BCC ADVISERS

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# Exit Strategies

You know the event is inevitable. One day you will exit your business, either by choice or not. The question is, how will you do it?

There are several options for exiting a business, each with its own pros and cons of which business owners should be aware. Some consist of a complete exit from the business while others allow for continued, but lesser, involvement.

The first step is to establish the goals and objectives that you want to achieve. We advise you to consult with an objective team consisting of your CPA or tax advisor, attorney, and investment banker, along with your trusted management team as appropriate. The proper strategy depends on a variety of factors which include, but are not limited to, liquidity needs, desire to remain involved in the operations, the future of management and employees, family considerations, and current market conditions for both the company and the overall economy.

Once your priorities have been set, an evaluation of the types of exit strategies can begin. Three of the more common strategies are selling to a third party, selling to employees/establishing an ESOP, or recapitalization.

**Selling to a Third Party**

There are a variety of reasons that a third party may look to acquire a business, including geographic or product line expansion, key customer relationships, or reduction of competition. Generally, synergistic parties can justify a higher price for the business and maximize shareholder value. Also, with their industry knowledge, they could be best prepared to operate the business moving forward. Despite this, cultural and operational differences can increase risks related to a transition, so it is important to evaluate these criteria before choosing to move forward with a third-party buyer.

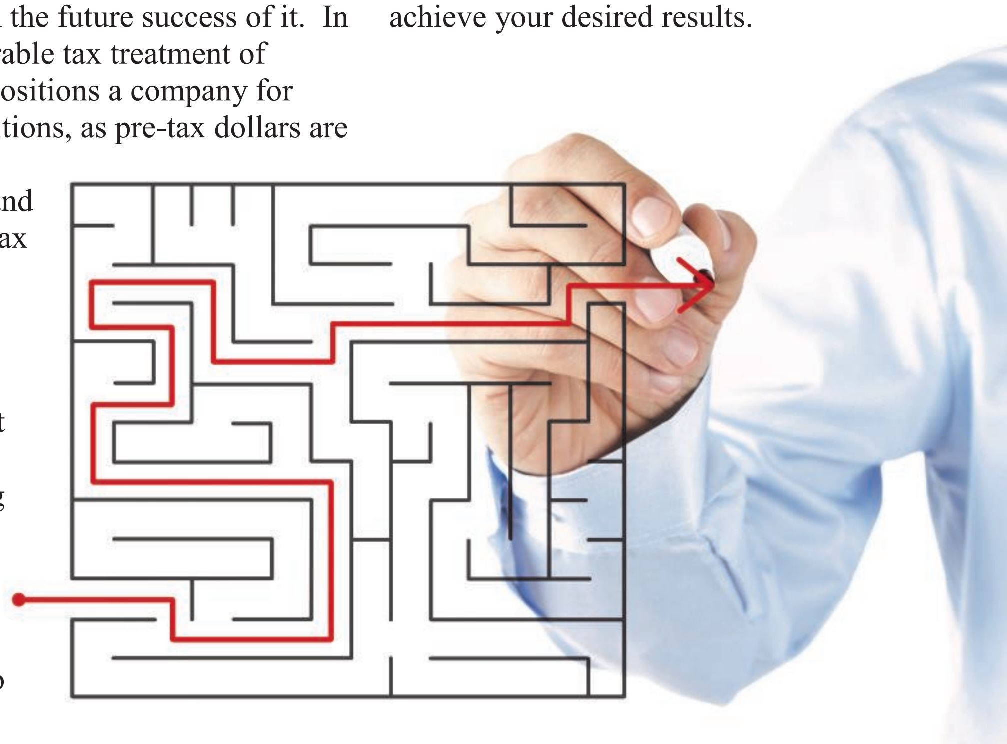
**Selling to Employees/ Establishing an ESOP**

Selling to employees or establishing an ESOP can be a "win-win" strategy. Current employees are already very knowledgeable about the business and usually have a genuine interest in the future success of it. In addition, the favorable tax treatment of ESOPs uniquely positions a company for growth via acquisitions, as pre-tax dollars are used to repay debt and both interest and principal may be tax deductible. Some drawbacks of establishing an ESOP are that the company is sold at fair market value, potentially leaving some money on the table, and liquidity might be realized over time as opposed to immediately as an ESOP is unlikely to be able to fund an all-cash transaction.

