BCC ADVISERS
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Business Transfer & Valuation Information

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Key Factors Influence 2010 M&A

"Unique" would be a polite way of describing the M&A market over the past 18 months. With the exception of a few niche industries, transactions during the first three quarters of 2009 nearly came to a halt. Activity picked up considerably in the fourth quarter and has shown optimistic promise thus far in 2010. As business owners and investors consider strategies for the second half of 2010, there are several key factors that will influence this year's M&A market.

CAPITAL GAINS TAXES ARE SCHEDULED TO INCREASE BY 33%

The 2003 tax cut on long-term capital gains for individuals is set to expire at the end of this year. If Congress doesn't act, the rate for those in higher income tax brackets will jump back up to 20% on January 1, 2011—effecting a 33% increase in long-term capital gains taxes. This should drive M&A transactions this year as an incentive for both buyers and sellers. Companies will become more expensive to acquire in 2011, as business owners demand higher prices to cope with the additional taxes they will have to pay.

COMPANIES HOARDED CASH DURING 2009

With all of the economic uncertainties of the past year and a half, companies were reluctant to spend cash outside their core activities—even profitable companies. This has resulted in a proliferation of business owners with cash available to invest in acquisitions.

ORGANIC GROWTH WILL BE SLOW FOR MOST COMPANIES

For those who are anxious to increase volume and improve margins, the slow organic growth anticipated for most companies in 2010 will provide incentive to make strategic acquisitions.

GAPS IN VALUATION EXPECTATIONS ARE STARTING TO CLOSE

As a result of the recent recession, sellers have lowered their valuation expectations. At the same time, resolved buyers are anticipating lower returns as it has become more difficult to drive returns through leveraging. The upshot is a narrowing of the gap between the prices at which companies are willing to sell and the prices buyers are willing to pay.

M&A transactions take time, sometimes a significant amount of time. To take advantage of these current favorable circumstances, either through a sale or acquisition, business owners should act soon.

in this issue

business lines

By Steve Jacobs

The economy is stabilizing, and there is growing evidence of improved earnings and new business prospects for middle market companies. Confidence is returning. Credit is coming back and funders at all levels are heading into the second half of 2010 with cautious enthusiasm.

Strategic solutions to succession and business planning are more essential than ever. The recession caused a significant loss in value for many family-owned and privately-held companies in the last couple of years.

Looking to the future, is now the right time to consider an exit opportunity or a strategic acquisition?

The answer to this question will be different for each company. Planning will hold the key to success! What will it take to deliver the highest possible quality and client satisfaction at the lowest practical cost?

An integrated business planning effort begins with an objective comprehensive review of the company and your market. A firm's financial and operational performance needs to be analyzed and compared to peer benchmarks. Input from both customers and suppliers also needs to be taken into consideration. Business owners have no control over economic realities, but must have control over the operating performance of their company regardless of these uncontrollable factors. The real value of business planning comes from a thorough and honest SWOT analysis of strengths, weaknesses, opportunities and threats, identifying and evaluating gaps between the competition and the company. These characteristics will provide you a clearer picture of what it will take not only to survive, but also prosper.

Effective planning will help define the best solutions for each business to employ. Organic growth, growth through acquisition or exit are all strategies that can be implemented. Which is right for your company?

Call us to learn how BCC Advisers can help you maximize shareholder value.

Our Newest Acquisition

Zach Eubank joined BCC Advisers in February, 2010, as a financial analyst in the M&A, business valuation and litigation support practices of the firm. Previously an attorney with Brick Gentry, P.C., Zach brings experience serving clients in the business law, real estate law, research and litigation arenas. Zach is a current participant in the West Des Moines Leadership Academy and is involved with historical building renovation in Des Moines' East Village development. He earned his law degree and MBA from Drake University and his B.A. in Finance from Marquette University. Zach is married and has one daughter.

Cavanagh Earns MBA

Having met the prescribed requirements, **Tom Cavanagh** has earned a Master of Business Administration degree from Drake University. Mr. Cavanagh is a transaction adviser and works primarily with BCC clients in the Merger and Acquisition practice of the firm. He received his bachelor's degree in Management: Business Administration from the University of Northern Iowa, and has been with BCC since 2006.

