

Solving Workforce Shortages via Acquisition

Ask a business owner to name top challenges faced today, and the availability of quality workers is almost guaranteed to be on their list. Business leaders are facing unusual labor market characteristics, without an apparent end in sight. Available job openings are at record highs, as shown in the chart on the following page, and business leaders are wracking their brains seeking any attractive route to filling these jobs.

So how did the labor market get here and what is one way you can address the problem within your own company?

It's hard to pinpoint one specific reason for the labor shortage, with a multitude of factors likely at play:

1. Demographics and Skills Gap

Let's face it, the American workforce is aging. Between 2020 and 2030, the Bureau of Labor Statistics estimates the percentage of the labor force aged 65 or older will increase from 6.6% to 9.5%. Naturally, many of these workers are on the verge of retirement with fewer younger workers to replace them. This has hit skilled labor fields particularly hard as the knowledge held by the Baby Boomer generation is leaving the labor market with declining training and participation among the younger generations.

2. COVID-19

The pandemic has exacerbated the situation in multiple ways. Many people, for a variety of reasons, have not returned to the workforce since leaving at the beginning of the pandemic; however, with companies reopening offices and overall COVID-19 cases having dropped significantly, this trend should reverse to some extent. That being said, we would be remiss to overlook the fact that many former employees have reevaluated their futures during this time and either retired early or opted to stay home permanently.

3. Consumer Demand

Complicating matters, consumer demand for goods and services has rebounded sharply since the lows of the second quarter of 2020. Many companies added or strengthened online ordering capabilities, and coupled with government stimulus measures, consumers have been able to continue spending at high rates. This has strained the production and service capabilities for companies that are understaffed.

Given the very challenging labor market, it is difficult for businesses to keep their best talent and add new talent to grow or simply satisfy their current demand. **One potential solution is to acquire companies primarily for their labor pool and talent, enabling your business to better meet customer needs.**

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business lines



By Steve Jacobs

Fueled by record valuations, total M&A transaction value in 2021 reached an all-time high of \$5.9 trillion. Despite a 23% slump in global M&A during Q1 2022, there is optimism for strategic deal activity in 2022. The lower middle market has proved resilient and is showing momentum, as this segment exhibits insulation from the uncertainties affecting other areas of the market.

The backlog of uncompleted deals from 2020 and early 2021 have abated and the environment is competitive. To be successful, buyers need an expanded skill set to compete. Having a clear vision for growth, being able to identify ways to improve technology platforms and resources, creativity in finding new avenues to grow revenue and transform operations, and having the ability to establish the right team of competent advisors to achieve desired results are critical.

Privately held companies in most industries have significant liquidity for acquisitions and are anxious to grow, even given volatile commodity prices, supply chain issues, moderately rising interest rates, and public equity markets negatively impacted by the Russia-Ukraine war. In addition, adding quality employees through acquisitions during a challenging employment environment has become as important as expanding geography and new product line growth.

Private equity funds appear to be in “buy mode” after some very active fundraising, and despite looming pricing pressures and general economic uncertainty, they are optimistic. According to a Q1 survey by TruSight, average respondents expect 11%+ organic growth across their portfolio. If 8%+ of growth is inflationary, that leaves just ~3% of true organic growth. The survey also indicated in-person meetings will again be a substantial part of their process as deal flow normalizes. Respondents noted their main objectives are to focus on their teams and people issues (including operating in partnership with third party vendors), add-on acquisitions, pricing and costs, and thoughtful metrics and reporting.

The quality of deal flow remains elevated, but attractive and accretive acquisitions may be challenging to find in 2022. Management teams of strategic buyers must assess how their company measures in the marketplace and identify clearly how M&A can improve competition and success in 2022 and beyond. A competent M&A advisor is a valuable resource in this endeavor.

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We are seeing more companies pursuing acquisitions for this very reason, spanning all industries. In fact, it has become so common that *The Wall Street Journal* published an article earlier this year on this trend in the IT industry, which has already seen a 10% increase in M&A volume over 2021.

It remains important to gather a strong team of buy-side advisors if you decide to embark on this strategy. An inexperienced acquisition strategy can lead to the loss of employees, defeating the purpose of the acquisition to begin with and even expanding the labor shortage problem within your organization.

Sources: * U.S. Bureau of Labor Statistics
* Federal Reserve Economic Data
* Loten, Angus. “Tech Talent Shortage Is Helping Drive M&A Deals.” *The Wall Street Journal*, Dow Jones & Company, 7 Feb. 2022, <https://www.wsj.com/articles/tech-talent-shortage-is-helping-drive-m-a-deals-11644235210>

Bracing for an Exciting Future

From a faith-based dream of changing children's lives that started in a garage to teaming with a publicly traded company with a vast international network, John Mitchell and MD Orthopaedics, Inc. have been on quite a ride over the past nearly two decades. The company is now positioned for the future to improve more lives than ever before, and that is precisely what motivates John to get out of bed every morning.

Founded in 2004 in Wayland, Iowa, **MD Orthopaedics (MDO)** developed and commercialized a custom fit bracing system that has supported dissemination of the Ponseti Technique, a procedure widely considered the gold standard treatment for clubfoot. Continuously striving to innovate and improve upon its product offerings to better serve children with this condition, the company has secured over a dozen patents and has an additional seven pending. Its specialty bracing system technology was being utilized in the U.S. and abroad, but the next step for MDO was to expand its international footprint. Now led by John's son, Luke Mitchell, MDO established a modest global network but knew a partnering company with a strong worldwide sales network could expedite getting MDO products to more kids quicker than it could on its own. Achieving this objective was worth the consideration of selling MDO.

