BCC ADVISERS

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Business Transfer & Valuation Information

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The Art of Transition

The millwork in some commercial buildings consists of mass produced products that are often overlooked as you walk through the building. However, since its founding in 1998, Architectural Arts has been producing millwork you are bound to notice. From appealing reception desks to intricate wood paneling for casinos, hotels, offices, medical facilities, schools, and other commercial projects, Architectural Arts has used its significant engineering, design, and production capabilities to produce large, complex, and eye-pleasing jobs demanded for certain commercial projects.

Ted Stuart, Jeff Stange, and Jim Broich – owners and three of the four original founders – engaged BCC Advisers to assist in the ownership transition of the company. With Ted contemplating retirement, record operating performance, and a strong outlook for the company, the team decided now was a good time to sell.

"We each thought long and hard about our futures and the future of the company when making this decision. We have successfully managed the business through two recessions over nearly 20 years together and felt this was an opportune time to find a new owner for the next stage of growth." *– Ted Stuart, Co-owner*

in this issue

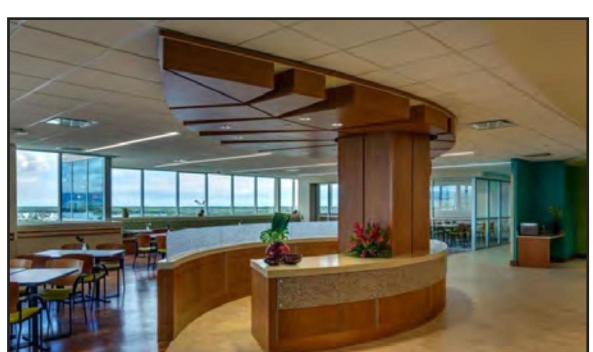
ARCHITECTURAL ARTS

COMMERCIAL AND RETAIL ENVIRONMENTS

MILLWORK | MANUFACTURING | DESIGN | INSTALLATION

Architectural Arts operates two facilities in Des Moines and Emmetsburg, Iowa. Although it does produce some basic millwork products, the majority of its production capacity is reserved for larger commercial projects from major regional and national contractors. Architectural Arts' workmanship can be found across the country in venues such as the Washington Nationals locker room, the Denver International Airport, and Stanford University's business and law buildings. As one of the few millwork companies large enough to handle these complex projects in the Midwest and holding strong relationships with an attractive customer base, there was significant interest from potential acquirers.

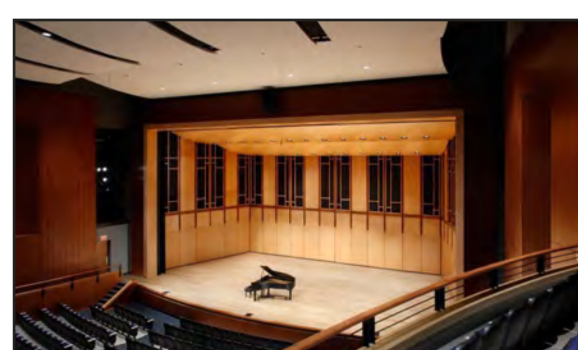
"Gaining the trust of contractors is the most important aspect to our business and something at which Architectural Arts excels. When it comes to complex projects, contractors place greater emphasis on the capabilities, quality, capacity/timeliness, and customer service of the millwork producer than the overall quoted price. Proving we can meet their needs has been the overall driver of success for us." *– Jim Broich, Co-owner*



After BCC ran a confidential auction process, the owners determined that All-American Holdings would be the best strategic fit. All-American had purchased American Food Service from Standex International Corporation in 2014. Now known as Savannah Visions, it specializes in millwork, stainless steel fabrication and stone cutting for the food service industry. Looking to grow the breadth of its product line, customer base and geographic reach, All-American Holdings submitted a letter of intent and eventually closed on the acquisition in April.

The three owners envisioned opportunities that would be available to the combined entity through complementary production capabilities, greater scale and a larger customer base. However, more important to the owners was the fact that All-American was dedicated to keeping the operations and employees in Iowa while investing for future growth. Both parties spent a significant amount of time getting to know each other throughout the process to ensure a positive outcome. This included keeping Jeff and Jim in management roles and retaining Ted as a consultant.

