Forefront

ISSUE 1 | 2021

Inside:

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As we come out of a past year of COVID-19 it is time now to embrace a new beginning. There are many changes that will impact our economy going forward. I am especially attuned to the potential impact of the flooding of cheap dollars into the market. We will most likely see a new round of inflation as a result. People who couldn't afford to buy groceries and gas will be placed at an even greater disadvantage. We spend a lot of time in the agriculture space and I can assure you the price of dairy and meat will be escalating. Free money is at best a sugar high for a very short time with a subsequent "let down" that could be miserable. Michiganders will most likely experience firsthand the real impact of reckless economic policies when they are forced to spend $4-$5 for a gallon of gas. But why stop there? The labor scenario is completely "out of whack" right now as unemployment is high yet there are countless jobs to fill. The beauty of getting free government checks discourages working for a living. I had a president of a North American auto supplier bemoan to me recently that he has 1,100 jobs open and only 650 applicants. He computed the average hourly rate he would have to pay to incentivize workers to get off government welfare in the form of bloated unemployment benefits at $25 per hour. Problem is, the work was quoted at $16 per hour when people were working. Economically, he is unable to staple $9 per labor hour in losses to his parts. That, too, is unsustainable. So where are we going? This issue shows the areas of M&A we think are popping and some strategies near term.

I also want to recognize our partner, Susan Koss, who is being acknowledged this summer by many of our professional organizations as a top advisor.

We are in the process of completing our Grow Michigan Fund II which is very exciting. We have a new affiliation in our Fund with Derron Sanders, our chief business development officer and our chairman Kenneth Kelly, president of First Independence Bank.

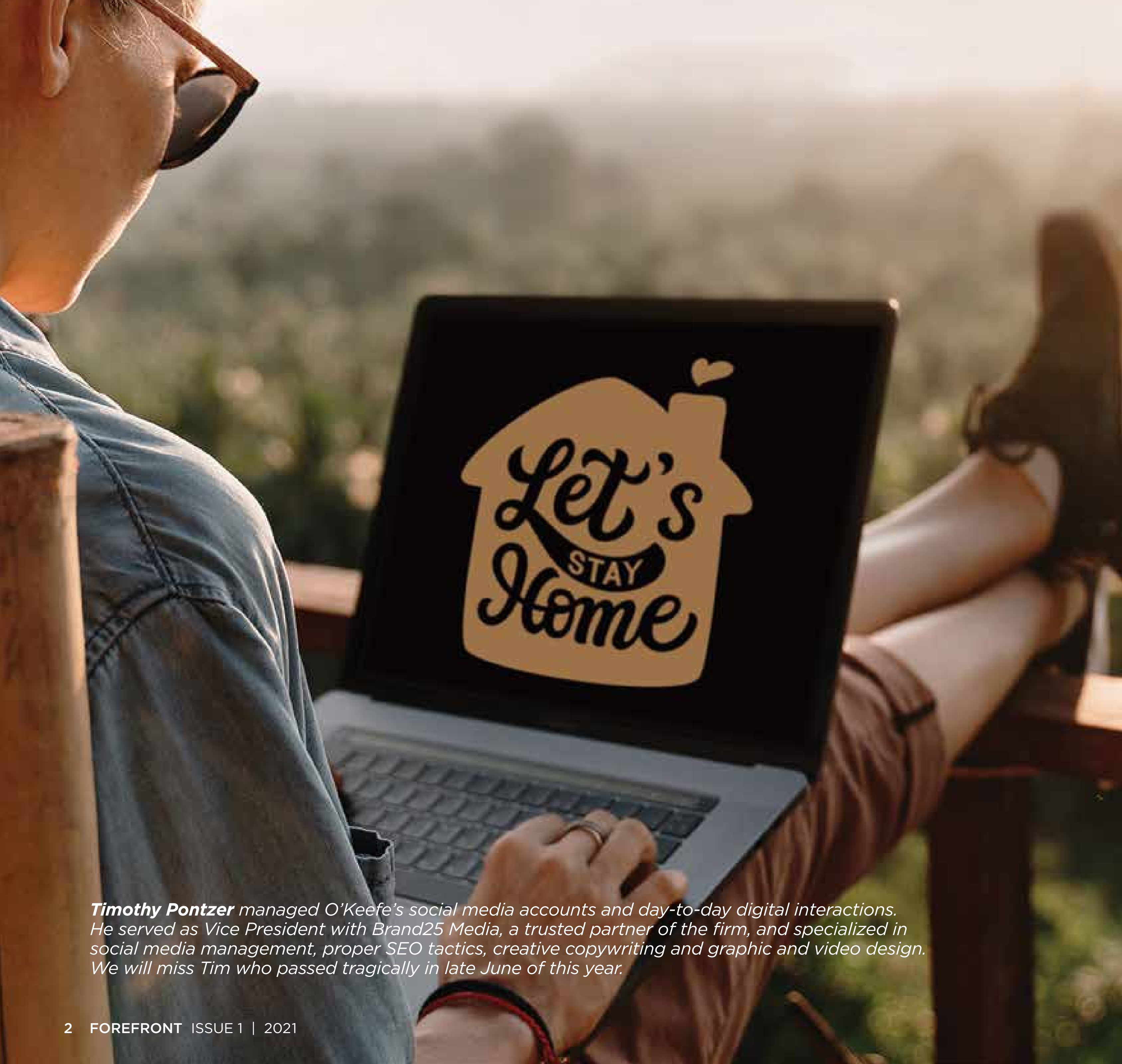
We have included some photos from the COVID-19 year at the O'Keefe office. I would like to recognize some work anniversaries from our 20th year.

Russell Long	20 years	Amanda Rymiszewski	15 years
Jennifer Brewer	20 years	Carol O'Keefe	14 years
Susan Koss	20 years	Chris Seablom	13 years
Matthew Rizzo	19 years		

Thank you for your service and partnership in providing great service to our clients.

Lastly, I want to recognize the sudden loss of one of our partners, Tim Pontzer of Brand25. Tim, while new to our organization, contributed the first article in this edition entitled, "Brave New World." We will miss Tim who was always creative, energetic and committed to providing us the best service. When you tragically lose one of the good guys at such a young age, it forces you to pause and think how precious and short life is. We offer our deepest sympathies to the Pontzer family and his friends at Brand25. He will be missed by many. Rest in Peace, Tim.

~ Patrick O'Keefe



Brave New World:

Pandemic ushers in a new wave of digital habits, trends and preferences.

By Timothy Pontzer

As American society stayed shuttered, COVID-19 changed how we engage, entertain, employ, educate and even eat.

By mid March of 2020, the entirety of the United States was under stay-at-home orders from both federal and state governments. Business, schooling, entertainment and essentially all other aspects of American life were changed drastically, with some being forced to grind to a halt.

As the virtual lockdown dragged on, most of these elements went virtual themselves. Terms like 'Zoom call', 'online learning' and 'contact-free delivery' became normal parts of the lexicon as we spent more time than ever in front of a screen of some sort.

