



How many buyers to approach?

When you determine it's time to transition out of your business and sell your company, a key decision to make is how many potential buyers to contact. If you knew the buyer that would pay you the most, agree to the best terms and conditions, have great rapport with you and move forward timely, the decision would be easy. Unfortunately, this is not usually the case. Although working with just one buyer could be the right approach for you, achieving your objectives and maximizing the value of your business may (and often does) require contacting multiple parties.

When advising business owners, BCC Advisers typically discusses three different selling approaches: a focused sales process with only one potential buyer, a restrictive sales process with a handful of prospective buyers, and a controlled auction in which a larger number of prospective buyers are targeted. Each of these approaches brings with it different challenges and benefits.



At a high level, here are some of the pros and cons of each option.

FOCUSED SALES PROCESS:

- Greatest confidentiality and least distracting for the Company and its employees due to limiting shared confidential information to just one company.
- Can be the quickest method to complete a transaction, if the prospective buyer is motivated and proceeds timely.
- Greater risk of not achieving maximum value, and no way of knowing if you received maximum value since only one buyer is approached.

RESTRICTIVE SALES PROCESS:

- Less confidentiality than dealing with one buyer, but more than in a wider reaching auction process.
- Possibility of overlooking qualified buyers.
- Greater certainty of achieving optimal price, as competition among buyers will drive valuation.

CONTROLLED AUCTION:

- Least confidential process as it involves the most prospective buyers evaluating the business.
- If attempted internally, there is a significant time commitment to research potential buyers, prepare business information, and potentially handle multiple negotiations later in the process.

- Best process to maximize shareholder value as it creates the greatest level of competition.

In each approach, it is important to market using blind profiles (teasers), and include a “non-solicitation of employees” clause in confidentiality agreements to help preserve discretion throughout the process.

Our clients’ objectives and the specifics of each transaction ultimately determine the appropriate strategy when taking a company to market.

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By Steve Jacobs

At the Iowa Association of Business and Industry's 2015 Annual Conference in June, I moderated a panel of business owners who had each taken a different approach to transitioning their companies to new owners. The individuals on the panel had evaluated their options to sell to management, family members, ESOPs, financial buyers (private equity), and strategic buyers. While the circumstances of their transition, ownership objectives, and management depth were each different,

there was a common theme between these successful transitions... planning.

Before they needed to sell, these business owners spent time evaluating the pros and cons of each transition option. Both written and verbal plans were used to create a roadmap for positive

transitions. Advisors were hired to bring experience and an outside perspective. Each of the three business owners were seeking a transition of their ownership and a financial return, but also had another objective that may have been more important: ...one was to provide incentive for employees to continue to build and grow the business, one was to continue a family legacy, and one was to find a partner with financial resources and growth strategies to take the business "to the next level."

In our experience, the amount of forward looking and strategy development these three owners conducted was somewhat unique. But if you heard the success of their stories, you would ask yourself why anyone would manage things differently. Though objectives and circumstances vary, the approach can be replicated for nearly all business owners from early discussions with advisors, and evaluating the strength of your management team, to proper planning, including getting all of your business's affairs in order.

Our Newest Acquisition

Nelson Jerabek joined BCC's real estate appraisal affiliate, Iowa Appraisal and Research Corporation, as a real estate appraiser after earning a bachelor's degree in business finance and real estate from the University of Northern Iowa. Nelson's previous work experience includes analysis of income producing properties, due diligence, and reviewing and conducting property inspections.



Nelson Jerabek

BCC Shares Expertise



BCC President **Steve Jacobs** moderated a panel of business owners discussing business transition options at the **2015 Iowa Association of Business and Industry's Annual Conference** held in Davenport, Iowa in June.

BCC Director **Lindy Ireland** presented "Valuation – You're on the Hook," discussing the valuation of private company stock for gifting and estates, to the **Iowa Academy of Trust and Estate Counsel** in Des Moines. Lindy also gave a presentation to Iowa bank CEOs at the **BEST Peer Group**, speaking on valuations as they apply to banks.