"We relied heavily on BCC's transactional expertise to lead us through this process. Handling the negotiations by ourselves would have been detrimental to our day-to-day operations. BCC took the time to understand not only our business but also our transition goals. They successfully implemented a structured process to achieve them. We are excited to partner with All-American Holdings through the next phase of our growth." *– Jeff Stange, Co-owner*



business lines

By Steve Jacobs

There are multiple ways to value a business, depending on the industry and company operating circumstances. Buyers evaluating a business that is for sale generally utilize EBITDA, or earnings before interest, taxes, depreciation, and amortization, as a proxy for the cash flow a business generates from its operations. Different levels of taxation and capital structure among companies, and the fact that these characteristics will likely change post-transaction, require a cash flow measure that can be applied consistently among businesses. Eliminating the effect of interest, taxes, and non-cash charges for depreciation and amortization on a company's bottom line allows a buyer to evaluate companies on a more normalized basis.

Many times, EBITDA is further adjusted by removing one-time or discretionary expenses and income that will not be incurred post-transaction. Examples of these are excess owner compensation, above or below-market lease rates, and advisory expenses during a sale. After determining the level of adjusted EBITDA, buyers often apply an earnings multiple to arrive at a value for the business.

Cash flow as measured by EBITDA does have its downfalls. Two major arguments are that it does not account for required capital expenditures needed to keep a company operating nor does it factor in changes in working capital requirements. In addition, it is not appropriate for every industry, such as banks, which earn a large majority of their income from interest on loans while incurring significant interest expense on deposits and borrowings. However, as a business owner considering a sale, it is important to fully understand EBITDA, given its prevalence in M&A transactions.

Steve Jacobs
steve@bccadvisers.com
(515)777-7077

Our Newest Acquisitions

Jacob Notermann has joined BCC Advisers as a financial analyst in the business valuation practice of the firm, gathering, analyzing and documenting data pertinent to arriving at the value of businesses and to supporting the development of M&A intelligence on various projects. Prior to joining BCC, Jacob worked as a wealth management intern for Morgan Stanley and an inventory management intern for Iowa State University's Lab Animal Resources department. He earned a bachelor's degree in Accounting from Iowa State University.

Michelle Temeyer has joined BCC Advisers as a financial analyst in the business valuation practice of the firm. She is responsible for gathering, analyzing and documenting data pertinent to arriving at the value of businesses and to supporting the development of M&A intelligence on various projects. Michelle completed internships with PriceWaterhouseCoopers, Principal Financial Group and Rockwell Collins, and served as Assistant to Professor in UNI's College of Business Administration. She earned a bachelor's degree in Accounting and Finance from the University of Northern Iowa, is a Certified Associate in Project Management (CAPM), and has recently taken exams for the Certified Public Accountant (CPA) designation.

Gigi Mills has joined BCC Advisers as an administrative assistant, providing support for internal and client projects to the M&A, business valuation, and litigation support divisions of the firm, as well as to BCC's affiliate company, Iowa Appraisal and Research Corporation. Gigi previously owned and operated two real estate companies and a property management company, and has traveled extensively worldwide designing case goods for the furniture industry. She earned a bachelor's degree in Business Administration from the University of Iowa.

Maintaining Confidentiality

One of the biggest concerns among business owners when selling their company is keeping the discussions confidential, and rightly so. A full staff, satisfied customer base, and strong vendor relationships are a few of the value factors creating positive interest from a buyer. Damaging any of these components decreases the value of the total business package you are selling. There are preventative steps both the business owner and investment banker can take to mitigate confidentiality risks throughout the process.

Limit Size of Initial Team

The greater the number of people who know about a potential sale, the greater the number of opportunities for word to slip out to your customers and competition. It is important to limit the number of employees brought into confidence to only those that are absolutely necessary, which typically includes those required to assist with due diligence requests, such as your CFO/controller.

Confidentially Approach Buyers

How do you reach out to prospective buyers without allowing them to guess your identity prior to signing a confidentiality agreement? Your investment banker will utilize a "blind profile" or "teaser" that discloses enough information for a buyer to determine if they have initial interest, but not so much that it is apparent who they are representing for sale. If there is initial interest from a potential buyer, a non-disclosure agreement should be executed prior to any confidential or sensitive information being shared.