Broadband services saw an extreme increase compared to pre-lockdown levels with Zoom itself seeing an increase of ten times from the previous year.[1] Overall, internet usage in the country soared by over 25% within a week of President Trump's emergency declaration March 13 to shelter at home.[2]

Aside from essential workers, nearly the entire American workforce began to work from home. By the end of 2020, 71% of workers – across all industries – said they were doing their job remotely. As some companies have extended remote work late into 2021 or even 2022, over half of the overall workforce say they want to keep working from home even after the pandemic ends.[3]

As many restaurants severely struggled with mandates forbidding in-person dining, delivery services thrived. DoorDash saw an explosion, reporting their highest order counts in the history of the app. A survey done by DoorDash reported that 58% of all adults and a whopping 70% of millennials said they were more likely to have food delivered than two years ago.[4]

Dinner and a movie? After calling on DoorDash, GrubHub, UberEats or another delivery service, many Americans settled in with the likes of Netflix, Hulu or the bevy of other streaming options. Roughly 80% of U.S. consumers subscribe to at least one paid streaming video service in 2021, a rise from 69% in the previous year. Additionally, as Hollywood and theaters reeled from the pandemic, moviegoers were presented newfound options including the chance to purchase newly-released blockbusters with a click of the remote. 22% of consumers (30% of Gen Z and 36% of millennials) paid to stream a first-run film and 90% of those who did said they were likely to do it again.[5]

Broadband access became a necessity. 87% of all adults said the internet was important for them personally and 53% described it as essential for their life. Classrooms also saw a colossal change as 94% of parents said their children were forced to learn from home. Of those, roughly 25% of parents believed their homebound students were likely to be unable to complete all of their work and studies because of the lack of access to a computer or sufficient Wi-Fi. A further 'homework gap' occurred with lower-income parents as 43% in that group reported their children having to take classes on a smartphone and nearly 40% saying there was no access to a computer at all.[6]

As lockdowns were lifted and then reapplied across the nation; the summer saw an election year serve as the backdrop for multitudes of protests and calls for change, social justice and other causes. Social media use soared during this span with 86% of users saying they saw a strong shift in the content they witnessed. 49% said they had changed their posting behavior due to current events with 43% commenting more on current events, 42% refraining from posting personal updates and selfies and 37% supporting specific causes.

Overall, 72% said their social media consumption increased. Instagram (44%) was the platform picked most where consumption increased followed by TikTok and YouTube. In the same survey, Facebook and Twitter were the two most chosen as timelines actively avoided during the pandemic due to toxicity and misinformation campaigns related to the election and the pandemic.[7] However, both services saw huge increases in users and engagement from 2019. A whopping 82% said that social media became the most likely channel to get information and nearly a third said that most of their new purchases came because of something they saw on social media. 66% said that social media now plays a crucial role in deciding whether to consider a brand and 74% said they at least visit the brand's social media page before buying.[8]

I think it's safe to say, thanks to 2020, that everyone has incorporated social media, or other technology at the least, into their daily lives for one purpose or another.

1 www.ncbi.nlm.nih.gov/pmc/articles/PMC7280123/
2 www.wsj.com/amp/articles/coronavirus-lockdown-tested-internets-backbone-11597503600
3 www.pewresearch.org/social-trends/2020/12/09/how-the-coronavirus-outbreak-has-and-hasnt-changed-the-way-americans-work/
4 www.techcrunch.com/2020/11/13/how-covid-19-accelerated-doordashs-business/
5 www.variety.com/2020/digital/news/streaming-video-subscriptions-churn-covid-19-deloitte-1234642672/
6 www.pewresearch.org/internet/2020/04/30/53-of-americans-say-the-internet-has-been-essential-during-the-covid-19-outbreak/
7 www.theverge.com/2020/11/4/21548736/twitter-facebook-throttle-trump-tweet-election-theft
8 www.digitalcommerce360.com/2020/09/16/covid-19-is-changing-how-why-and-how-much-were-using-social-media/

__Timothy Pontzer__ managed O'Keefe's social media accounts and day-to-day digital interactions. He served as Vice President with Brand25 Media, a trusted partner of the firm, and specialized in social media management, proper SEO tactics, creative copywriting and graphic and video design. We will miss Tim who passed tragically in late June of this year.

Forbidden Fruit

A win for sports betting

By Julie Lock

Mark Twain once said, "The more things are forbidden, the more popular they become." Researchers refer to this as the "forbidden fruit hypothesis." In human nature, one wants what it cannot have or perhaps one can have it, but with serious consequences. Sports betting has been a forbidden fruit for many bettors in the U.S., up until the last few years. The Professional and Amateur Sports Protection Act of 1992 (PASPA) banned sports betting across the U.S., except for Nevada. In 2018, PASPA was overturned by the U.S. Supreme Court which has since paved the way for states to adopt legislature legalizing sports betting of some form. As of April 2021, forty-seven states and Washington D.C. have either legalized, passed, or introduced a bill into legislation. Only Idaho, Utah, and Wisconsin are the remaining states who have yet to introduce one.

According to Gambling Compliance, by 2024 the U.S. sports betting market is forecast to be worth between $5.9 billion and $8.2 billion in total annual revenue. The opportunities and room for growth in the sports betting industry seem endless. Last year, businesses big and small were crippled under the restrictions placed across the U.S. due to the pandemic, but the sports betting industry remained unhindered and thrived. Take the daily fantasy sports contest and sports betting operator DraftKings who announced fourth-quarter revenue of $322 million, up 98% from the same period last year. As for 2021, the company is projecting revenue to reach $1 billion.[1] At a time where major American sports which included the NBA, MLB, and NHL, were on hiatus, DraftKings was able to not only sustain, but grow the company nearly 100% by pivoting and adding content. Believe it or not, it became popular to place bets on tennis and cornhole matches.

In April of 2020, DraftKings debuted as a publicly traded company and their share price is more than triple a year later. In September of 2020, DraftKings agreed to an exclusive partnership with ESPN, which is owned by Walt Disney to integrate their digital platforms. In April of 2021, DraftKings inked a deal with the NFL to become one of the league's official sports betting partners. There is no slowing down DraftKings but there is still a long way to go for the company with top competitors FanDuel and BetMGM, along with many others, angling for a piece of the sports betting market. Since the overturn of PASPA, there has been more push to adopt sports betting legislation, as states began to see they were losing out on revenue going to neighboring states. New York and New Jersey for example. With his state ravaged by COVID-19 and facing a $15 billion budget shortfall, the once opposed Governor Cuomo changed his tune about legalized sports betting. In April of 2021, the state approved a limited-operator, government bid online sports betting model which would run through the New York State lottery.[2] When New York stalled, New Jersey took advantage of New York's lack of mobile sports betting. New Yorkers were making the short trip across the Hudson River to New Jersey to place their bets. Eilers & Krejcik Gaming reported that in 2019, it was estimated more than 18% of New Jersey's sports wagering handle came from New York. Legalized sports betting gives consumers another way to enjoy games in a regulated industry, turning away from the illegal, unprotected black market of the past. It has become an attractive source of revenue for states and those in dire need of cash flow due to budget deficits may have to consider the option.

Colorado is a clear example of the benefits states can receive from legalizing sports betting. From May 2020 to February 2021, approximately $1.8 billion in wagers were placed in Colorado. This resulted in just shy of $4.5 million in tax revenue to cover the $2 million in operating costs, with a portion going towards a "Hold Harmless Fund" which will eventually allow contribution to the underfunded state water fund which needs to raise approximately $3 billion.[3] Sports betting is a multibillion- dollar industry and states deserve to monetarily benefit from it. It has become less of an if but rather when to expect a state to adopt legislation. Unlucky bettors' pockets may be left feeling empty, but it is a win for a pandemic proof sports betting industry in terms of tax revenue, employment, and entertainment.

***Julie Lock** Analyst, specializes in financial modeling and data analysis for turnaround and restructuring assignments and litigation support which includes, but is not limited to, business valuation, forensic accounting, economic damages, and lost profits.*

[1] "DraftKings' revenue and customers soar in the fourth quarter, 2021 guidance raised", March 1, 2021, Yogonet, https://www.yogonet.com/international/noticias/2021/03/01/56676-draftkings-revenue-and-customers-soar-in-the-fourth-quarter-2021-guidanceraised%20accessed%20April%2012, accessed April 12, 2021.

