

## Unsolicited Offers

Ask any business owner and they will tell you they field a significant number of inquiries from buyers expressing interest in acquiring their company. In fact, they are contacted so many times that many of the emails, calls, and letters wind up in the trash bin or are left unanswered. It simply takes too much time away from running the business to respond to parties that in most cases are not a strategic fit. However, every now and then an owner may receive genuine interest from an industry player or investment firm that makes sense to explore. Here are some tips for how a business owner can prepare for and respond to unsolicited offers.

### **Don't React Immediately**

The first question you should ask is whether or not you are even open to entertaining the sale of your company. If not, the decision to politely decline further communication is easy. If you are, the path forward depends upon how prepared you are to speak with potential buyers. Many times informing an interested party that you need some time to think about the opportunity will buy you the necessary time to determine what's best for the future of your company. After all, they approached you, and any serious suitor should appreciate your need for some time and likely won't disappear overnight.

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However, delaying does pose some risk if in the meantime something occurs operationally or in the overall economy that makes your business less desirable.

### **Build Your Team**

Assuming you are open to negotiations, it is important to build a team of advisors to assist you through the discussions. An investment banker, merger and acquisition attorney, and tax accountant are all important to help determine the valuation your company is likely to achieve, negotiate price and terms, limit your risk during and after a transaction, and keep as much of the proceeds as possible. With many business owners being inexperienced in mergers and acquisitions, the advisory team should be in place before any further conversations happen with a potential buyer. There are a number of hurdles that can arise during the process that owners cannot or should not try to overcome themselves.

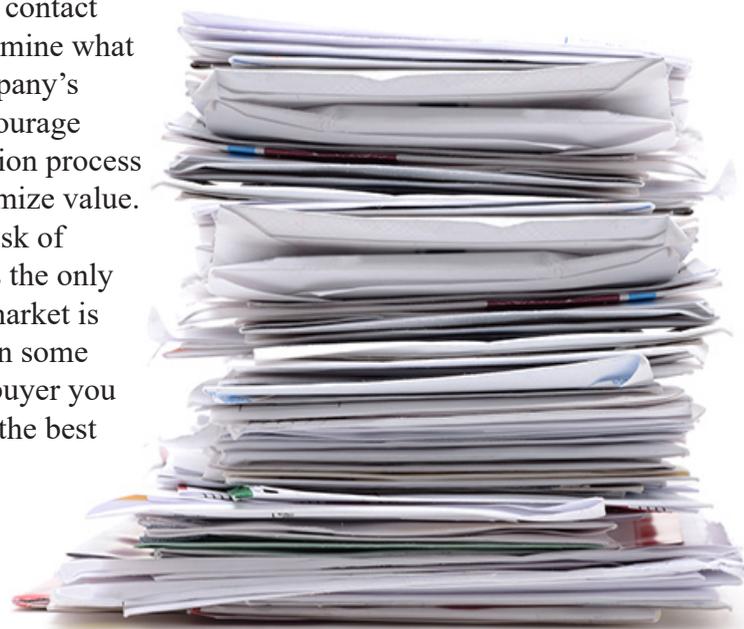
### **Evaluate Buyer Pool**

Upon receiving an unsolicited offer, you need to determine whether you plan to move forward with that party or instead contact multiple buyers. You should determine what is in the best interest of your company's stakeholders. Many times we encourage owners to evaluate a broader auction process to increase competition and maximize value. Although this does pose greater risk of word getting out about a sale, it is the only way to truly know the value the market is willing to put on your company. In some circumstances, you may feel the buyer you have been approached by is truly the best option.

### **Prepare Marketing Materials**

If you've decided to consider the sale of your company, even if you choose to only entertain one party, having your investment banker prepare marketing materials on your business can serve as a valuable strategy. Being prepared with information compiled in a professional manner will indicate to the prospective buyer not only that you are a committed seller, but that you are prepared to approach (or possibly are already approaching) other candidates at the same time. This will put pressure on the prospect to submit a strong and attractive offer to avoid missing out on the opportunity, even if you have no plans to sell to anyone else.

Unsolicited offers can put business owners on the spot. Remember that you do not need to respond immediately - you can and should take a step back to collect your thoughts. Consulting with trusted advisors can help you determine the best strategy for your company and achieve desired results for all stakeholders involved.





by Steve Jacobs

### Key Actions to Unlock Value and Exit Right

As a business owner you have likely spent years getting your company into shape: streamlining processes, rationalizing financials, upgrading systems and building the right team. Perhaps you have also made an acquisition and developed new products to strengthen the company's position in the marketplace. Now it's time to find a new owner to shepherd the company through its next phase of growth and get the best return for your hard work and investment.

