

Value of Sell-Side Quality of Earnings Reports

The value of any business ultimately comes down to the cash flows it expects to generate and the risk of achieving them. The greater the expected cash flows for a given level of risk, the higher the value ascribed to the business. With cash flows being such a significant factor in valuation, buyers want to verify that figures presented by the seller are accurate and repeatable in the future. Many times this verification is performed during due diligence through a quality of earnings (QofE) analysis completed by an independent CPA firm.

A sample of items the CPA firm will evaluate during the QofE analysis includes:

- Verifying EBITDA adjustments are accurate and legitimate
- Determining the sustainability of revenue (eliminating one-time items)
- Evaluating areas where expenses may be understated
- Reviewing revenue recognition policies

- Assessing customer concentration issues
- Evaluating working capital requirements and considerations

Negative issues that arise in the QofE report may cause the buyer to re-trade, or lower their offer price from the original offer. Re-trading is every seller's fear. To avoid this, and to expedite the due diligence process, we are seeing more sellers invest in a QofE analysis prior to taking their company to market. Although a QofE analysis is not an insignificant investment, there are many benefits to this approach, including:

- Increased trust from buyers through confirmation of EBITDA adjustments
- Identifying potential issues, giving the seller time for corrective action or explanation before the sale is commenced
- Preparing your team for the due diligence process (e.g. organizing documents and gaining an

understanding of key points of interest for buyers)

- Reducing uncertainty in the sale process
- Increasing the seller's leverage during negotiations
- Possible decrease in time required for due diligence and closing
- Potentially increased value of the business to the buyer

As you can see, there are many reasons sellers are performing a QofE analysis upfront. Investing early in the sale process can pay off in the form of higher (and more firm) purchase offers, reduced time to close, and fewer risks and surprises. When evaluating the sale of your business, having a discussion with your advisors on the benefits and costs associated with a sell-side QofE analysis should be an important step early in your decision-making process.

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business lines



by Steve Jacobs

The last few years have been record-breaking for mergers and acquisitions. In a 2018 poll conducted by The Wall Street Journal, 60% of executives expected to see an economic downturn in 2019, which has not happened. Bloomberg Economics is forecasting that the U.S. economy will grow at a modest 2% rate in 2020 as the record-length expansion turns 11 years old next June.

The biggest cloud hanging over the global and Iowa economies is "trade." Surveys of business confidence declined after trade skirmishes with China and other countries began in early 2018. There are signs headway is being made to begin resolving these issues with our major trading partners in Mexico, Canada and even China.

With historic low interest rates, abundant amounts of capital available, and aging baby boomers, the M&A market should remain robust in 2020 and beyond. The "Silver Tsunami" (baby boomers greater than 65 years old) will continue to create buying opportunities for companies looking to expand and cause significant ownership changes to occur in small and medium-sized,

family-owned businesses in the next decade. It is estimated that the Baby Boomer generation, or those born before 1964, own nearly 10 million privately-held companies in the U.S.

At BCC Advisers we are anticipating a very busy next few years, even with a risk of a market correction or downturn. It does not seem that the historic factors to create a recession are currently in place or forecasted. The ride could be a bit bumpy, but the future looks bright for business!

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Our Newest Acquisition

Trevor Yuska joined BCC Advisers' business valuation team in the summer of 2019 as a financial analyst, after earning his bachelor's degree in Finance and Real Estate from the University of Northern Iowa. His responsibilities include compiling and analyzing company financial information, performing economic and industry research, analyzing guideline company data and drafting report narrative.



*A joyous holiday season
to you and yours!*

A Fasten-ating Deal



THE
BOULDER
COMPANY

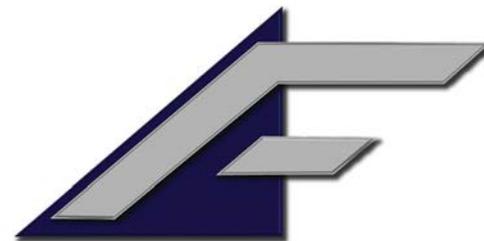
Manufacturing companies rely heavily on suppliers to keep their operations running smoothly. Without a reliable supply of materials and components, quality products can't be produced or delivered on time to customers. That's where The Boulder Company steps in. As a regional distributor of industrial fasteners and other components through four locations across the Midwest, Boulder has been a trusted partner of original equipment manufacturers since the late 1970s.