[2] Butler, Ryan. "Breaking: New York Online Sports Betting Is Approved With Gov. Cuomo's Limited-Operator Model", The Action Network, April 6, 2021, https://www.actionnetwork.com/legal-online-sports-betting/new-york-online-sports-betting-approved-cuomo-government-bid-plan, accessed April 12, 2021.

[3] Zelinger, Marshall. "After months of sports betting, how much tax money has Colorado made?", 9News, April 2, 2021, https://www.9news.com/article/news/local/next/sports-betting-money-colorad-water/73-746b5ed9-1fce-40ea-ae40-cb7311074ee8, Accessed April 12, 2021.

Susan Koss *CPA/ABV/CFF, CVA, Partner and Managing Director, leads the firm's Litigation Support Practice Group. She specializes in litigation support, business valuation, quality of earnings and forensic accounting.*

UNMASKING

PROBLEMS IN THE NONPROFIT SECTOR

By Susan Koss

The COVID-19 pandemic has created a year of unprecedented times for nonprofits who have operated under tremendous pressure due to uncertainty and disruption. State mandated shutdowns and unpredictable reopening plans have left nonprofits in a state of financial instability. A recent study by the philanthropy research group Candid and the Center for Disaster Philanthropy ("Candid Study"),[1] projects that more than one-third of U.S. nonprofits are at risk of shutting down within two years as a result of the COVID-19 pandemic. The study highlights the difficulties facing nonprofits as growing financial needs over the past year greatly outweigh the donations received from individuals and foundations.

IBISWorld anticipated a 10.1% decline in donation, endowment and grant revenue in 2020. Profit is also expected to be significantly negatively impacted while also dealing with the financial stresses due to COVID-19 and the deteriorating economic environment. The economic decline has decreased per capita disposable income, consumer spending and corporate profit while unemployment rates remain high, all of which have an adverse impact on contributions to nonprofits.[2]

Financial challenges for nonprofits include pressure on outside funding from corporations who are cutting back due to the economic environment. Also, government and philanthropic sources that many nonprofits have relied upon in the past, may now be in short supply, thereby creating further financial burdens. Unfortunately, the COVID-19 induced environment has also created unprecedented demand levels for the support of many nonprofits who now have less revenue and resources to accommodate those needs.

In an effort to reduce costs, many nonprofits have laid off or furloughed workers. Since the beginning of the pandemic, the nonprofit sector lost approximately 930,000 jobs according to the Candid Study. While many nonprofits have operated remotely since the onset of the pandemic, they redirected their efforts to social media and email campaigns. Nonprofits that have successfully navigated through the pandemic relied heavily on digital marketing and virtual fundraising tactics. To remain viable, nonprofits will need to be nimble and pivot in times of uncertainty and change in the current and post COVID-19 environments to stay in business.

The pandemic has unmasked significant problems in the nonprofit sector that existed well before COVID-19. For example, many nonprofits simply do not have internal staffing capable of providing a complex, financial strategy to stay afloat. In addition, outside board members may be more astute at philanthropy than financial strategies needed during an unexpected crisis. Furthermore, many organizations do not have the technical capabilities to gather and assess the data needed to truly understand the economic drivers of their operations. These issues can cause financial distress for a nonprofit which can lead to donors exiting and the noble cause becoming extinguished presenting additional challenges for the internal staff and board members to face.

To mitigate these challenges, it is imperative for nonprofits to have a thorough understanding of their current financial position. A more frequent review of financial information is likely needed along with a reassessment of assumptions regarding future operations and cash flows. It may be necessary to hire outside professionals to assist with strategic planning and restructuring. Additionally, outside professionals can assist the internal staff and board members in finding creative strategies to remain viable. Solutions such as merger or acquisition transactions, or creating partnerships may allow the mission to stay alive.

Strategic restructuring requires sustained dedication, resourcefulness and flexibility but will be necessary to survive the next few years and not become another victim of the pandemic. Surviving organizations will then be challenged with shifting their focus from survival mode to providing stability and growth in a new and challenging post COVID-19 environment. Implementing innovative strategies, such as pooling of technology resources with other nonprofits, will be needed for organizations to stay viable to carry out their core mission. The ability to economically consolidate essential services will better leverage the financial resources to sustain the organization. Successfully balancing risks and rewards will be critical for nonprofits while making the best use of available resources. Ultimately, those nonprofits who view the pandemic as an opportunity to reinvent themselves are more likely to survive with a better focus on their mission.

1 https://disasterphilanthropy.org/resources-2/philanthropy-and-covid-19-in-the-first-half-of-2020/
2 IBISWorld - Donations, Grants & Endowments in the US, November 2020, pg. 4.

DATA PRIVACY

Who is in Control?

Brian Vargason Analyst, specializes in research, analysis, and preparation for transactions associated with corporate finance and M&A assignments including but not limited to, financial modeling, industry research, material development and transactional process management.

By Brian Vargason

For better or worse our day to day lives have become predicated on our access to a variety of digital applications that we use to stay connected and informed. As a result, the ability to advertise directly to users of those applications has become very lucrative for businesses. Tech titans such as Facebook have grown to support online advertising. So far platforms in the digital ad space have been built on the reliance of algorithms and collecting user data to properly target ads. However, as awareness grows on the collection of user data, the tactics of companies in the digital ad space have come into question.

The rise of the internet at the beginning of the 21st century brought new ways for companies to reach their desired audience and market their products. The introduction of the smartphone gave Americans the ability to carry a minicomputer in their pocket with access to the internet at all times. Pew Research reported in April 2021 that 85% of Americans now own a smartphone of some kind while just 35% of Americans owned a smartphone in 2011.[1] The increase of smartphones has made applications like Facebook more accessible than ever. This increased accessibility, coupled with Facebook's large audience and relatively inexpensive advertising costs, has made Facebook one of the go-to applications for business advertising.

In addition, Facebook has developed a strong ability to target the right potential customers for businesses looking to advertise on their platforms. For example, Facebook allows merchants to track users, matching them via email addresses, phone numbers and their phones' unique advertising identifiers.[2] The tracking of user's personal data makes ads more effective on Facebook, but public sentiment against this practice is forcing change in the online advertising industry. In 2021, a poll was done by Prosper Insights & Analytics on privacy attitudes and concerns among U.S. consumers. It involved over 17,000 respondents segmented across Boomers, Gen X, Millennials, and Gen Z. Part of the survey found that 56.3% of Gen Z consumers and 64.7% of Gen X consumers stated they were against the use of personal data for targeted marketing.[3]

Major tech companies have become aware of user's privacy concerns and thus have started to make changes to further protect user data. In 2021, Apple's IOS operating system is scheduled to receive an update that will prompt users before letting applications like Facebook access the unique identifier tied to their device. This could prove to be an obstacle for Facebook, which makes more than 90% of its revenue through mobile advertising,[4] as users will more than likely opt out of data tracking. Christian Lovrecich, founder of the e-commerce marketing agency PixlFeed Media, discussed what this change could mean for businesses in Wall Street Journal stating "before, even the smallest business could throw as little as a hundred bucks at a tiny ad campaign on Facebook or Instagram, and get detailed and immediate feedback. Now they will have to spend substantially more – thousands of dollars at least – to show their ads to a larger audience, because the targeting will be less precise."[5]

With a large reliance on platforms such as Facebook for digital ad campaigns, companies will need to monitor how upcoming privacy changes will affect their marketing efforts. While it is difficult to predict how much of an effect there will be, one thing is for certain, the privacy conversation has begun and will not go away soon. If we are to coexist with all these platforms, privacy will continue to be a concern.