Utilize a Virtual Data Room

As the process enters its final stages, a significant amount of information trades hands. In order to control the flow of this information, it is advisable to use a virtual data room. The web-based virtual data room securely stores information in a centralized location. Access to information can be controlled by the investment banker and/or the client. In addition, users have the ability to track who has accessed specific information. Virtual data rooms also minimize the need for onsite due diligence.

Strategically Timed Announcement

Eventually, a business owner needs to inform the entire employee base about an ownership transition, but in most cases it is appropriate to wait until right before or even after a transaction is finalized. When significant time passes between the announcement and the actual sale, employees may get nervous about their security and "jump ship" for other employment opportunities. By announcing the transaction with both the buyer and the seller present, you're able to answer questions, introduce employees to the new owners, and minimize uncertainties. If there is concern that news about the transaction is becoming public, a press release can be utilized prior to closing in an effort to head off any potentially incorrect information caused by rumors.

Although there is no way to 100% guarantee confidentiality is maintained from start to finish in any transaction, the steps above will help minimize the possibility of such breaches. Having a solid, up-front plan in place between your advisors is crucial to a successful transaction.

BCC ADVISERS
www.bccadvisers.com

ALLIANCE OF INTERNATIONAL CORPORATE ADVISORS
www.aoica.org

1707 High Street
Des Moines, IA 50309-3313

What is a Financial Buyer?

Broadly speaking, business owners typically consider two types of buyers: strategic and financial. Strategic buyers, or "strategics," are often in the same industry, perhaps even a competitor, customer or supplier. Alternatively, **financial buyers are looking to invest in the business solely to generate a financial return for themselves and/or their investors, often with a planned hold period for their investment**. Below we discuss the various types of financial buyers.

Private Equity
One of the most common financial buyers, traditional private equity firms have become a staple in the M&A environment. PE firms raise funds from outside investors (limited partners) to invest in operating companies. In many cases they partner with existing owners and/or management teams, providing the financial resources necessary to restructure a balance sheet, fund growth initiatives, or implement and fund an add-on acquisition strategy. They typically create a board, if one does not exist already, and have an average hold period in the range of four to seven years before they look to exit their investment.

Holding Company
In many ways holding companies are similar to private equity firms. Perhaps the most significant difference is that holding companies are typically more flexible with their investment hold period, since they don't have an obligation to return liquidity to their limited partners, as would be the case with private equity funds.

Family Office
Family offices are advisory firms that manage funds for high-net-worth clients. Funds may come from the wealth of one or multiple families. The office has its own staff to manage the financial and investment decisions, including investments in private operating companies. As with holding companies, the time horizon for investments is flexible.

Fundless Sponsor
A fundless sponsor is similar to a private equity firm except that it does not have committed capital raised prior to identifying an acquisition opportunity. The fundless sponsor presents acquisition opportunities to a network of investors who evaluate the deals on an individual basis, therefore limiting the control of the sponsor. The lack of committed capital increases risk from a seller's perspective, but a fundless sponsor typically has more flexible investment criteria.

Individuals
At the most basic level, individuals are financial buyers. The individual may take an active role in managing the company. However, it isn't unusual for an individual investor to be a passive owner in a company with a capable management team in place.

Depending on the business owner's objectives for a sale, some or all of these financial buyer types could be appropriate to include in their buyer pool.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a national commercial millwork firm on a sale to a global holding company.

Provided valuation consulting to a business as it made an acquisition.

Advised a business services company on strategic transition options and financing.

Prepared a fair market valuation of an ethanol company for corporate restructuring.

Prepared a purchase price allocation of a manufacturing company for financial statement reporting purposes.

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

The Market Front

Some opportunities available through BCC Advisers:

U.S.-based manufacturer - *is seeking to acquire tier two automotive industry suppliers.*

Australian-based conveyor system manufacturer - *is seeking a buyer.*

U.S.-based telephone software and managed services provider - *is seeking a buyer.*

Asian-based industrial control company - *is seeking to grow through international acquisitions.*