With a CEO nearing retirement, Boulder's owners decided it was time to establish the best path forward for the company. After evaluating the significant amount of consolidation occurring in the industrial components distribution space, it was determined a sale to a third party would enhance Boulder's competitive market position and allow it to better navigate the uncertainties regarding global trade.

BCC Advisers was engaged to identify qualified buyers and run a confidential auction process for the business, permitting management to focus on growth initiatives and operating the day-to-day aspects of the company. This process led to numerous purchase offers, allowing the owners to choose the buyer they believed to be the best fit both from an economic and non-financial perspective. It was ultimately determined that AFC Industries, a portfolio company of Incline Equity Partners, would be the best stewards of Boulder's employees, customers, and suppliers moving forward.

"Selling the company in the face of rising tariffs and uncertain trade negotiations globally, which significantly affect our sourcing decisions and pricing, was no easy task," stated John Bruntz, CEO of Boulder. "BCC took a hands-on approach to understanding the effects these uncertainties could have on our business in order to properly address them upfront with potential buyers. In addition, BCC's collaboration with the ownership group's tax and legal advisors led to a smooth sales process from beginning to end."

Both AFC and Boulder pride themselves on valuing customers as partners and providing them with the best possible customer service. The common values between the two companies made the acquisition a natural and comfortable fit for the sellers, and it is expected that current employees will have the opportunity to grow as part of a larger organization.



AFC Industries





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Supplying a Thoughtful Exit

Founded as City Plumbing Supply in 1952 by the Ralph and Clarence Cople families, this modest wholesale supplier of plumbing materials, HVAC, and hydronic equipment evolved to include five locations with an expanded product coverage. Steve Cople, along with Ron Childs, bought the company in 1983 (which had previously changed its name to City Supply Corporation), closed the branch locations, and narrowed the company's focus to serving mechanical and large plumbing contractors. But after the Great Flood of 1993, Steve and Ron lost their desire to continue running the business and offered Randy Childs (Ron's son) and Jeff Halsey (a long-time employee) the opportunity to buy in, which they did. Randy and Jeff continued to grow the business to become today's leading provider of wholesale plumbing materials, HVAC, and hydronic heating equipment to commercial customers throughout central Iowa.

When it came time for Randy and Jeff to consider retiring, they desired a thoughtful, prepared exit so they hired BCC Advisers. BCC was able to guide them through a sale process that included evaluating interest from local competitors, out of market strategic buyers, and key City Supply management all at the same time.



"Our situation was perhaps a bit unique in that we didn't want to sell to a third party buyer without giving our management team a fair chance to acquire the business," said Jeff Halsey. "On the other hand, we also wanted to ensure our management team was the best buyer by throwing other options in the ring. BCC's approach and guidance enabled us to do that, and we are confident City Supply landed in the best hands."

Jeff and Randy elected to sell City Supply to Gus Childs (Randy's son) and Andy Schurman, both long-time employees that hold excellent relationships with the company's employees, customers, and vendors.

"We're certainly excited about the future of City Supply under Gus and Andy's leadership," said Randy Childs. "The stakeholders of our business are in excellent hands with these two leading."

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a workwear retailer on a sale to the leading U.S. retailer of western and work-related footwear, apparel, and accessories.



Performed a fair market valuation of a plastics manufacturing company for purposes of annual ESOP plan administration.



Advised a wholesale supplier of commercial plumbing, HVAC, and hydronic heating products on a sale to management.



Advised a real estate company on fair market valuation for a proposed transaction.



Prepared a fair market valuation of a snack food wholesaler for business planning activities.



Prepared a fairness opinion regarding the purchase of shares of a bank by an ESOP.

The Market Front

Some opportunities available through BCC Advisers:

U.S.-based geospatial solutions provider - is seeking a buyer.

European-based automotive marketing and technology company - is seeking a buyer.

U.S.-based infrastructure construction company - is seeking a buyer.

Asian agricultural company - is seeking to acquire U.S.-based pork production companies.