



BCC  
ADVISERS

# baton

Business Transfer & Valuation Information

VOLUME 13, ISSUE 3, 2016

## How to Succeed in an Auction

Business owners looking to maximize value in a sale often employ a competitive auction approach when taking their company to market. So, what can an interested potential buyer and its advisors do to stand out from the others and be selected by the seller?

The obvious answer is to offer to pay the most. Many times, although not always, the highest bidder is in fact the winning bidder. The buyer should work with its team of advisors to develop a thoughtful valuation approach. Submitting a competitive (even if it's not the highest) initial bid indicates to the seller that the buyer is serious and has spent time and effort to carefully review the opportunity.

Aside from the dollars and cents, the following qualitative factors might also be important to a seller when determining with which party to move forward:

**Structure** – The structure of an offer can differentiate it from a competing bid at a comparable price. For example, a seller might prefer an offer of \$25 million in cash at closing to an offer of potentially \$28 million with only \$18 million in cash at closing and the balance tied to an earn-out. When it comes to structure, in a seller's eyes, cash is king.

**Financing Contingency** – Uncertainty is a transaction's worst enemy. Proof of an ample credit facility capacity, a commitment letter from the financing source, or other similar documents are good assurances to a seller. If a seller is weary of a buyer's ability to secure the necessary financing, they may elect to move forward with an alternative buyer option.

**Personalized Offer** – Prior to submitting a letter of intent, be certain you understand the seller's transaction goals. These can include protecting the jobs of employees, plans to enhance the product or service offering to existing customers, continued ownership of the real estate as an investment asset, a limited transition period, etc. Submitting an offer that addresses these goals will help a prospective buyer improve its position in the auction process.

**Timeliness** – Establishing a set of decision makers and devoting ample resources to thoroughly evaluating the seller, as well as

meeting time parameters of the auction process, all help to build rapport and confidence with the seller and their advisory team.

**Reasonableness** – Buyers that are unreasonable with their expectations and/or unwilling to compromise on key deal provisions (such as the indemnification cap, escrow amounts and period, or baskets) could end up losing out to a more agreeable party. Starting a negotiation at a reasonable level shows the seller that you're a party that is interested in completing the acquisition on a timely basis.

These are just a few ways a buyer can set itself apart from other bidders in an auction process. Every deal is different and will require flexibility and creativity to meet the objectives of the seller. Being aware of the approaches and considerations that can differentiate you as a buyer can increase your chance of successfully winning an auction without overpaying.

### *in this issue*

**Business Lines** page 2

**BCC Shares Expertise** page 2

**Our Newest Acquisition** page 2

**Quick Response Wins Auction** page 3

**Objectivity Premium** page 4

**On the Dotted Line** page 4

**The Market Front** page 4



## business lines



By Steve Jacobs

Global M&A stalled in the first quarter of 2016 with deal values down to their lowest levels in many years. Against a backdrop of geo-political change and uncertainty, many investors and buyers have adopted a more cautious outlook to growth. The outcome of the UK's referendum on leaving the European Union has further impacted sentiment, sending shockwaves through the global financial markets. The upcoming U.S. presidential election will only serve to heighten the uncertainty and volatility in the

public markets over the coming months and neither is helpful in an M&A context.

While 2016 is trending behind 2015, it is on track to be another strong M&A year. There was a bright spot and a growing level of activity in the middle market during the second quarter, and that appears to be continuing for the remainder of the year and into 2017. The U.S. continues to be a buoyant market. Looking to the 4<sup>th</sup> quarter, expect more strategic opportunities to flow from these tumultuous times as companies look to capitalize on favorable valuations, and both financial and industry buyers are motivated to make acquisitions for growth.

Slow economic growth continues to put pressure on the top line of businesses. Companies are increasingly realizing that the most efficient way to grow is inorganically through M&A. The combination of distressed asset sales in weak sectors, large company divestitures and unsolicited sales should fuel the acquisition trend. Market conditions also remain very favorable for funding transaction activity as non-banks play a more prominent role in the wake of increased regulations and scrutiny on U.S. banks.

As the search for growth continues, executives realize standing still is going backwards and they have access to abundant amounts of capital to complete good deals. At the same time prudent decision-making is much more prevalent, so it appears the market is more sustainable than in past M&A boom periods. As I have mentioned in previous newsletters, now is a good time to be a buyer or a seller.

A handwritten signature in black ink, appearing to read 'Steve Jacobs'.

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

## BCC Shares Expertise

BCC shareholder and vice president, **Tom Cavanagh**, shared his expertise at the **2016 Iowa M&A Conference** sponsored by the Faegre Baker Daniels law firm, held in Des Moines. Tom served on a panel of Midwest M&A experts discussing the latest trends in the industry. Attendees representing a variety of professional roles across multiple industries had the opportunity to take away the following key points: Sellers are scarce causing buyers to become more aggressive; about 80 percent of acquisitions nationally are being completed by strategic buyers versus 20 percent by private equity firms; valuation levels have continued to reach new highs within many industry segments; more than \$543 billion in “private equity overhang” or “dry powder” is a contributing driver of high valuations as investors with substantial buying power are looking for deals. All of the panelists agreed that these underlying forces are likely to support a healthy M&A market despite the uncertainty of the upcoming election.