**Recapitalization – Majority or Minority**

A partial sale, or recapitalization, allows the owner to monetize a portion of his or her investment while retaining a stake in the future of the business. The new investor can provide capital and resources that may not have been available previously; however, depending on the size of the investment there can be negative consequences. In a majority recap, the new investor gains control and may introduce new operating challenges through leverage. In a minority recap, an owner will likely realize a lower valuation as control does not pass to the investor. Minority interests will receive some protections such as anti-dilutive provisions or right of first refusal.

Exiting a business is an important decision for a business owner, and sometimes the need to exit can present itself when it is least expected. With early planning and assistance from a team of trusted and objective advisors, you can be prepared for and achieve your desired results.



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## business lines

By Steve Jacobs

2014 has been a very active year in business transfer activity. With excess capital, bankers ready to loan money at historic low rates and a fairly strong economy, companies are both actively divesting and acquiring.

In a divestiture, selling to a third party is not always the right answer for shareholders. The importance of the family business to the United States economy continues to grow, and recently family businesses have begun to reverse the trend of being acquired by larger companies.

Family companies are responsible for 60% of the jobs in America and nearly 80% of new jobs created. But according to a recent PWC survey, only 52% of current owners expect that members of the next generation can continue the business on their own. Uncertainty about whether junior family members have the desire and expertise for running a company are leading concerns first generation owners have in a management or ownership succession.

There are multiple issues to consider when the management succession is family.

1) **Establish clear goals and objectives.** Identify and retain a team of professional advisors to assist with this process and ensure objectivity.

2) **Establish decision-making process.** Establish governance process, document plan and communicate to all stakeholders.

3) **Establish succession plan.** Use a professional process to identify and evaluate successors and develop roles for both active and non-active family members.

4) **Create an ownership estate plan.** Review estate plan to minimize taxes and create a fair buy-sell arrangement.

5) **Create a transition plan.** Consider options: outright purchase, gift/bequest, or a combination. If business is to be purchased, consider all financing options and establish a timeline for implementation of the succession plan.

Not every business will survive, primarily due to differing family interests and ability of the next generation to manage and grow the business. Taking time to plan early and utilizing the right team of professional advisors will help ensure continued success and will benefit all stakeholders.

*Excerpt from Forbes – 5 steps to create a vital succession plan for your family business by Michael Evans.*

# BCC Shares Expertise

BCC principal **Steve Jacobs** shared his expertise at the **2014 Iowa M&A Conference** held in Des Moines. Sponsored by Faegre Baker Daniels, this half-day conference delivered timely and practical insights on deal execution from investment bankers, private equity professionals, strategic acquirers, attorneys and accountants from around the Midwest. Steve provided an update on the current state of the M&A market including issues specific to the Iowa market.

BCC principal **Jim Nalley** presented **"Buy-Sell Agreements: The Foundation for Ensuring Business Continuity"** at the **Iowa Association of Business and Industry's Statewide Leaders Meeting** held in Sioux City, Iowa. Jim has had the opportunity to share his expertise on several occasions with business leaders from across Iowa, meeting to discuss unique business and education partnerships.

Tom Cavanagh, transaction adviser, spoke on the **current M&A climate** and gave brief pointers on **how to maximize company value and deal structure** at the **Iowa Association of Business and Industry's Advanced Manufacturing Conference**. Held in Ankeny, this conference allowed manufacturers to explore how to be successful in a time of unprecedented political uncertainly facing a host of challenges from expanded global commerce to ever-changing government regulations, all while the industry is experiencing an exciting era of innovation.

# Seizing a Quick, Complex Opportunity

Chamness Technology, Inc.

When a large publicly-traded company decided to quit funding and divest of an investment in a new start-up technology for manufacturing of compostable products, the opportunity to acquire this business was short. Through various industry contacts, BCC client Chamness Technology, Inc. (Chamness), a provider of non-hazardous waste management and recycling services, was presented with just such an opportunity this summer. The business in question was Biosphere Industries, an innovative producer of highly compostable dinnerware, containers, and a wide range of other products.

The product fit appeared evident due to our client's presence in the composting industry. The challenge was that if a transaction was going to be completed, it needed to be consummated on an extremely accelerated time frame as the parent company had frozen funding of the operations. The due diligence process had to include an evaluation of the economics of projected product production and status of intellectual property, negotiation of the price and terms with a multi-billion dollar public company, and establishing trusting relationships with key employees. To add complication, the deal required unanimous approval of three shareholder groups, one which was based internationally.

