BCC ADVISERS

baton

Business Transfer & Valuation Information VOLUME 12, ISSUE 1, 2015

M&A Trend: Cross Border

Whether it is the potential bond default and election results in Greece, a country smaller in size than the state of Iowa, or conflicts between Russia and Ukraine, it is hard to deny the fact that the global economy is more interconnected than at any other point in history. This has led companies, both large and small, to expand their horizons in search of growth.

The following data provided by Thomson Reuters and Mergermarket shows the strength in cross-border M&A activity:

- Deal value rose 78% in 2014 to $1.3 trillion, marking the highest level since 2007
- Approximately 37% of total 2014 M&A volume worldwide consisted of cross-border transactions, driven in part by several large deals
- Middle-market companies are also participating in this trend as a recent survey of industry executives discovered that 96% expect North American cross-border activity to rise over the next 12 months

BCC partners in the Alliance of International Corporate Advisors (AICA) confirmed the increase in cross-border activity. AICA is an integrated global network of middle-market M&A advisors that has grown to include 40 member firms in 32 countries across 6 continents, covering both developed and emerging markets. These firms are carefully selected based on reputation, relationships, knowledge of local markets, and proven track record.

Simon Davies of Spectrum Corporate Finance Limited, BCC's AICA partner in the U.K., states, ***"We are seeing a steady increase in corporate transactions in all sectors with buyer interest from across Europe and the U.S. Approximately half of our disposals are going to overseas buyers at present, with North American buyers representing a good proportion of that mix. In the U.K., health care, business services, and IT/software remain strong. We worked with BCC at the start of the year to arrange a meeting in London with a Nebraska-based company looking to make acquisitions in the U.K., and this follows a general theme of more U.S.-focused activity in the U.K."***

The U.S. dollar has strengthened approximately 25% relative to the Euro over the past year. This stronger currency has opened up opportunities for U.S. companies to purchase attractive international assets that may have been too expensive not long ago.

China and Brazil have also been active countries for M&A.

According to PwC, the M&A market in Brazil reached an all-time high in 2014 with 879 announced transactions, more than 8% above 2013 levels. Per our colleague and AICA member in Brazil, Peter Wilson of Managrow, ***"Declines in the Brazilian real and asset prices have driven demand from foreign investors and should lead to further activity throughout 2015. Consumer goods, energy and technology have been particularly active verticals as companies seek geographic expansion and efficiencies."*** However, recent corruption scandals and an uncertain political and economic landscape could serve as headwinds in 2015.

In China, PwC notes that outbound deals rose over 30% to 272 transactions in 2014. Janet So of Trinergy M&A Advisory, AICA member and BCC's Chinese colleague, shared that China was the largest recipient of foreign direct investment in 2014, and outbound M&A activity in the private sector is growing considerably, especially with North America. Strong stock markets in China have given companies a valuable currency with which to pay for quality deals. One major area of interest for China has been agriculture as a growing population, and particularly the middle class, has increased the need for food production. In addition, both inbound and outbound interest has been strong in technology, real estate, energy/resources, and financial services.

Overall, the upward trend of cross-border activity doesn't appear to be slowing in the near term. Our AICA partners around the globe provide international reach with local presence and expertise, a tremendous value to BCC clients looking to expand abroad or those whose businesses might draw interest from foreign buyers.

in this issue

business lines

By Steve Jacobs

There have been recent articles in the Baton on exit strategies, and in the current market dynamic buying and selling opportunities are still accelerating. Recently we received a call from a valuation client in the distribution industry asking us what the shareholders should do about transition planning given declining sales and really tough competition. The situation is one that happens all too often in business; one partner (or a spouse) that co-founded the company leaves and the other owner is left trying to deal with all aspects of the operation. In this case the owner lost a partner five years ago, and sales/profits have declined every year since. The company is owned by the surviving shareholder and an ESOP so there are some additional complexities to any transaction discussion.