## Our Newest Acquisition

**Linda R. Ross** 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. Linda previously worked for the State of Iowa for 20 years, performing administrative duties and working with a diverse group of clients. She earned her Bachelor's degree in Speech Communication (with an emphasis in Interpersonal Communication) from Iowa State University.

# Quick Response Wins Auction

# Quick Supply Co.

## A/S/P ENTERPRISES

BCC recently advised Iowa-based Quick Supply Co., a regional distributor of erosion control, geosynthetics, landscape pavers, and other site solutions, on its acquisition of a similar business through an auction process. Quick Supply owner John Hale and BCC have developed a strong working relationship over the past decade, beginning with Quick Supply's acquisition of A.S.P. Enterprises in 2006. When a new acquisition opportunity presented itself, John again called upon BCC to assist his company in navigating a complex auction.

David Bowman, majority owner of Denver, Colorado-based Bowman Construction Supply, Inc., utilized a confidential auction with the objective of finding a buyer that would preserve the reputation and legacy of the company he and his father had built over nearly five decades.

With several qualified buyer prospects involved, Quick Supply needed to analyze the business quickly and develop an initial indication of interest that would differentiate itself from the competition.

Quick Supply and BCC immediately began working together to analyze Bowman's business model and financials, submitting a competitive letter of intent that met the strict timing requirements of the auction process. A specific focus was placed on the strength of the sales team, product overlap, expansion opportunities, and distribution agreements – all key aspects in this line of business.

Bowman selected Quick Supply as the most desirable buyer to purchase the company (but not at the highest offer price) and entered into a 90-day exclusivity period allowing for further due diligence, management meetings, and site visits. During this time BCC assisted with a mutually-agreed upon asset purchase agreement that was negotiated with terms that protected Quick Supply's future growth, customer and employee relationships, and distribution rights post-acquisition. There were also last minute adjustments in deal terms regarding key sales personnel changes that needed to be negotiated. The seller did not have confidentiality or non-compete agreements in place with key employees, which could potentially have been a costly drawback.

BCC Advisers and Quick Supply closed the transaction with Bowman Construction Supply at the end of July. Quick Supply succeeded in its goals to expand its reach into the Rocky Mountain region and increase the breadth of its product offerings. According to Mike Hale, Vice President of Quick Supply, **“Using BCC Advisers was essential in fairly evaluating this acquisition opportunity, assisting with negotiations through an auction process, and the timely closing of a transaction that will be beneficial to our growth through expansion of product offerings and geographic footprint.”**

If you desire an experienced M&A adviser with creative problem-solving abilities who offers personalized assistance, please contact BCC Advisers.



## Objectivity Premium

There are a number of challenges facing business owners when selling their company. **One challenge that is often overlooked is maintaining**

**objectivity throughout the sales process.** Like other business transactions there are certain negotiations that can exact a mental toll. The uncertainty of whether the sale process will attract genuine interest from potential acquirers and the unknown price and terms of any future offers that are received can be stressful. Further, due diligence may reveal unanticipated issues with the business which are a concern to the buyer and must be vetted. All this can be a strain on owners who take tremendous pride in the business they have built.

These frustrations can cloud judgment, hampering both daily operations of the business and creating a rockier path to closing a transaction.

**The best defenses are to develop a working knowledge of the sales process and leveraging an experienced advisory team, ideally comprised of legal, accounting and M&A professionals.** Navigating the road to be traveled with others who have already made the trip will not only help manage stress and anxiety, but can result in better outcomes through more focused and objective approaches during points of negotiation. Trusting your deal team and taking a collaborative approach is the best case scenario. Being transparent regarding any known problems or issues of the business is also a smart philosophy. Not only does

this avoid potential difficulties mid-process, it also helps in establishing credibility with the buyer which is critical.



Having a clear sense of desired outcomes in areas beyond enterprise value can help avoid being blindsided during the process. Evaluating sufficient working capital for the business in advance of receiving a buyer's proposal on the matter is prudent. Further, an assessment of market terms regarding indemnifications and representations and warranties can help make this part of the process more efficient. The more educated and prepared a seller is in these matters and other key issues the more a seller can focus on other attributes of a potential acquirer, such as evaluating the strategic partnership fit, cultural cohesiveness and integration capability. Understanding the need to expect the unexpected will serve any business owner well during this important event.

## *on the dotted line*

### Some Recent BCC Advisers Transactions:

Advised a distributor of site solutions and landscaping products on the acquisition of a construction supply distributor.



Prepared a fairness opinion regarding the merger of two financial services companies.



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



Prepared a fair market valuation of a contract manufacturer for conversion to an S corporation for income tax purposes.



Prepared a fair market valuation of an Iowa professional services company to assist in establishing an ESOP.



Advised a Midwest manufacturing company on strategic transition options.

## The Market Front

*Some opportunities available through BCC Advisers:*

**U.S.-based heavy equipment remanufacturer** – is seeking a buyer.

**European designer and manufacturer of advanced electronic controls** – is seeking a buyer.

**Asian manufacturing conglomerate** – is seeking to acquire U.S.-based hydraulic cylinder manufacturers.

**U.S.-based uniform supplier** – is seeking a buyer.

**Asian manufacturer of auto and electronic fasteners** – is seeking a buyer.