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Business Transfer & Valuation Information

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← **We Have a New Name!** See Article on Page 2.

Avoid Due Diligence Lessons Learned the Hard Way

The key to a successful acquisition is the planning and management of the entire process, especially due diligence. Lack of planning will nearly always cause a missed opportunity or a less than desirable deal.

Due diligence includes conducting proper and timely evaluations of important value drivers: operations, human resources, logistics, sales and marketing, customer profitability analysis, product costing, supplier requirements, legal and management information systems. Those making the due diligence assessment for the acquirer should be focused on risk assessment. This includes looking for possible misleading accounting techniques such as:

- **Early recognition of revenues**
- **Recording revenues that aren't genuine**
- **Increasing income with a one-time gain**
- **Shifting expenses to a later period**
- **Failure to record or disclose all liabilities**
- **Shifting income to a later period**
- **Shifting expenses to the current period**

Not all of the risks in a given transaction relate to the financial statements. Others to consider are management characteristics, industry and general operating conditions.

Focus on a couple of key potential due diligence traps to understand the accounting methodology used to recognize income and current period expenses. Many middle-market companies do not have audited financial statements to evaluate so it can be a difficult job to make these comparisons.

Another potential problem area to understand is inventory valuation. In today's just-in-time inventory environment, it is important to know the quality, pricing, quantities and marketability of the inventory on hand. Many times, sub-ledgers reflect a different level of inventory activity than the traditional methods of inventory turnover analysis. Some inventory items move very quickly while others often get stagnant.

Trade payables and accounts receivable also need to be reviewed very closely to make sure liabilities are properly booked and customers truly owe the amount reflected. Accurately evaluating income and expenses can make a big difference in ascertaining value as well.

Bottom line – some business owners abuse alternative accounting methods. Successful acquirers view due diligence as much more than an exercise in verifying data. Going through the numbers deeply and thoroughly is important, but reviewing the business in its entirety, probing for strengths and weaknesses, and searching for unreliable assumptions and other flaws in logic is critical. This may well require sending a due diligence team into the field to see what's really happening with costs, sales and other key value drivers of the business.

Due diligence should always act as a counterbalance to the excitement that builds when in pursuit of a target.

There are four basic questions in approaching due diligence:

- **What are we really buying?**
- **What are the target's stand-alone values and skeletons?**
- **Where are the synergies?**
- **What's our walk away price?**

Let BCC's M&A advisers help you through the perils of due diligence.

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By Mark Esbeck

Conditions... they are part of every M&A transaction and most business contracts. While not always enthusiastically embraced by both sides, they are absolutely necessary to assure enduring commitments to each other.

An "unconditional deal" has a nice ring to it but has the potential to damage both parties and lead to unfulfilled expectations for all. Conditions lead to stronger transactions and better relations.

Just as an "unconditional deal" sounds good, so does the concept of "unconditional love."

"Unconditional love" requires effort from only one side but may result in far less satisfaction than the term implies.

"Conditional love" requires constant effort from both sides and ultimately attains a level of mutually satisfying human entrustment.

From my perspective, conditions are good. They imply a willingness to commit, a promise to deliver and the ability for others to rely upon your actions. We all benefit when we put more emphasis on strengthening the conditional aspects of our lives.

Our New Name!



BUSINESS
CAPITAL
CORPORATION

In an effort to better reflect what we do, we have changed our name from Business Capital Corporation to **BCC Advisers**. Same people, same location, same services... just a new name!

BCC Advisers is a financial and management advisory firm specializing in merger and acquisition consulting, corporate finance, business valuation, litigation support and business consultation services to privately held businesses.

Learn more at www.bccadvisers.com, or give one of our advisers a call at 866-787-8019.



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An Additional Location

BCC Advisers has expanded its market by opening an office in Tampa, Florida. This is a high-growth area and provides an opportunity for BCC to build on its strong ESOP practice. Florida is the number one state in the U.S. for ESOP companies.

Behind the BCC Scenes

During the United Way of Central Iowa 2006 Campaign Awards ceremony, Business Capital Corporation (now BCC Advisers) received several recognitions. BCC was a Red Feather Circle recipient achieving employee participation of 100 percent, an employee per capita gift of \$200 or more and an overall increase in the company's campaign. In addition, BCC received the Spirit of Iowa Award in recognition of our commitment and leadership to United Way. It is clear that BCC employees share the value of supporting the community.



“Prior to our client entering into definitive documents, we recommended having a personal meeting with the seller and key suppliers to discuss future relationships.”

Managing the Auction Process From a Buyer's Perspective

“Very few quality middle-market companies sell in a non-auction process, and buyers and sellers are more sophisticated than ever.”

– M&A Today

Recently, BCC helped a distributor client acquire a larger competitor in a selective auction process. John Hale, owner of Iowa-based Quick Supply Co., hired BCC to help navigate the challenges of participating in a seller's auction. BCC helped negotiate with the seller's adviser, gathered information to develop valuation analysis and coordinated the advisory team consisting of the company's accountant and lawyer.