[1] www.pewresearch.org/internet/fact-sheet/mobile/
[2] www.wsj.com/articles/apple-facebook-clash-over-ads-small-businesses-fear-theyll-be-impacted-11618009627
[3] www.forbes.com/sites/garydrenik/2021/04/15/from-privacy-to-antitrust-regulatory-scrutiny-of-big-tech-is-growing-what-does-this-mean-for-digital-advertising/?sh=6303d8f5fe01
[4] www.msn.com/en-us/news/technology/be-wary-when-big-tech-says-its-defending-your-privacy/ar-BB1fwtl7
[5] www.wsj.com/articles/apple-facebook-clash-over-ads-small-businesses-fear-theyll-be-impacted-11618009627

HOW THE COVID-19 PANDEMIC CHANGED CONSUMER

BEHAVIOR

By Andrew Malec, Ph.D.

Andrew Malec, Ph.D. *Partner and Managing Director, is the firm's chief economist and head of O'Keefe's Intellectual Property ("IP") Practice Group. He is a recognized expert in providing economic advisory services, litigation support, and valuation opinions.*

As more U.S. citizens become immunized against COVID-19, forecasts are for a recovery in economic activity to pre-pandemic levels. However, the pandemic has also changed consumer behavior. Recent economic research by the McKinsey Global Institute ("McKinsey Study") and the *Federal Reserve Bank of Cleveland* ("Fed Study") both suggest that while the U.S. is expected to enjoy a strong consumption spending recovery, it is not expected to be equal across income and age demographics.

The consumption shock that the U.S. experienced as a result of the pandemic was triggered by lockdowns and health fears that severely curtailed spending on services.[1] In terms of magnitude, the drop in consumption spending was the largest that the U.S. has seen since the Great Depression. The nature of this consumption shock provides reason to be optimistic for a fast rebound in consumer spending once the pandemic is over. However, as noted above, this recovery is also not expected to be equal across income and age demographics.

Affluent consumers typically consume the highest share of discretionary expenditures. Since these services were directly impacted by lockdowns and travel restrictions, over two-thirds of the decline in U.S. consumption spending came from high-income households.[2] As a result, these households accumulated savings while their consumption was restricted by the pandemic. In contrast, low-income households spent a higher share of expenditures on food, housing, and other basic goods that were less directly impacted.[3] Low-income households are more likely to experience a sustained reduction in purchasing power from disruptions to income because of pandemic lockdowns and business closures, which could act as a drag on consumer demand in the recovery.

The McKinsey Study points to three main factors that will determine the strength and sustainability of the consumer demand recovery: the willingness to spend by high-income households, income constraints on low-income cohorts, and what happens to savings.[4] High-income households have accumulated savings to fund pent-up demand. However, the purchasing power and ability to save by low-income households depends on the duration and size of governmental stimulus over the next few years, as well as the speed of the service-sector job recovery.[5] Since low-income households have a higher propensity to consume, growing income inequality is expected to slow down consumption growth. The earnings potential of young and low-income households may have been permanently impacted, which could act as a drag on consumer demand.[6]

To determine whether these pandemic-induced behaviors are likely to "stick," the McKinsey Study examined six consumption shifts that cover almost three-quarters of overall U.S. consumption spending: an acceleration of e-grocery shopping, a sharp decline in live entertainment, the emergence of home nesting (i.e., spending on home gyms, home appliances and furnishings, kitchen equipment, etc.), a decrease in leisure air travel, a switch to remote learning, and an increase in virtual healthcare visits.

The study finds that e-grocery shopping, virtual healthcare visits, and home nesting are likely to increase in the post-pandemic economy, while remote learning, declining leisure air travel, and decreasing live entertainment expenditures would likely revert to pre-pandemic levels.[7] The study also finds that while the consumer's perception of value and investment in assets (e.g., home gyms, home appliances and furnishings, kitchen equipment, etc.) which enable consumer behavior are critical in determining post-pandemic consumer behavior, company and government actions also matter. An important pre-condition for "stickiness" is adequate infrastructure (e.g., reliable internet access, company readiness, supply-chain capability, delivery experiences, etc.). Further, economic policy such as economic support to businesses and individuals also impact consumption.[8]

The Federal Reserve Bank of Cleveland sponsored a survey to understand post-pandemic consumption.[9] The Fed Study produces findings similar to the McKinsey Study. It finds the potential for a strong rebound in spending on services in "high-contact" industries as vaccines are administered, especially among high-income households who plan to increase their spending compared to pre-pandemic levels. The study also finds that low-income households plan to return consumption on services to pre-pandemic consumption levels. Older Americans' post-pandemic consumption expectations for "high-contact" services are considerably more pessimistic than those from other groups and have shown less improvement over time – appearing to capture a scarring in expectations.

Understanding the consumption path of each consumer demographic matters much more now than it has in the past. As a result, it is important for businesses to understand how these demographic groups have been impacted by the pandemic in understanding consumer demand and having the infrastructure to support those needs.

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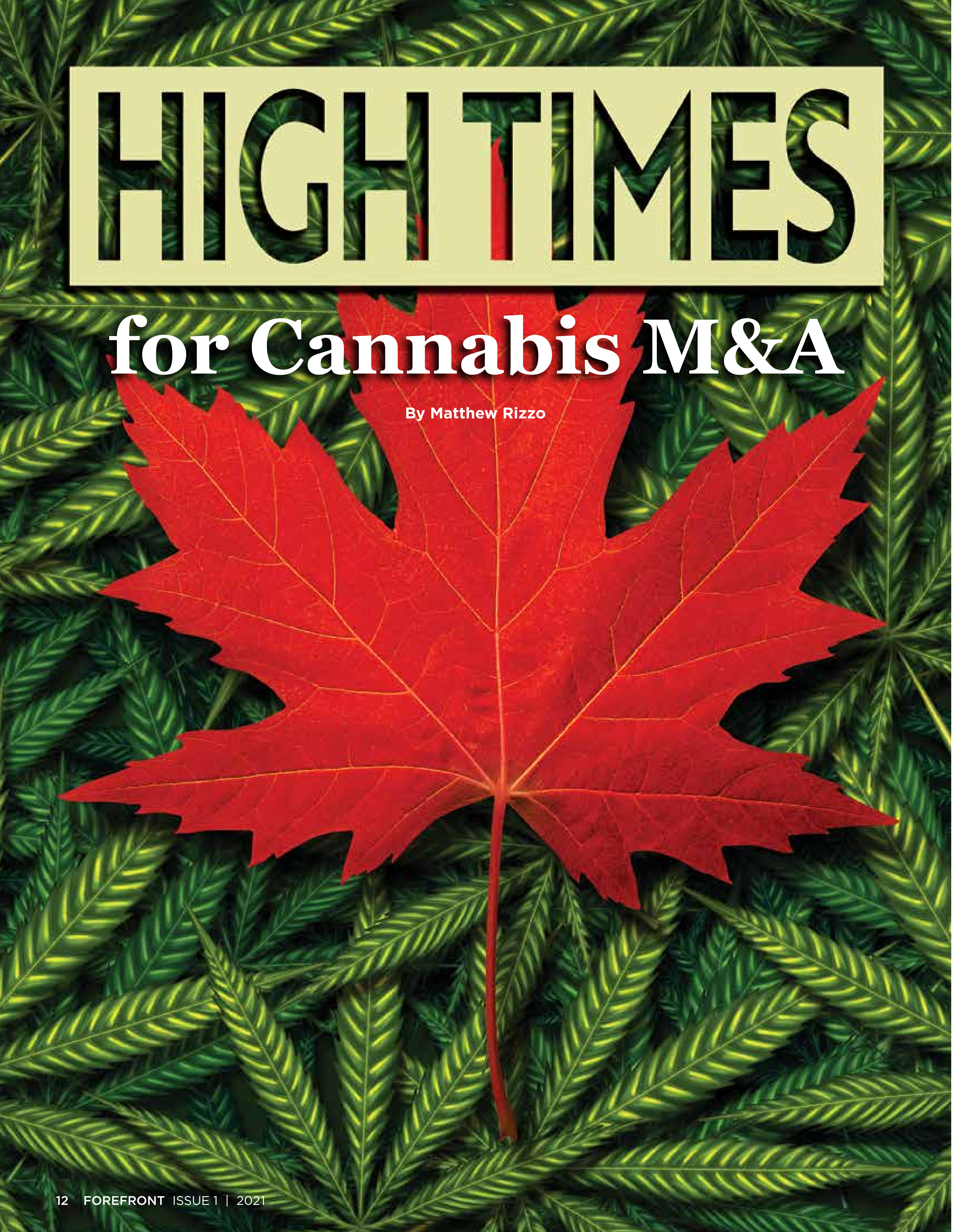
1 "The Consumer Demand Recovery and Lasting Effects of COVID-19," McKinsey Global Institute, March 2021, page 2.
2 Ibid., page 3.
3 Ibid., page 24.
4 Ibid., page 6.
5 Ibid., page 38.
6 Ibid., page 37.
7 Ibid.
8 Ibid., page 9.
9 "Expected Post-Pandemic Consumption and Scarred Expectations from COVID-19," Federal Reserve Bank of Cleveland, April 12, 2021.