OrthoPediatrics Corp. (Nasdaq: KIDS) has built a global sales organization entirely focused on pediatric orthopedics distributing products in the United States and 45 other countries and was the perfect partner to help MDO reach its goals. Focused exclusively on advancing the field, OrthoPediatrics has developed the most comprehensive product offerings to the pediatric orthopedic

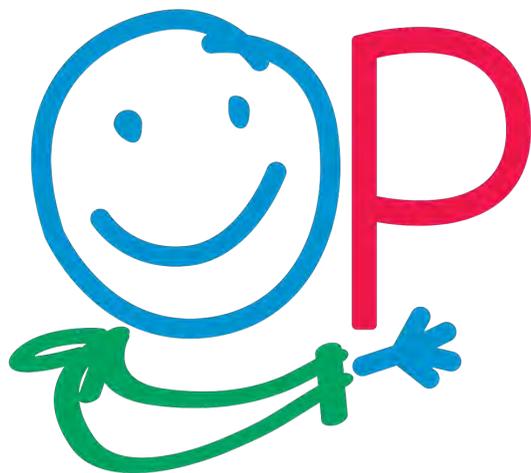
market to improve the lives of children with orthopedic conditions, spanning trauma and deformity, scoliosis, and sports medicine/other procedures.

David Bailey, Chief Executive Officer of OrthoPediatrics, commented, "We believe MD Orthopaedics will be a springboard for our expansion into pediatric orthopedic non-surgical treatments for kids and further supports our mission of helping children living with orthopedic conditions. The addition of non-operative specialty bracing systems advances our growth strategy of providing a broad product portfolio uniquely designed to treat children while surrounding pediatric orthopedic surgeons with the most comprehensive product offering in the market."

Luke Mitchell, General Manager & Executive V.P. of MD Orthopaedics, is equally optimistic. He shares, "We are thrilled to join OrthoPediatrics. With a mission aligned with our own, we look forward to working together in creating additional solutions to improve the treatment of orthopedic conditions in children, while improving the quality of life for them and their families."

BCC advised MDO throughout all aspects of the sale process. Said Luke, "BCC's experience and calm demeanor demonstrated throughout negotiations and due diligence was invaluable. There is no way I would have wanted to go through this experience without BCC's team in our corner. I am skeptical we would have closed this transaction without them."

OrthoPediatrics' commitment to MDO's employees, continued operations in Wayland, and resources available to expand the number of lives bettered by MDO's products all make the Mitchell family excited for this new chapter. Far from the days of operating out of John's garage, the Mitchells are proud of what they've built and where their company is headed.



ORTHOPAEDICS



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Reaching for the Summit

VMC **Valley Machining Company**

Valley Machining Company (VMC) began in 1980 as an Iowa area supplier of precision screw machine products. Located in Rock Valley, Iowa, VMC added CNC machining, CNC lathe, and CNC mill products and assemblies to their offerings, and with innovative ideas and a progressive attitude, grew throughout the Midwest to become a world-class supplier of custom-machined products and assemblies across North America.

Having navigated many years of growth, the VMC management team determined it was time to find a capable partner that could assist in accelerating investment in new equipment to capitalize on additional customer opportunities. Continued consolidation within the industrial machining industry also called for obtaining greater capital resources. BCC Advisers' long history of serving ESOP-owned companies and understanding the nuances of selling them led VMC to engage the firm to help negotiate with potential buyers and guide stakeholders to achieve the best possible outcome.

As an ESOP-owned company, it was important to VMC to identify a buyer that valued the intense sense of pride and employee culture typical in ESOPs, and certainly thriving within VMC. After soliciting offers from multiple candidates with significant experience in the machining industry, VMC management elected to move forward with a sale to Summit Equity Group.

Summit Equity Group is a private investment group located in Des Moines, founded for the purpose of identifying and acquiring small to medium-sized private companies and providing the resources necessary to realize their full potential. Already owning several companies in the machining space, Summit understood VMC's operations and presented attractive synergies within its portfolio.



"Valley Machining Company is a natural fit for our manufacturing portfolio," shared Mitch Nelson of Summit Equity Group. "We are impressed with the quality, innovation, and client dedication of VMC's staff and current operations, and look forward to contributing to their continued forward movement to achieve their greatest potential."

VMC President Joe Van Tol stated, "By partnering with Summit Equity, we not only gain a capital partner that will enable us to invest in new equipment and capabilities, but we gain a partner that has extensive experience with manufacturers bringing best practices and growth strategies that are going to strengthen our organization. BCC Advisers' experience with the M&A process, and more specifically with ESOP-owned companies, was instrumental in securing an attractive transaction for all involved."

on the dotted line

Some Recent BCC Advisers Transactions:

Advised an ESOP-owned custom machining company on a sale to a lower middle market private investment group.



Advised an orthopedic device company on a sale to a publicly traded pediatric orthopedics product manufacturer.



Advised a provider of industrial cleaning and maintenance services on an acquisition of a dry ice distributor.



Performed a fair market valuation of a logistics company for gift tax purposes.



Prepared a fair value purchase price allocation of a sports media company for financial statement reporting purposes.



Prepared a fairness opinion regarding the acquisition of a construction contracting company by an ESOP.

The Market Front

Some opportunities available through BCC Advisers:

U.S.-based electrical contractor - is seeking acquisitions of the same.

European-based value-added manufacturer of commercial and industrial heating and cooling systems and heat exchangers - is seeking a buyer.

U.S.-based distributor of HVAC and plumbing supplies - is seeking acquisitions of the same.

European-based e-commerce group selling DIY building materials - is seeking a buyer.

WE'D LIKE TO HEAR FROM YOU!

Is there a topic related to mergers and acquisitions you'd like to learn more about?
Send your request to us at info@bccadvisers.com
and we will do our best to address your question in a future issue!