SMART Relationships

It was nearly a decade ago when BCC Advisers represented the owner of Shaver Manufacturing, a manufacturer of skid steer attachments in Graettinger, Iowa, in the sale of his company to HCC, Inc., an agricultural equipment manufacturer based in Mendota, Illinois. BCC remained in contact with HCC over the years. When HCC decided to divest of its SMART-TILL division, they called on us to manage the process and find an attractive buyer.

While HCC's core business focuses on supplying agricultural OEM customers, SMART-TILL's main product line is tillage equipment sold through dealerships, making it a bit of an orphan division at HCC. Though HCC believed in the technology, they felt this division would be better served with someone producing complimentary equipment sold through a similar distribution network.

"We asked BCC to find a buyer for the SMART-TILL division who not only valued the business we built, but who would also take care of our customers going forward and make an investment to realize the full potential of this technology and the brand," said HCC's Executive VP Don Bickel. "They were able to negotiate a successful transaction on all those fronts, and we fully believe SMART-TILL is in good hands under the new ownership of T.G. Schmeiser."

TGS is a manufacturer of soil management equipment, including tillage equipment, levelers and plows.

The Selma, California-based company has a

strong dealership network, particularly in the Western U.S. where they see significant potential for SMART-TILL equipment.

Andrew Cummings, president of TGS, commented, "We are excited about the opportunity to build and grow the SMART-TILL line, utilizing our strong relationships in geographies with soil conditions for which this technology is well suited."

Maintaining an excellent reputation and building and retaining long-term relationships have always been integral components of BCC's business philosophy. This philosophy has been beneficial for us and our clients. We had the privilege to grow a relationship with a buyer of one of our client's companies from nearly a decade ago, creating an opportunity to assist a highly successful company in refocusing resources on their core business through this divestiture.



Real Estate in M&A

Depending on the type and size of a business, the associated real estate can represent a significant portion of total proceeds received when a business is sold. When structuring the terms of a business sale, there are several considerations related to how to handle the real estate, whether selling to the buyer, leasing to the buyer (often with a purchase option), or selling to an unrelated third party.



Dan Dvorak, Vice President of Iowa Appraisal and Research Corporation (a BCC-affiliated company), sees the current real estate market as strong. He states, “With interest rates remaining low and real estate values at higher levels, this is an attractive time to sell real estate in conjunction with transitioning the ownership of your company.”

While selling will provide higher proceeds at the time of closing, leasing will allow continued ownership of the building while generating income over time, which may be more tax efficient. The most common type of lease, “Triple Net,” provides that the lessee is responsible for taxes, insurance and maintenance costs. But there are several types of leases, so you’ll want to

understand all the options before you choose.

Whether selling or leasing the real estate, you’ll want to factor in the structure’s impact on reported earnings. Often we see real estate owned outside of the business by the owner(s) personally or through an LLC. If you are including the building as part of the sale price of the business, but have been showing rent expense on the Company’s income statement, adding this expense back to earnings should be evaluated. This can ultimately have a positive impact on the overall valuation of the business.

When preparing to sell your business, discuss with your advisors the pros and cons of selling versus leasing real estate so you know what flexibility, if any, you have when negotiating with potential buyers of your business. This will also help determine which potential buyers will be the best fit. Our affiliate, Iowa Appraisal and Research Corporation, a commercial and farm real estate appraisal firm serving clients for over 50 years, provides BCC in-house expertise on these issues, giving us a unique advantage in helping business owners with these deliberations.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised an Iowa provider of electronic catalog software and services on sale to Midwest software tool provider.



Advised a tillage equipment manufacturer on sale to a manufacturer of soil management equipment.



Advised an Iowa food service company on a shareholder buyout transaction.



Prepared a fair market valuation of a Midwest contractor for purposes of merging with another company.



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



Prepared a fair market valuation of an international manufacturing company for estate planning purposes.

The Market Front

Some opportunities available through BCC Advisers:

Agricultural Equipment Manufacturer - *is seeking to acquire a manufacturer of fertilizer spreaders, hay rakes and/or tillage box equipment.*

Pharmacy Software Company - *is seeking a buyer.*

Distributor of erosion control and geotextile products - *is seeking to acquire the same.*

Farrow-to-finish hog producer - *is seeking a buyer.*