There is much to consider as you prepare for exit, not the least of which is the company's readiness for sale. One consideration should be to work with an investment banker to gain a better understanding of the current buyer landscape and how best to craft a story that will appeal to different buyer groups. It is important to get an objective understanding of your options and preparedness for going to market. Getting your house in order is a high priority for maximizing value. Addressing outstanding issues from tax compliance to revenue recognition before any negotiations begin will go a long way toward a smooth transaction process.

Getting maximum value at exit means a lot more than demonstrating attractive twelve-month operating results. It involves knowing when to sell and to whom. It also involves telling a credible story that highlights your success building the business and creates a compelling vision for the future.

It is currently a seller's market for owners of high-quality businesses as there is a lack of high-quality middle market companies for sale. The shortage of suitable companies has softened transaction volume and increased valuations being paid. There is a significant amount of capital available for acquisitions and banks are aggressively seeking good loans, so the timing is good to sell a business and exit if you are ready.

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

# Unravelling Transaction Multiples, Business Valuation Mysteries

Over the last 10 years, the North American transaction market has been strong and business valuations have been rising. The result? There's a high probability that you or someone you know has recently heard the tale of transaction multiples (those broad, all-encompassing financial metrics used to value a company).

Often, the story originates from a friend or neighbor during a conversation that might stray into the world of transactions and business valuations. After all, the number of deals in the U.S. topped 13,500 in the twelve months ended June 30, 2019 (up 7.2% from the prior twelve-month period) according to FactSet. One major driver is the significant number of owners selling their businesses as the wave of baby boomers address succession and retirement.

"I hear Bob got 12 times," he or she says in a hushed tone, as if they've just confessed to armed robbery. "Can you believe that?" At which point you can be forgiven for being skeptical.

In the world of private transactions, there is often limited information and much speculation. This is to be expected because business valuation can be challenging and opaque – a combination of established methodology and sound judgment.

The theory is relatively straightforward: What is someone willing to pay today for a series of future cash flows? But after that, it can quickly veer into the world of discount rates, weighted average cost of capital (WACC), and other obscure concepts.

It is important to not lose sight of the big picture. Here are five valuation tips to help you maintain perspective:

**1. Focus on what's adding value (not the multiple).** Recurring revenue, a diversified customer base, long-term contracts, management depth, low capital expenditures, profitability trends, and barriers to entry all add value to your business. If you focus on what adds value and the process you undertake to sell, the multiple you achieve will take care of itself.

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# An Electrical Connection

As you drive around the Des Moines area, you have probably seen multiple bright red service vehicles traveling up and down the road. These vehicles have been a hallmark of Baker Electric, one of Iowa's largest electrical contractors, for many years. The company traces its roots back to the 1940s when Gene Baker acquired Furlong Electric. Gene's son, Britt Baker, joined in 1973 as an estimator. They moved the company to its current location on Jackson Avenue in Des Moines in 1975.

Britt became CEO in 1996 and led the expansion of the company's service offerings into low voltage and data cabling in 2000 and residential in 2003. In 2005, the warehouse was relocated to Fleur Drive and a prefabrication assembly center was



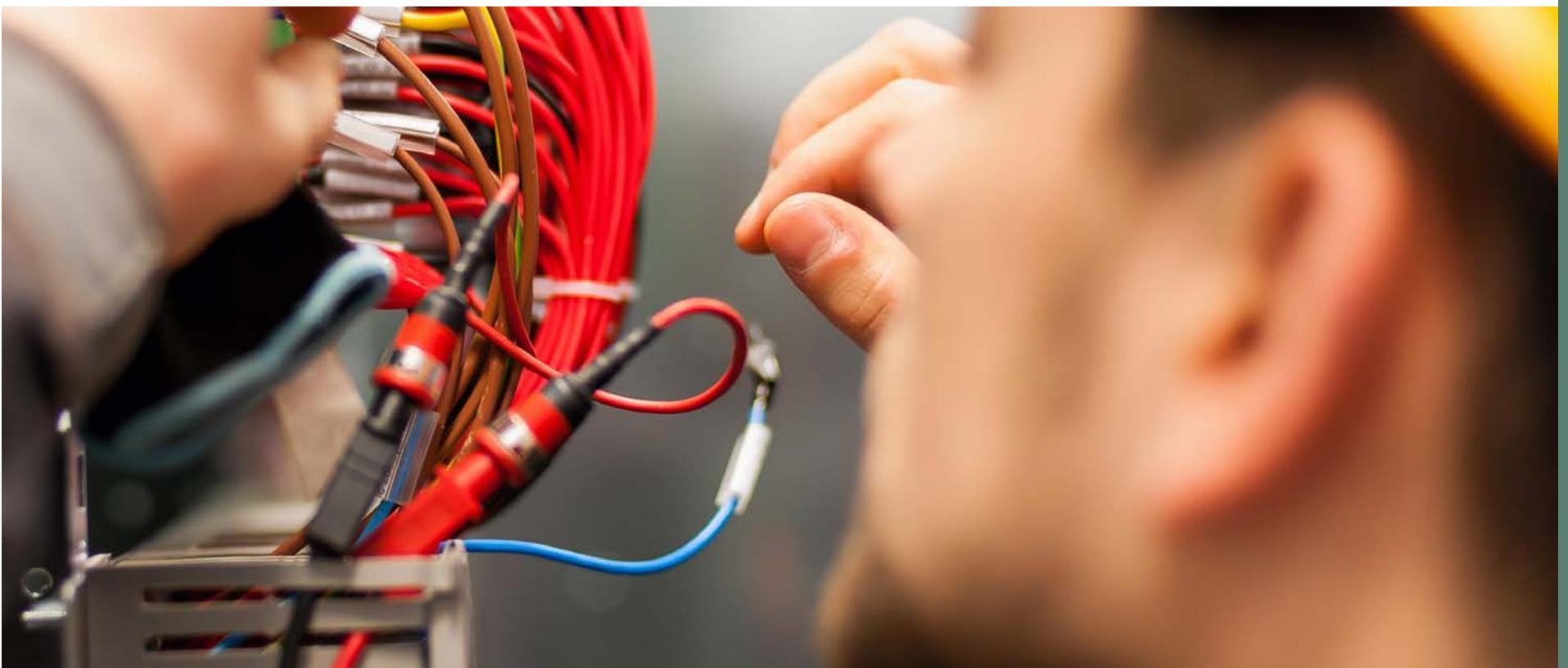
opened, the first of its kind for an electrical contractor in Iowa. The company has continued to expand, benefiting from the strong commercial, industrial and data center development in the area.