Does this sound familiar? The owner has been approached multiple times by one or more competitors, but is not sure what to do. So our client called BCC to discuss the upcoming ESOP valuation and had some questions about possibly selling the business in the future. Thoughts included talking to competitors that had been calling about acquiring, waiting a couple of years until sales/profits increase, or determine if it was feasible for the ESOP to buy out the other shareholder.

After reviewing the three options presented, we suggested the owner determine if their bank would fund a purchase by the ESOP, then consider preparing to discuss a sale process. The option of waiting until sales/profits increased was not particularly viable as no specific growth plan was ready to implement. We also indicated having a candid discussion about possible strategies with the corporate attorney would be beneficial.

As part of our discussions we asked the owner three questions:

- Are you prepared to sell the company from a documentation standpoint (are all of your contracts and agreements with employees/customers/suppliers up-to-date)?
- As a distributor, have you assessed your inventory carefully (buyers generally are not too excited about buying inventory that has not turned in the last 90-180 days)?
- Are you ready to make the decision to sell?

The owner wisely met with their trusted corporate counsel and decided, given the age of the management team and owner and the recent declining operating results, selling the remaining shares to the ESOP was probably not a viable option. An important attribute of this transition, a consideration of most owners, is how long-term employees are treated in a sale. Our client has decided to move ahead with a sale, and fully recognizes the value of engaging an experienced investment banker to help achieve both corporate and personal goals.

New Shareholders

Just as we encourage our clients to do, BCC Advisers continually evaluates the succession goals and objectives of our firm as we grow and look toward the future. As experts in helping business owners transition their business, BCC is on board to practice what we preach. As part of our long-term succession planning efforts, we are pleased to announce the addition of three new shareholders.

Tom Cavanagh

Jennifer Julander

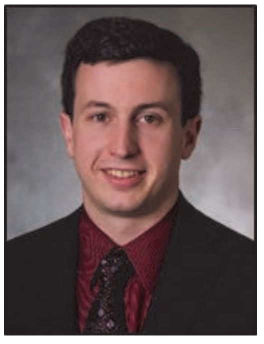
Lindy Ireland

Tom Cavanagh is Director of M&A for BCC's investment banking team. Tom assists business owners and managers in identifying and accomplishing their business transfer goals, as well as manages BCC's collaboration with international colleagues on global assignments.

Jennifer Julander, ASA, a Director in BCC's business valuation division, specializes in the appraisal of closely-held businesses and professional practices in a variety of industries for a variety of purposes. She also provides litigation support analyses to attorneys and their clients.

Lindy Ireland, a Director in BCC's business valuation division, specializes in business valuation consulting, including analyses of business interests and intangible assets. With additional expertise working with ESOP companies, she is a frequent speaker at professional conferences and forums.

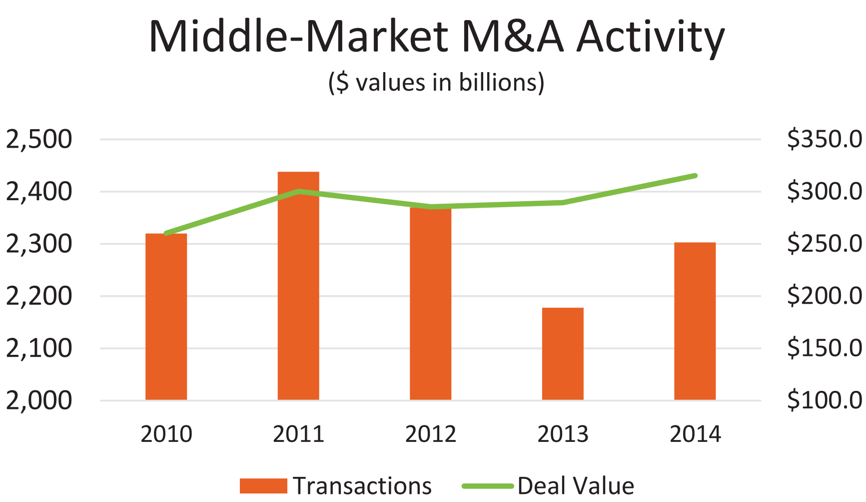
BCC's affiliate, **Iowa Appraisal and Research Corporation**, is pleased to announce that Vice President **Dan Dvorak, MAI**, has been named an owner. Dan provides real estate appraisals, specializing in commercial and agricultural properties.