HIGH TIMES for Cannabis M&A

By Matthew Rizzo



You have likely heard of lofty valuations for cannabis companies in various markets across the U.S. These valuations have been driven primarily by Canadian publicly traded companies due to Canada's full federal legalization in 2018 opening the public equity markets for cannabis companies to become publicly traded.

Conversely, there have been massive write downs in goodwill from many of these purchases over the past several years, also known as goodwill impairments. This has negatively affected stock prices of these publicly traded cannabis companies.

One publicly traded company whose stock price was greatly affected by goodwill impairments was Aurora Cannabis (ACB). When Aurora Cannabis announced a $1.8 billion impairment in early September 2020, their stock price tumbled 12% on the news break. Aurora Cannabis lost half of its value by the end of the same month. Goodwill impairments will continue to be a glaring issue in the cannabis industry as there is a rush to grab market share in each new state that legalizes cannabis which will lead to competitive bidding and over purchasing. This brings a whole new meaning to the term "Reefer Madness." Will this madness last or will these large cannabis enterprises learn their lesson from those that have paid outrageous multiples for state specific, well branded, vertically integrated cannabis companies?

These multiples have averaged **33 times revenue** according to transactions reported by Deal Stats. With major cannabis players so focused on grabbing market share while hoping to achieve economies of scale, will they focus on truly strategic acquisitions for appropriate prices? For one thing, purchasers will continue to focus on acquiring quality branded companies that have a good name and significant market share in their respective state without much regard for cash flowing operations, at least until the passage of the MORE Act occurs. The MORE Act (will de-schedule cannabis as a 1a drug) which will open interstate commerce for cannabis. There will be plenty of large cannabis companies, publicly traded or privately owned, that will continue to look for turn-key acquisitions for growth where they can insert their cost structure and expertise into the operations. However, successful post acquisition integration will continue to be problematic for these companies due to the rate of their growth and their ability to staff up for proper post acquisition integration as many of these integrations fail mainly due to regulatory issues or operational mishaps.

__Matthew Rizzo__ CPA, CVA, Managing Director, provides business valuation expertise in many types of transactions including buy/sell side valuation for mergers & acquisitions and gift/estate tax valuations. Mr. Rizzo provides litigation economic damages analysis to clients in shareholder disputes as well as disputes on patent infringement, warranty and contract breaches across various industries. Mr. Rizzo has extensive experience in capital formation, mergers and acquisitions, and valuations services for the cannabis industry.

BOOSTING POST MERGER INTEGRATION SYNERGIES

By John Ruther

When 400 middle market executives who had just completed acquisitions were asked to list the pain points of their experience, a majority ranked integration (both technical and cultural) as either extremely or very challenging. In the past three years, 70% of middle market companies that made acquisitions had little or no previous merger integration experience, and 90% of the companies sold had little or no experience. Given the infrequency that most middle market companies do deals, it is not surprising to learn that integrating two companies creates stress and difficulties. Unfortunately, this often impacts the combined company's ability to achieve the synergies it expected to gain from the acquisition.

Fortunately, there are several steps a company can take to boost its post-merger integration capabilities. The first step is for the acquirer to prepare its own business early in the process (even years before). This requires looking in the mirror to understand the company culture and documenting it. I like to develop a matrix that can be compared to the company being acquired. In the matrix, be sure to assess the values, decision making process, core competencies, and functional hierarchy of the company. Preparing the business also requires well written and up-to-date policies & procedures - this will come in handy when disseminating information to the new company. Furthermore, it is important to gauge the workloads and expertise of the company's existing team. Updating accounting and IT infrastructure may be necessary to handle additional transactions, along with consolidating disparate systems. A last crucial aspect of preparing your business is to ensure your external advisors – legal, tax, accounting, banks, insurance – have merger and acquisition experience.

Once the business is prepared, and due diligence is under way, it is vital to develop a narrative conveying the strategic value of this acquisition. Explain what makes this company a fit, such as entrepreneurial spirit or technical expertise. Define the uniqueness of the company being acquired and the admirable differences to be retained in the new company. Outline the synergy goals and provide insight as to why they are beneficial to all stakeholders. Ensuring everyone involved in the integration keeps the narrative at the top of their minds is an enormous key to success.

Next, the acquirer is expected to take the lead. It is imperative to have an integration plan. Start with Day 1 and First 100 Day integration task planning templates (many can be found with a quick Google search). Remember, due to workload or knowledge constraints, you may need to use experts to carry out some of the tasks. Be sure to only integrate what makes sense. For example, asking an acquired distributor to implement a manufacturer's costing system would provide little to no benefit. This is also the time to compare the cultural matrix developed earlier to the acquired company to determine how to address differences. Let's say a manufacturer has its policies well documented and prides itself on efficiently producing highly engineered products, while the distributor they are acquiring relies on tacit knowledge and focuses on customer relationship building. In that case, the acquiring manufacturer may want to have the distributor document its procedures but keep a customer focus rather than adopting a product centric culture. Assembling a cross functional integration team with members from both organizations, along with a team lead with strong project management skills is the final planning component. Many acquisition teams hire outside consultants to assess the target's culture with the compatibility of the acquiror. The adage that bad culture crushes good strategy is not lost on PE firms trying to add to their portfolio.

Be sure to give the team the tools they need to succeed and establish a prescribed escalation plan with a steering committee for decision making. Of course, a formal communication plan with a feedback loop to keep all stakeholders involved will help motivate and provide a comfort level.

When the deal closes, and the execution of the integration begins, all the effort put into preparing for this day will provide a solid platform to achieve company goals. However, not every situation will be anticipated. Unintended consequences both good and bad will arise. Remember to provide a framework for change. Most combined organizations will look different than expected. Adapting cultural components into the overall organization may prove valuable. Ceasing attempts to change certain cultural aspects of the legacy business may also prove advantageous. This is the true key to boosting acquisition synergies.

***John Ruther** CPA/ABV, CGMA, Managing Director, specializes in the areas of enterprise consulting, and strategic advisory services. His expertise has resulted in clients creating strong finance organizations that give better insight to cost and growth drivers and achieving cost effectiveness through improvement and automation of business processes.*

Violeta Zdravkovic CPA/ABV/CFF, CFE, Managing Director, specializes in litigation support, forensic accounting, fraud investigations, mergers and acquisitions, business valuations, insolvency/bankruptcy and turnaround management.