Midwest ESOP Conference

BCC's Al Ryerson congratulates Bonny Medow of Riverton, Wyoming, on winning BCC's conference raffle prize, a one-week stay at an RCI resort.

BCC principal **Al Ryerson**, CPA/ABV, CFF, ASA, was selected by the Iowa/Nebraska chapter of the ESOP Association to co-present a session at the Midwest Regional Conference of ESOP Champions held in Bloomington, Minnesota, last fall. Aimed at educating those seeking training on how an ESOP company's value is determined, Al joined two other Midwest advisers to introduce the "Basics of Valuation." A general overview of the business valuation process was given using sample illustrations to explain common business valuation methods, including attention on how changes in economic conditions and company performance can impact the valuation conclusion.

A Tough Deal

At stake: 150 high-paying jobs, loss of the business and personal assets of shareholders, write down of nearly 50% of the secured creditors' loans/leases, and no funding for unsecured creditors.

Just three years ago we were advising a profitable, privately held, middle-market high quality parts manufacturer on possible succession planning strategies based on a requirement of one of their key customers. This advisory work was completed in the fourth quarter of 2007 as the company began an aggressive expansion which would allow for doubling capacity. In addition, for the first time in thirty-one years of operation, there would be the opportunity to diversify customer concentration from just two clients that represented over 80% of revenue.

Then the unthinkable happened: increasingly volatile material prices began to impact the operation, and internal operations systems used to manage pricing and costs were not as effective in the expanded environment.

As that crisis seemed to begin to resolve itself with operations moving to the new facility, a larger problem was identified that would prove to be fatal. With little warning, customer volumes started to decline significantly in the early summer of 2008. The new facility's annual breakeven was in the $16-20 million revenue range. In addition, with the facility and automated equipment costs, most of the overhead was fixed and debt service was significant.

Things got worse. Customer orders dropped by nearly 50% from the previous year. Cash flow became negative for the first time since the company's humble beginnings. The owners were faced with additional equity needs to survive and were going to have to reduce employee headcount. Tough decisions had to be made and made quickly. These were difficult decisions for any privately held business, and this case was no exception.

Management delays in making layoff decisions, compounded by very high fixed overhead, caused losses to expand beyond the ability to fund the operations, even with significant additional equity contributions by the owners. All stakeholders were concerned, including bankers, equipment leasing companies, employees and most of all, ownership. An advisory team was established, led by BCC, early in 2009, but the economic slowdown was already in full bloom. Volumes continued to fall with no reprieve in sight. Creditors tried to be flexible, some more than others, but it became increasingly apparent that cash flow was barely going to cover interest costs on secured debt, leaving unsecured suppliers' balances static.

Potential equity investors and buyers were standing on the sidelines, given the economic uncertainty, and negotiations with key customers for assistance did not yield much other than concern over whether they might lose a key supplier. Negotiations with creditors intensified as options seemed to be vanishing quickly. Qualified buyers were brought in with a uniform response to the steep decline in sales volume: if the two key customers did not co-invest there was no interest in even making an offer.

Finally, in the fall of 2009, one of the customers recommended we meet with an Indian manufacturing company that also had offices in the U.S. It was an approved worldwide supplier that wanted to secure a manufacturing facility domestically. During the next six months, very arduous negotiations took place trying to determine at what price the buyers would buy and the sellers/creditors would accept, which would be significantly below loan value.

Through perseverance and the never-quit attitude of the owners and their team of advisers, and the support of one key customer, a negotiated transaction is nearing completion. The new facility will be leased at a market rate, most equipment will be purchased, the business will continue under new ownership and good manufacturing jobs will be retained in the community with positive growth prospects.

> ***"BCC and the Belin Law Firm not only supported us, but also provided a strong sense of leadership, direction and energy throughout this entire process. The outcome would never have been as positive without their help."***

BCC Advisers, along with the Belin Law Firm, advised ownership and negotiated with creditors on this very challenging project throughout the process. According to the owners, "BCC and the Belin Law Firm not only supported us, but also provided a strong sense of leadership, direction and energy throughout this entire process. The outcome would never have been as positive without their help." The end result, although not without its down side, kept the business alive with excellent future potential, retained employees and kept yet another building in rural Iowa from standing vacant.