Dan Dvorak

M&A Review & Outlook

Looking back on 2014, the M&A market remained healthy and strong, reaching levels not seen since 2007. According to *Mergers & Acquisitions*, an industry publication, total reported middle-market deal value rose above $315 billion across more than 2,300 transactions. Both of these figures were stronger than 2013 during which 2,178 transactions were reported for total deal value of approximately $290 billion.



Source: Mergers & Acquisitions (February 2015)

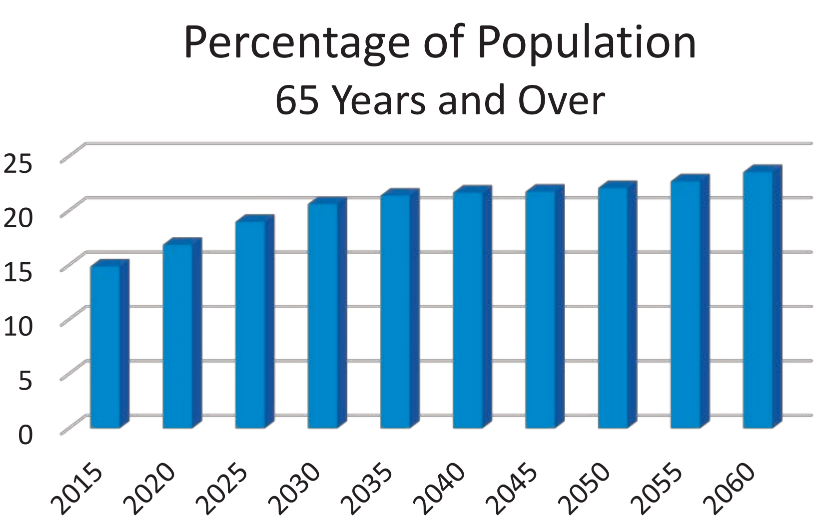
As we move into 2015, the question is if the strength will continue and for how long. Many signs indicate positive momentum for at least the foreseeable future. Surveys of middle-market management teams and industry professionals by Mergermarket largely show a need for transition planning and optimism in regard to activity levels in 2015.

With the economy's slow pace of recovery from the financial crisis, it remains a difficult environment for driving strong organic growth. This, in addition to companies carrying large cash balances that yield very little in the current interest rate environment, makes accretive and quality acquisitions attractive. Non-financial companies in the S&P 500 had cash holdings of nearly $1.4 trillion at the end of the third quarter of 2014, according to FactSet, and they are looking to deploy that capital. BCC President Steve Jacobs confirmed, **"This observation is consistent with companies we are working with. We have seen a significant increase in middle -market companies that have built up a bit of a "war chest" and are now actively looking to make acquisitions in order to supplement organic growth, while expanding their customer base, product or service offering, and geography."**

Another positive attribute to the M&A market is the aging Baby Boomer generation. The percentage of the population age 65 and over is expected to increase from below 15% this year to over 20% by 2030, according to the U.S. Census Bureau. Adds Jacobs, **"as an increasing number of Baby Boomers reach retirement age, they will need some sort of transition plan for their businesses. This will naturally lead to increased deal volume and should remain a contributing factor for a number of years, as the bulk of the generation is still participating in the workforce."**