By Violeta Zdravkovic

Ahh! Shopping malls. Large sites filled with every type of imaginable store providing one-stop shopping. In their heyday malls were filled with people. Whether shopping, hanging out with friends, visiting the food court or catching a movie, the mall was a destination.

But, as our lives became busier we had less time to take care of everyday obligations, and mall traffic began to decrease. Then, along came online shopping to simplify our lives. Filled with more choices and selections than the local store, we could buy what we wanted or needed anytime with just a click of a button. Best of all, we didn't even have to leave the house. This eliminated our need to actually shop at stores and we could spend that time doing other things. E-commerce wreaked havoc on the retail industry with many retailers permanently closing or closing underperforming stores. This led to increased vacancies in malls, and it became difficult to fill those empty spaces.

Just when it seemed things could not get worse for the retail industry, COVID-19 hit. In order to slow the spread of the virus, social distancing strategies were implemented but, as businesses shut-down operations, these containment measures led to a severe contraction in economic activity. This resulted in the continued acceleration of e-commerce as we increased our online shopping with home delivery or curbside pickup, a further blow to malls.

Walk into a mall today and you see very few people. You also see vacant space once filled with well-known anchor tenants such as Sears, Lord & Taylor, J.C. Penney, Carson's, etc. As consumers increase their e-commerce spending, what is to become of malls and the large amount of space they occupy? Limited weekend traffic and curbside pickup will not sustain them. Coresight Research, a firm specializing in the retail sector, estimates that 25% of the malls in the United States will close over the next three to five years.[1] That is a lot of vacant space. Historically, entertainment companies, fitness centers and restaurants have stepped in to fill these vacancies. However, COVID-19 has taught us that the types of businesses have not performed well in a time of social distancing. As a result, mall owners and even municipalities are seeking new ways to repurpose mall space during a time when the market for in-person shopping is contracting.

Some logical choices to fill these sites include apartment complexes, office buildings or corporate headquarters. However, with many employees still working remotely commercial space is not seen as a viable option either. So, what other options may work?

In Michigan, the City of Sterling Heights, has been researching options for the transformation of Lakeside Mall. Once the city's largest retail hub, the mall has lost many tenants. The latest plan is to transform Lakeside Mall into a "mixed-use space focused on walkability, placemaking and community."[2] The mixed-use space could include commercial and residential space along with retail. The plan would dramatically shift the look and uses around the property.

The most logical use that has surfaced is converting empty anchor spaces into fulfillment and distribution centers to speed up e-commerce deliveries. With e-commerce booming, the demand for fulfillment and distribution centers across the country is spiking. A recent report disclosed Simon Property Group, Inc., the largest mall owner in the United States, has been communicating with Amazon, Inc. to convert some of their vacant mall anchor space into fulfillment centers.[3] This may require approval and rezoning by the local municipality. If this proves successful, other retail giants may follow suit.

Another potential use for vacant mall space is medical facilities. In some malls, vacant anchor stores have been converted into COVID-19 vaccination clinics. In addition to these temporary clinics, healthcare providers have found success providing their services in retail centers. As a result, the number of health-care clinics as mall tenants providing primary and specialty care are expected to increase.

A unique concept is converting vacant retail space for church use. Several churches have claimed either the entire building, or a section such as an anchor store, for their congregations. Churches have found opportunities not only in the centralized location but also cost efficiencies in repurposing the distressed real estate.

Is there a future for shopping malls after COVID-19? Although in-person shopping will not disappear in the near future, retail store vacancies will continue increasing. Mall owners and municipalities need to think forward about options for repurposing vacant space with tenants that can continue generating revenue in times of life-altering events. Otherwise, they risk the site to remain vacant for many years, like other "dead" malls.

1 www.cnbc.com/2020/08/27/25percent-of-us-malls-are-set-to-shut-within-5-years-what-comes-next.html.
2 www.wxyz.com/news/region/macomb-county/new-miami-based-ownership-promises-mixed-use-revamp-of-lakeside-mall-in sterling-heights.
3 www.wsj.com/articles/amazon-and-giant-mall-operator-look-at-turning-sears-j-c-penney-stores-into-fulfillment centers-11596992863.

How Bitcoin Will Affect Business Transactions

By Spencer Wineman

Even though cryptocurrency is still in its early stages, it has already moved from a speculative investment to a viable alternative form of currency for its users and, more importantly, corporations.

Since Bitcoin's inception in 2009, the uncertainty around its use in business has been heavily voiced. Multiple countries, including China, Saudi Arabia, and Iran have an implicit ban on the use of cryptocurrencies, while other countries, such as El Salvador, have fully embraced its use through accepting Bitcoin as their country's national currency. In 2014, the state of New York issued "Bit License," which put regulations on cryptocurrency in an effort to bring transparency to its transactions. Now a growing number of companies are starting to alter the narrative around the efficacy of Bitcoin by adopting the cryptocurrency into their business models. In February of this year, Tesla announced they had bought $1.5 billion worth of Bitcoin and had started allowing customers the ability to use Bitcoin to purchase their product. In a filing with the Securities and Exchange Commission, the company said it bought Bitcoin for "more flexibility to further diversify and maximize returns on our cash."

A multitude of other multi-national companies have started accepting and investing in cryptocurrency. Square (SQ), Visa (V), PayPal (PYPL), and MicroStrategy (MSTR), among others. The recent rise in corporate interest in cryptocurrency is pioneering the adoption of Bitcoin and providing a sense of legitimacy to its role in business. Although Bitcoin's price volatility and scrutiny from governments brings a level of uncertainty, corporations have made it clear that they see Bitcoin differently. Arguments against Bitcoin's use in business has been pointed at its difference from the stability that the USD currently offers, but the diversity it brings to corporation's cash reserves and having a mean annual return of 408% in the past four years, can be seen as a viable investment opportunity and one that overshadows a bumpy investment with its volatile price swings.

Traditional banking costs can have a large impact on a company's profitability, especially small businesses. Incorporating Bitcoin would allow these businesses to cut out the middleman bank and the charges and fees associated with them. Also, the fact that cryptocurrencies transcend national borders and will work for anyone with a smartphone makes it possible for developing nations to access a potentially more practical and secure currency they otherwise would not have had the ability to use. This highlights the importance of low transaction fees as well as the significance of almost instantaneous transaction processing times. It can take several days for a business to be paid for their goods or services. Cryptocurrency allows these delays to be eliminated by offering the ability to make a transaction that can be cleared within minutes no matter the type or location of the transaction. Having almost instant payments allows businesses to better handle the volatility that cryptocurrencies bring and offers a path to help eliminate foreign currency risk. For instance, unlike Tesla, which accepts Bitcoin purchases and keeps that transaction in its cryptocurrency form, PayPal immediately converts the Bitcoin transaction to cash. Offering this allows PayPal to avoid the potential risk that comes with Bitcoin's price fluctuation, while also broadening their customer base.

Cryptocurrency also has the potential to reduce security concerns. Once the transactions are completed, they are final and cannot be canceled or reversed. This provides users of cryptocurrency more security than banks have been able to provide in the past. Also, because the nature of Bitcoin does not allow loans and the concept of debt is non-existent, it eliminates users spending what they do not have. This helps prevent fraud or chargebacks and makes monetary transactions simpler and more clear-cut.