*"With a shortage of time and many complicated issues, employing a team of advisors I could rely upon was essential. On the surface the acquisition looked like a perfect fit, but as everyone knows the devil is in the details. BCC and the rest of the team were invaluable in evaluating and negotiating those details."*

*-Gary Chamness, owner*

Chamness owners knew this was a lot to navigate so they wisely employed a team of advisers, including BCC, to assist in the evaluation and negotiation of the transaction.

In the world of complex M&A transactions, and especially with turnaround situations, it is common for a deal to "die" multiple times before it is ultimately completed. That would be an understatement on the Chamness acquisition of Biosphere. Each day brought added challenges but with the assistance of BCC and other advisory team members, Chamness was able to overcome all hurdles and finalize a desirable transaction late this summer. Mr. Chamness added -

*"This is an extremely exciting new venture not only for us, but for the whole industry. The ability to work through the many obstacles presented to us in accomplishing this acquisition is a testament to BCC's innovative leadership and the guidance of my advisory team as a whole."*

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# Precision Ag

Social media. Smart phones. Tablet computers. These are probably some of the first things that come to mind when you think of recent technological innovations or trends. Would it surprise you to know that an area of increasing focus for technology companies is the agriculture industry?

According to the Food and Agriculture Organization of the United Nations (FAO), the number of people living on our planet will increase to 9.1 billion by the year 2050, and food production will need to increase by 70% in order to feed a higher, more urban population. This production increase must come from a finite level of resources. The only way to accomplish it is through the use of precision agriculture, which essentially means "producing more with less."

The agriculture industry is undergoing an exciting transformation that is making use of new technologies and systems to increase yields and lower costs for farmers while reducing the environmental impact of farming. This revolution stands to bring what many people view as a staid economic sector into the twenty-first century through the use of "big data," and the U.S. is at the center of it all. New products that incorporate GPS, field-level data, seed genetics, variable rate farm equipment and other technologies are helping eliminate waste during planting and chemical application while improving yields and driving higher net profit per acre.

This trend hasn't gone unnoticed. According to research firm MarketsandMarkets, the precision agriculture market in the U.S. is expected to reach $3.0 to $3.5 billion by 2018, nearly double 2013 levels. Interest is widespread with a mix of both financial and strategic investors. For example, Monsanto has purchased three companies in the past three years: Precision Planting, Inc. for $210 million, Climate Corporation for $930 million, and the soil analysis division of Solum, Inc. (terms not disclosed). In conjunction with the sale of its soil analysis division, Solum was renamed Granular and raised $4.2 million in financing from prominent venture capital firms Andreessen Horowitz, Google Ventures, and Khosla Ventures. These investments reinforce the promising future on the horizon for precision agriculture companies as new innovations combat the looming deficiency in food production.

If you'd like to better understand the current dynamics in agri-business and how the abundance of capital can help companies grow, acquire other businesses or sell all or a portion of their operations, BCC Advisers can help. With over 20 years of transaction experience and expertise covering the entire U.S. food supply chain – producer to consumer – BCC Advisers is a valuable partner for agribusiness owners in search of maximizing shareholder value.

## on the dotted line

### Some Recent BCC Advisers Transactions:

Advised a Midwest truck and equipment dealership on a sale to a Midwest truck retailer, parts and service center.

Advised a provider of non-hazardous waste management and recycling services on the purchase of a producer of highly compostable dinnerware, containers, and other products.

Provided valuation consulting to a software provider for possible ownership transition options.

Prepared a fair market valuation of a national agriculture company for estate planning purposes.

Prepared a fairness opinion regarding the purchase of shares of a Midwest construction company by an ESOP.

Prepared a fair value purchase price allocation of a farm services company for financial statement reporting purposes.

## The Market Front

*Some opportunities available through BCC Advisers:*

**U.S. tillage equipment manufacturer** - *is seeking buyer*

**U.S. precision farming sensory and software company** - *is seeking a buyer*

**U.S. branded frozen foods producer** - *is seeking to acquire the same.*

**U.S. ethanol production company** - *is seeking to acquire U.S. ethanol plants with production capacities up to 55 million gallons per year.*