As Britt evaluated the future of Baker Electric, he engaged BCC Advisers to identify a buyer that would keep the culture and operations intact. "The employees and customers of Baker Electric have made the company what it is today. The top priority in any transaction was to find a partner that could ensure a

seamless transition for our team and valued customers with the ability to continue to invest in future growth opportunities. I truly believe BCC and the rest of our deal team have been successful accomplishing this objective," said Britt. That partner was EMCOR Group, Inc., a Fortune 500® leader in mechanical and electrical construction, industrial and energy infrastructure, and building services for a diverse range of businesses.

Baker Electric and its more than 350 employees will be part of the U.S. Construction Services segment of EMCOR which includes electrical and mechanical construction and fire protection services. Britt stated, "I believe EMCOR will provide our employees with significant career opportunities while maintaining the quality of service our customers have come to expect from us over our 70+ years in business."

Although now part of a large, public entity, the Baker Electric name, which is synonymous with quality electrical contracting in central Iowa, will remain intact allowing for continuity in stakeholder relationships. And yes, the bright red vehicles will continue to be seen around central Iowa.



## Unravelling Transaction Multiples, Business Valuation Mysteries, *Continued*



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**2. Every business is different.** While it's tempting to apply the same valuation multiple to every business in a particular industry, it just doesn't work that way. Other deal multiples are merely a data point. Your business is different from your competitors' (and that's a good thing). You don't want to be painted with the same brush.

**3. Value does not equal price.** Valuation is a theoretical number, while price is what two parties agree on. Specific buyer motivations, timing, the sale process undertaken, capital availability, your personal objectives, that big contract you just won; all of it has an influence on price in the moment.

**4. Buyers purchase the future, not the past.** While parties tend to focus on historical financial statements when negotiating price, remember: they're only a guide. The future is what matters, and that's what is being purchased. The more confidence and visibility you can provide into the future, the better your valuation.

**5. Pay attention to working capital.** It's boring, I know, but working capital is the engine of your business. Most owners do not manage or monitor working capital as closely as they should, often with material value implications. Managing your receivables and payables more closely, for example, can extract significant value without asking anyone to write a check.

So, with all of this to say, don't let your friend or neighbor drag you into the mud of multiples speculation without understanding the facts.

*\*This article was originally published by Ken Tarry of Sequeira Partners on June 14, 2019. It has been adapted for BCC's use with Sequeira's permission.*

## *on the dotted line*

### Some Recent BCC Advisers Transactions:

Advised electrical contractor on sale to Fortune 500® electrical & mechanical construction, infrastructure, & building services co.



Prepared a fair market valuation of a financial services company for redemption of shares.



Prepared a fair market valuation of an agricultural holding company for estate and gift tax purposes.



Advised an advertising agency on fair market valuation for management planning purposes.



Advised a regional, value-added industrial component distributor on a sale to a private equity-backed industrial distributor.



Performed a fair market valuation of an engineering company for purposes of annual ESOP plan administration.

## The Market Front

*Some opportunities available through BCC Advisers:*

**U.S.-based registered investment advisor** - *is seeking to grow through acquisitions.*

**European-based data management and backup software provider** - *is seeking to acquire U.S.-based data management companies.*

**ESOP-owned company** - *is seeking to acquire service companies in the Midwest.*

**European-based designer and distributor of motorcycles** - *is seeking a buyer.*