aligned with the organization
- Ability to maintain (and improve) quality of care
- Ability to operate ethically
- Ability to support ABA organizations with a mission to help improve client outcomes
- Ability to ethically exit and provide protection to clients and employees
- Ability to maintain the legacy of the founder

Impact

- Impact to clients
- Impact to owner (seller)
- Impact to employees
- Impact to the field of behavior analysis

Thank you for attending today's webinar.

If you have any questions, please send an email to
kchung@special-learning.com