IMAP Again Ranked in Top 10 Worldwide

Despite a difficult year for the M&A industry, IMAP, Inc. ranked sixth in the world in 2009. IMAP, Inc., an exclusive global organization of independent merger and acquisition advisory firms, placed in the top ten for the fourth consecutive year for completed transactions having values up to $100 million, according to Thomson Reuters* Mid-Market League Table.

IMAP Ranking by Region
Undisclosed Values & Values up to $100 million
Based on Number of Transactions
1/1/2009 - 12/31/2009

Region	Number of Transactions	Rank
Worldwide	121	6
US	28	7
Europe	83	4
UK	18	12
France	12	7
Latin America	8	4
Nordic	26	1
Benelux	7	17
Eastern Europe	13	2

Source: Thomson Reuters Mid-Market M&A Tables

Competition increased for the mid-market in 2009 as overall transaction sizes were smaller and closings were down 20 to 40 percent from 2008 for most advisory groups. “Last year was a very unusual year,” said IMAP President Mark Esbeck. “We saw more competition from firms such as Goldman Sachs & Co., J.P. Morgan and Morgan Stanley than in 2008.”

Even so, IMAP continued to climb the rankings in Europe and emerging markets. For transaction values up to $100 million, IMAP ranked fourth for number of transactions in Europe. IMAP’s Nordic team ranked first in its region for the third consecutive year. Eastern Europe held a second place ranking for IMAP, and in Latin America, IMAP moved to fourth place (only its second year of rankings in this region).

Formed in 1973, IMAP is an exclusive consortium of more than 400 experienced advisers and 100 analysts, representing 45 IMAP offices in over 30 countries around the world. In 2009, IMAP advisers completed 179 transactions with an aggregate transaction value of more than $6 billion. IMAP advisers provide strategic merger, acquisition, divestiture and related corporate finance services. Sellers of mid-size companies and corporate acquirers alike rely upon IMAP for essential local market knowledge and industry expertise delivered with unparalleled global reach. More information is available via the Internet at www.imap.com.

* Thomson Reuters is a leading provider of information-based services to the global business community.

on the dotted line

Some Recent BCC Advisers Transactions:

Assisted a financially distressed manufacturing company on turnaround and sale of assets.

Prepared a fair market valuation of a Midwest manufacturer for purposes of acquisition of shares by an ESOP.

Prepared a fair market valuation of a Midwestern bank for estate planning purposes.

Prepared a fair market valuation of a multi-bank holding company for ownership restructuring.

Prepared a fair value appraisal of a Midwest entertainment company for financial statement reporting purposes under SFAS 144.

Prepared a fair market valuation of a Midwest manufacturer for purposes of annual ESOP administration.

Assisted a financially distressed logistics company on turnaround strategies.

The Market Front

Various opportunities available through BCC Advisers:

U.S. crane rental and demolition company – *is seeking a buyer.*

U.S. architectural firm – *is seeking a buyer.*

Worldwide diversified manufacturer – *is seeking to acquire U.S. rail equipment and services companies.*

South American coffee and snack franchise – *is seeking a buyer.*

European producer of heavy construction equipment – *is seeking a buyer.*

Mexican distributor of specialized equipment to the lodging/hospitality industry – *is seeking a buyer.*

U.S. structural steel fabrication company – *is seeking to acquire the same in the U.S.*

For mergers and acquisitions, contact Steve Jacobs or Brad Harse. For valuations, contact Al Ryerson, Greg Weber or Jim Nalley.
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IMAP, INC.
IMAP, Inc. is an exclusive global partnership of leading Merger & Acquisition advisory firms. Formed in 1973, IMAP unites a select group of professional organizations active in international transactions into a seamless global partnership. Each member firm shares a mutual commitment to delivering the highest caliber advisory services for middle-market transactions across the globe. IMAP advisers provide strategic merger, acquisition, divestiture and related corporate finance services. Sellers of mid-size companies and corporate acquirers alike rely upon IMAP for essential local market knowledge and industry expertise delivered with unparalleled global reach. Through their global partnership, IMAP firms are able to access strategic buyers, merger candidates and financial resources around the world to deliver exceptional results for their clients.

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