Quick Supply had not been identified by the seller's adviser as a preferred buyer since the parties had failed to complete a deal several years ago. So the initial hurdles were to show the seller (A.S.P. Enterprises) that Quick Supply had a strong enough level of interest in participating in the auction to obtain the seller's information for review. BCC demonstrated to the seller's adviser that analysis and industry homework had been done, assuring the seller that Quick Supply could move quickly in the evaluation process.

There were several qualified buyers at the table, each attempting to negotiate a preferential position. The seller's adviser wanted an initial letter of interest with very specific parameters on price, valuation approach, financing qualifications and ability to close the deal within 60 days. BCC helped Quick Supply make a qualified offer that quickly advanced our client to the next level of the auction process as the approved buyer.

The next step was to negotiate a definitive purchase agreement, subject to a 45-day due diligence period. Prior to our client entering into definitive documents, we recommended having a personal meeting with the seller and key suppliers to discuss future relationships. One of the important business attributes to value was the future relationship with critical vendors having limited or no contractual agreements. The transaction was not desirable without these suppliers. Initially this request was denied citing confidentiality concerns. BCC suggested that the seller call key

decision makers at each of its top-five suppliers to determine how they would react if and when A.S.P. ever sold.

Since the owner of A.S.P. was of retirement age, this discussion with suppliers was viewed to be reasonable. The request was to allow both the supplier and seller to formulate a strategy as to the impact a sale could have on the future of their relationship. BCC requested to be present during these conversations. This methodology proved to be very positive to the buyer, seller and supplier in creating confidence that a relationship would likely continue under new ownership.

The transaction closed at the end of November 2006. The acquisition of A.S.P. leveraged Quick Supply's competencies as a value-added distributor of erosion control product solutions throughout several Midwest markets. It will serve as an engine for future growth for both companies, leveraging a number of important synergies.

According to Mr. Hale, the transaction would likely not have been completed without the expertise of BCC and its work in developing solution alternatives throughout the project. “Their experience in navigating the treacherous waters of an auction process, keeping the necessary activity on track and maintaining the focus on the essential elements in completing a successful deal was a tremendous help.”

If you desire an experienced M&A adviser with creative problem-solving abilities that offers personalized assistance, call Steve Jacobs or Mark Esbeck.



A Smörgåsbord of Good Transactions

BCC Advisers' IMAP partner in Sweden is Nordic Merger AB. Nordic Merger is four years old and already has developed a very strong reputation for obtaining and executing middle-market business transfer projects throughout the Nordic region. With offices in Uppsala, Stockholm and Halmstad, Nordic Merger AB serves clients in Sweden, Norway, Denmark and Finland. The founders have managed more than 400 transactions of corporate ownership during their careers.



European buyer prospects identified by Nordic Merger. Final purchase discussions are currently taking place on this project.

Jan-Olof Svensson, managing partner of **Nordic Merger AB** said, "The dealmakers at BCC work persistently and professionally to help us on our projects. We are pleased to have such valuable assistance in the U.S."

"The dealmakers at BCC work persistently and professionally to help us on our projects."

*– Jan-Olof Svensson
Managing Partner of
Nordic Merger AB*

Currently BCC is assisting Nordic Merger AB on a project for a Swedish client. The company, a manufacturer of industrial power products, is seeking a new owner to provide business succession for retiring majority shareholders. Working closely with Nordic Merger, BCC provided U.S. buyer search support on the project. BCC located a strong buyer candidate to complement other

"Nordic Merger's experienced professionals are very well versed in all aspects of Swedish business processes, rules and regulations, and are also knowledgeable dealmakers," said Mark Esbeck, BCC's chairman. "They are quick to understand issues and responsive in promoting solutions."

Nordic Merger is an excellent resource for BCC clients seeking buyers or sellers in northern Europe.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a geosource distributor on an acquisition through a competitive auction process.

Assisted a regional financial services company with developing an acquisition strategy and identifying target prospects.

Prepared a fair-market valuation of a national industrial products distributor for sale.

Prepared a fair-market valuation of a construction company for purposes of management buy-in.

Prepared a valuation of a Midwest bank considering possible sale.

Prepared a fair-market valuation of an insurance agency for purposes of a buy-sell agreement.

Prepared a fair-market valuation of an Iowa chemicals distributor for sale.

Prepared a fair-market valuation of two manufacturing companies for purposes of annual ESOP administration.

Prepared a fair-market valuation of a local stationery retailer for sale.

The Market Front

Some opportunities available through BCC Advisers:

U.S. Specialty Retail Chain – is seeking a buyer.

Indian Contract Manufacturer of Disposable Medical Devices – is seeking to acquire same in U.S.

European Bicycle Distributor – is seeking a buyer.

European Organic Spice Producer – is seeking a buyer.

U.S. Financial Institution Processing Company – is interested in making acquisitions.

Midwest Community Bank – is seeking a buyer.

For mergers and acquisitions, contact Mark Esbeck or Steve Jacobs. For valuations, contact Al Ryerson or Greg Weber.
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