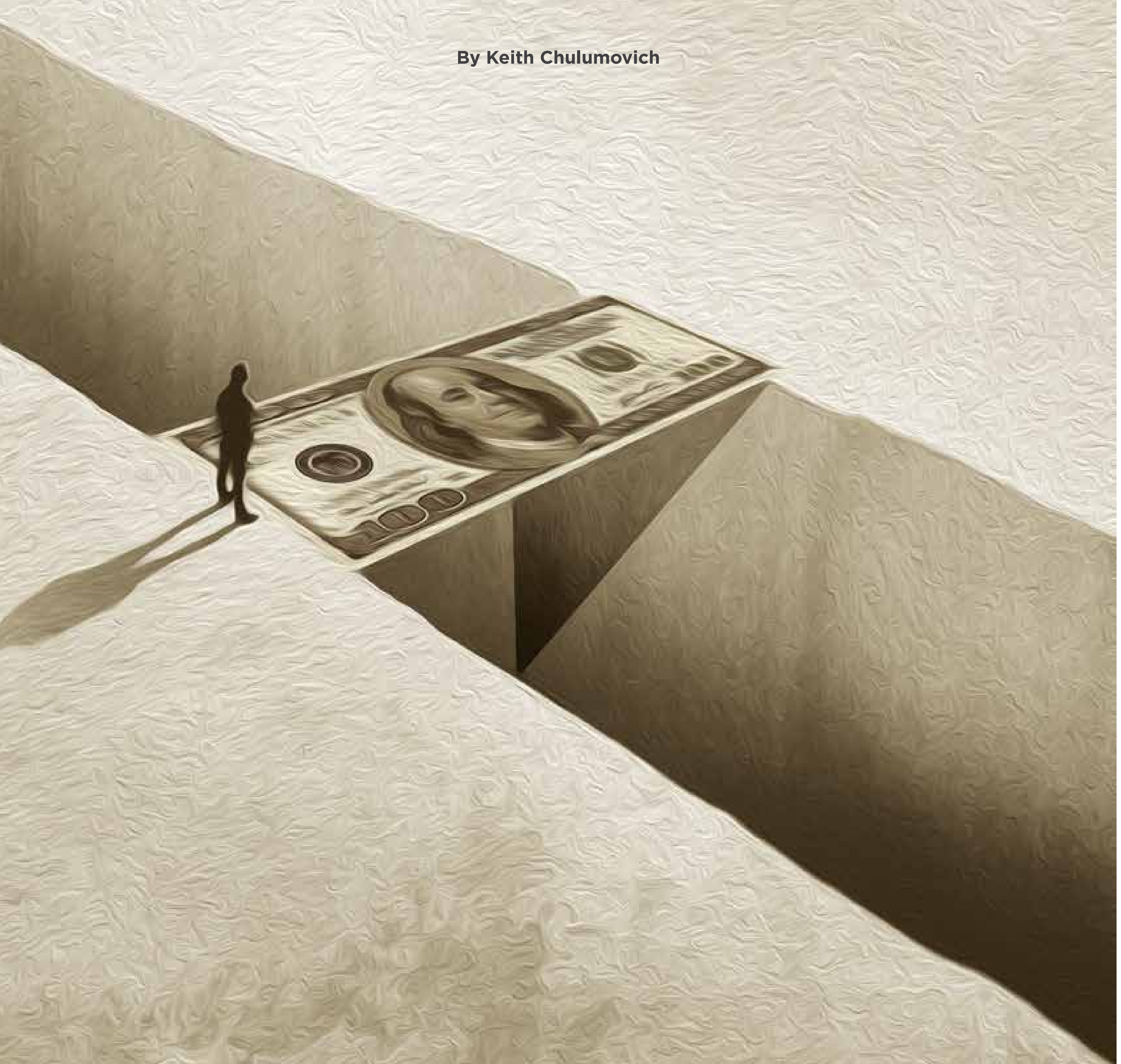
Even though cryptocurrency is still in its early stages, it has already moved from a speculative investment to a viable alternative form of currency for its users and, more importantly, corporations. While Bitcoin is not accepted everywhere, we have already seen substantial growth within this past year that is being backed by corporations and slowly getting the acceptance of governments that have heavily scrutinized its use in the past. The diversity it offers and the move away from having large cash reserves on hand to businesses incorporating cryptocurrency on their balance sheets is starting to be recognized as a sound investment strategy that may be here to stay.

Spencer Wineman *Analyst, specializes in research, analysis, and preparation for transactions associated with turnaround and restructuring , corporate finance, and litigation support. His experience includes, but is not limited to, financial modeling, industry research, and data management.*

Mezzanine Debt

What is it and when to use it

By Keith Chulumovich



Debt is defined as an obligation that requires one party, the borrower or debtor, to pay money or other agreed-upon value to another party, the lender or creditor. However, not all debt is created equal, and each has its place in a company's capital structure. Most companies utilize some form of debt to finance their activity, whether funding operations, acquiring another company, or engaging in a major purchase. Debt is classified as senior debt, junior debt, revolving debt, or convertible debt. It can be secured, subordinated, or unsecured, and payment terms can range from 3 months to 30 years or more.

Many closely held private companies encounter funding gaps when obtaining the senior debt financing necessary to support sales growth, new product/market development, or capital projects. Funding gaps can occur for many reasons including:

- Accounts receivable, inventories, and fixed assets do not provide the collateral basis that senior lenders require to secure their debt.
- The balance sheet contains significant intangible assets, which many senior lenders do not consider acceptable collateral.
- Senior lenders often have debt ceilings or senior debt ratios that limit the amount of total debt they are willing to provide.

The use of hybrid debt/equity investment known as mezzanine financing can be a viable alternative to provide necessary capital. Mezzanine debt is a layer of funding that fits between senior debt and equity. It is used to fill the funding gap resulting from insufficient capital available to an organization. In a broader sense, mezzanine debt may take the form of convertible debt, junior debt, subordinated debt, private "mezzanine" securities (debt with warrants or preferred equity), or second lien debt, and is sometimes referred to as quasi-equity.

Structurally, mezzanine debt is subordinate to senior debt, but senior to common stock or equity. Mezzanine financing is customized to the specific cash flow needs of the borrower and can provide leverage needed to gain access to more senior debt capital. It can also reduce the need for equity and resulting shareholder dilution. This leverage leads to higher returns on equity. Most mezzanine loans offer more flexible payment terms that are balanced with the cash flows of the company and are repaid either through cash generated by the business, a change-of-control sale, or recapitalization of the company.

Since mezzanine financing is subordinate to senior debt, it carries higher risks, and accordingly higher interest rates. Typically, mezzanine rates range from 12-20%, which is higher than the rates typically charged on secured ordinary debt. The pricing of a combination of senior debt and mezzanine debt can be comparable to that of a high yield note. While additional liquidity can be obtained from equity investors, equity is the most expensive source of capital and by its very nature, dilutes existing shareholders. As a result, mezzanine debt can be an attractive alternative to obtain much needed capital. Companies that can benefit from supplementing their senior debt with mezzanine financing rather than equity financing include:

- Companies with good growth prospects but have experienced recent losses.
- Companies with adequate cash flows but a lack of lendable collateral.
- Companies that can only obtain senior debt with unacceptably high interest rates, restrictive covenants, or personal guarantee provisions.
- Companies that do not want to dilute their ownership with equity financing.

Mezzanine financing offers other benefits to companies focused on optimizing their capital structures and expanding access to funding. Senior lenders like mezzanine debt and view it as a means to put more capital to work while minimizing their overall risk, extending credit with more attractive terms, and relinquishing the need for personal guarantees.

While there are no hard and fast rules for optimizing a company's capital structure, companies that use an efficient combination of senior debt, mezzanine debt, and equity capital, tend to have a lower overall weighted average cost of capital and a higher return on equity.

***Keith Chulumovich** CPA, Managing Director, specializes in strategic and operational planning, business analysis and financial reporting, process improvement, turnaround/profitability improvement initiatives, and management of operating budget and forecast planning cycles.*

In reflecting over the past year of the pandemic, not much changed. ***But how we did it, did change.***

I thought I would recapture my last 12 months of the pandemic to give people strength to get back to normal. Life is short.