Despite the positive outlook, potential headwinds could temper the markets. An increase in interest rates could depress appetites for debt funding. Economists are predicting a rate hike by the Fed in mid- to late-2015 given improving labor markets; however, continued core inflation readings below 2% are not supportive of substantially higher rates at this point. Even in the event of a small increase, rates would still remain attractive relative to historical levels. Also, heightened competition for quality deals has driven valuation multiples higher, reducing returns on these investments while increasing seller expectations. If this trend continues, it could price some potential acquirers out of the market. Lastly, there are always unforeseen geopolitical risks that have the potential to impact confidence in the market which would reduce activity. As was discussed in the front page article of this newsletter, these events could be either domestic or foreign in nature.

All things considered, the strength the M&A market experienced in 2014 is likely to carry over into 2015 and potentially longer, given the availability of capital and demographic trends of business owners.



Source: U.S. Census Bureau

BCC ADVISERS
www.bccadvisers.com

ALLIANCE OF INTERNATIONAL CORPORATE ADVISORS
www.aoica.org

1707 High Street
Des Moines, IA 50309-3313

Manufacturing M&A

Manufacturing plays a vital role in the domestic economy. This is especially true in the Midwest, a region full of niche manufacturers with access to an educated workforce that has a strong work ethic and attractive labor costs. As overall M&A activity and interest in Midwest manufacturing companies increase, business owners should understand what is motivating buyers and what can affect the value of their operations as they consider their succession planning options.

There is a wealth of data that continues to support a robust M&A market in 2015 and manufacturing companies remain an area of strong interest.

Recent figures from Thomson Reuters show that the number of deals in the industrial manufacturing sector increased approximately 3% globally in 2014. However, activity within North America was much stronger with transactions increasing by nearly 20% and total deal value more than doubling. Also, multiples for manufacturing companies have trended upwards, rising from 5.8x EBITDA in 2012 to 6.1x in 2014, according to figures from GF Data.

Part of the increased interest in manufacturing is attributed to what is called "reshoring," or bringing jobs back to the U.S. from overseas, as the benefits of manufacturing internationally have diminished due to increasing wages and quality control issues. According to the Reshoring Initiative Library, 70 companies have brought manufacturing back to the Midwest, more than any other region in the country. Further, some companies are looking to acquisitions to supplement slower organic growth, diversify their customer base, add product lines or increase capacity.

It is important to keep in mind what buyers may look for in a manufacturing business other than its financial performance. **One key item is customer concentration.** High customer concentration can lead to a lower valuation or the buyer passing on the opportunity all together, given the increased risk if a large customer is lost. However, a customer of strategic importance to the buyer could have the opposite effect. **Another issue buyers evaluate is the amount of capital expenditures that are necessary to grow or maintain the business.** Equipment that is old or in poor repair, or the need for new technology or a larger facility, detracts from the value of a business due to the future expenditures that will be incurred. **Other important considerations to a buyer include a strong management team, patents, and quality employees.**

As you contemplate your succession planning goals, remember to think about the qualitative aspects of your business in addition to the quantitative. Many times, these aspects can affect the decision making of interested parties just as much as sales and profitability trends. Awareness of potential issues, early planning, and housekeeping measures can allow you to generate the most value out of your business.

on the dotted line

Some Recent BCC Advisers Transactions:

Prepared a fairness opinion regarding the sale of an agriculture company.

Prepared a value calculation of a Midwest manufacturer for purposes of establishing a buy-sell agreement.

Prepared a fair value purchase price allocation of an international food manufacturer for financial statement reporting purposes.

Prepared a fair market valuation of a Midwest manufacturing company to assist in establishing an ESOP.

The Market Front

Some opportunities available through BCC Advisers:

U.S. automotive parts distributor - *is seeking a buyer.*

Chinese diversified agriculture company - *is seeking to acquire U.S. meat processing businesses.*

U.S. food products distributor - *is seeking to acquire a branded food products company.*

U.K. uniform supplier - *is seeking a buyer.*