Helping the community amidst a pandemic

Friends of PBC still gathered before they start the Engine of Commerce

Always time to enjoy a beautiful Michigan day during fall golf season

The hazards of working at home

No job too tough and no day too long to enjoy a glass of nature's nectar

A celebration of Detroit rooftop scenery

St. Pat's Day with a couple of Micks

Sunsets at the beach were still beautiful

Friends toasting a new business relationship in the middle of a pandemic

A robust gathering during the political season

A reminder that there were parts that didn't move forward

My partner tabulating the judges' scores of a Wine-Down Wednesday

Large gatherings at sunset

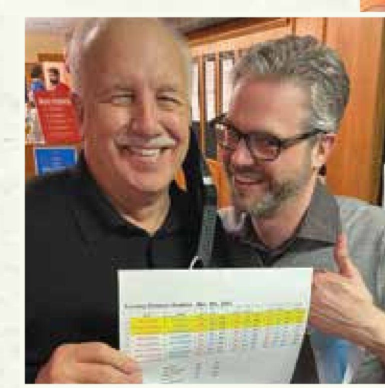
A meeting of Spartans smiling with optimism

Wine-Down Wednesdays in the office were more frequent

Good friends celebrating their 2nd annual COVID dinner of cigars, bourbon and steaks

Rev and I enjoying rooftop cigars and solving social problems

Always time to hook a big fish on Lake Michigan



Bowling tournaments with good friends

2 amigos enjoying a golf tournament

A reminder of what is to be remembered, by one of our oldest golf champions at the recently opened American Dunes

Always time to enjoy a good popsicle

Did you Know?

We offer Corporate Finance Solutions
O'Keefe's investment banking expertise allows our professionals to provide advisory services that are tailored to meet the specific goals and objectives of our client partners. We succeed by bringing a unique combination of technical skills, knowledge, and expertise to each opportunity. We draw on our experience as board members, investors, and operators of privately-held businesses across a variety of industries to meet our client partners' needs.

Mergers & Acquisitions
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- Corporate Divesture
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- Special Situations
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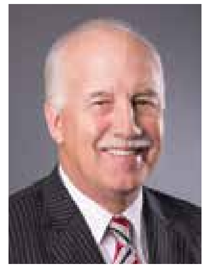
Strategic Advisory Services
- Strategic Alternatives Analysis
- Target/Buyer Assessment
- Exit Strategy Development
- Quality of Earnings

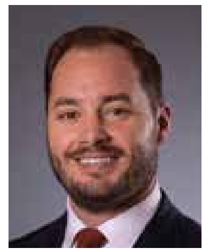
Private Capital Raising
- Senior Debt
- Junior Debt
- Preferred Equity
- Common Equity

Financial Advisory Services
- Capital Structure Analysis
- Debt Capacity Analysis
- Recapitalizations
- Valuations



Congratulations to Patrick O'Keefe for being selected by DBusiness for the 4th consecutive year as one of Detroit 500's most powerful business leaders in Metro Detroit

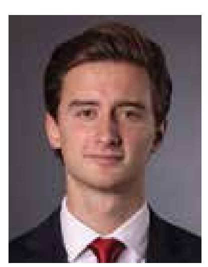
Mr. O'Keefe was also voted in to serve Michigan State University as a Trustee.



O'Keefe Expands M&A Practice with the Addition of Marco Eadie to Lead New Corporate Finance Group

O'Keefe is pleased to announce that Marco Eadie has joined the firm as Managing Director to lead the new Corporate Finance practice. Eadie focuses on transaction advisory services including mergers, acquisitions, buy and sell side advisory, debt recapitalizations, corporate development, restructurings, divestitures, and event-driven financing for both private and publicly held companies.

Eadie possesses more than 15 years of transactional experience across a wide range of industries. His ability to quickly understand businesses and their respective value drivers has led to the completion of over 40 successful transactions. During his career he has worked both as an investor and an advisor to businesses in aerospace, defense and government services, healthcare, manufacturing and distribution, technology, consumer/retail products, hospitality, business services, and industrials, among others.



Brian Vargason also joins the firm and practice group

Additionally, Brian Vargason has joined O'Keefe as an Analyst where he will assist the corporate finance group leadership. Prior to joining O'Keefe, Vargason served as an Analyst at Boulevard & Co., and with Rockbridge Growth Equity and Siebert Cisneros Shank & Company as an intern. He is a recent graduate from the Eli Broad Business School at Michigan State University.

Added Patrick O'Keefe: "We are pleased to have Marco and Brian join our firm to enhance our capabilities in transactional services. We anticipate that, in light of our position in the marketplace and additional service offerings, we will be uniquely positioned to grow middle market opportunities."

O'Keefe Hires John Ruther as Managing Director of Grand Rapids Office

O'Keefe is pleased to announce John Ruther has joined the firm as Managing Director of the Grand Rapids office. Mr. Ruther's broad business expertise specializes in the areas of enterprise consulting and strategic advisory services. His guidance has resulted in clients creating strong finance organizations that give better insight to cost and growth drivers, building customer focused target driven sales organizations, and achieving cost effectiveness through improvement and automation of business processes.

With a focus on privately held global companies, Mr. Ruther has worked with middle market companies ranging from $15 million up to $1.6 billion in revenue. His background includes multi-national carve outs, post-merger integrations, ESOPs, sell-side due diligence and value optimization, corporate real estate, finance transformations, e-commerce, treasury management automation, IT-Strategy, as well as traditional financial and executive leadership roles.

Prior to joining O'Keefe, Mr. Ruther led a consulting practice in West Michigan providing C-Level management, and transformation projects primarily to manufacturers, distributors, and wholesalers. He is a Registered Certified Public Accountant in the State of Michigan (CPA), is Accredited in Business Valuation (ABV) by the American Institute of Certified Public Accountants (AICPA), and is a Chartered Global Management Accountant (CGMA).

Susan Koss, Partner and Managing Director was recognized by the ABF Journal for Top Women in Asset-Based Lending and by DBusiness for 2021 Powered by Women

ABF Journal's inaugural Top Women in Asset-Based Lending featured 50 of the most influential and innovative women in the industry. This first class of honorees include professionals from multiple disciplines who have shaped and will continue to shape the ABL world.

Also, congratulations to Susan for the honorable recognition of DBusiness' 2021 Powered by Women. From reader nominations, DBusiness selected professional women who are driving growth in Michigan, the nation, and the world.

Dr. Malec Published

Andrew Malec, Ph.D. recently published an article[1] examining the determinants of automotive recall completion rates in the United States. Amongst other findings, the research study finds that higher recall completion rates were found on vehicles believed to have severe defects, vehicles under multiple recalls, and on luxury vehicles. Older vehicles and trucks exhibited lower recall completion rates. The findings of the study suggests that it is possible for vehicle manufacturers to make refinements in how they estimate the cost of an automotive recall, as well as in their strategies to improve completion rates.

[1] Malec, A., Smith, P., & Smuts, A. (2021). Recall and Vehicle Characteristics Associated with Vehicle Repair Rates. Review of Industrial Organization. https://doi.org/10.1007/s11151-021-09811-4

GROWMICHIGAN
Bridging the Economic Gap for All with Capital & Advice

Grow MI II Virtually Rings the NYSE Opening Bell

On Monday, December 14th at 9:30 a.m. the New York Stock Exchange welcomed officials from Grow Michigan II, to highlight the team's mission to support growth, expansion and succession of small businesses in Michigan.

The fund is working with Detroit-based First Independence Bank, one of the country's largest minority-owned banks, a consortium of other top area lenders, and the Michigan Strategic Fund.

The mission of the fund is to foster inclusion and wealth creation to provide opportunities for a sector that has traditionally been underfunded and underserved in Michigan aimed at long-term sustainability and job creation.

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