BCC ADVISERS

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Avoiding Deal Fatigue

Anyone that tells you an M&A process is quick, simple and/or pain free either knows something the rest of us don't, or is failing to be truthful. Even a successfully run M&A process typically takes six-plus months to complete from beginning to end, allowing for appropriate time committed to preparing marketing materials (for the sellers), contacting and negotiating with multiple prospective buyers or sellers, completing responsible due diligence, and finalizing purchase agreement documents. While the severity differs among transactions, nearly all M&A processes encounter some level of "deal fatigue," or the frustrated feeling that arises when negotiations with a buyer or seller drag on for an extended period of time. What causes deal fatigue, what are its effects on a deal, and how can it be avoided, minimized or dealt with when it does occur?

Causes

Despite best efforts by both sides to avoid it, deal fatigue can arise for any number of reasons including:

- Complex deal structures requiring significant due diligence and time spent with advisors
- Prolonged negotiations due to inexperienced buyers or sellers
- Result of negotiating tactics used by the buyer or seller to get concessions from the other side
- Continued renegotiations of price or other terms
- Too many parties involved
- Lack of availability of complete and accurate information, particularly as it relates to the due diligence process
- Changing business conditions during negotiations, including gaining or losing new customers, having key employees leave, or missing (high or low) forecasts
- Indecisive parties
- Either party getting tied up in day-to-day obligations of their own business

As you can see, the causes can be intentional by either party, or circumstances that cannot easily be controlled, such as the inexperience of buyers or sellers.

Effects

There are two primary effects deal fatigue can have on a transaction. First, the buyer or the seller, in the interest of moving the process along, might agree to less attractive terms than originally planned. For example, this could mean a lower price or less cash upon closing for the seller, or a lower indemnification cap for the buyer. Second, the deal could end up falling apart entirely if the two sides can't come to agreement on any sticking points. Deal fatigue can cause either side to "dig in" on minor issues that would otherwise be points of compromise.

How to Avoid

Nobody wants deal fatigue to set in, so how can you avoid or at least minimize it? To start, both sides should in good faith work towards specific deadlines, but be prepared for the process to take longer than expected. In many cases there are hiccups along the way that are difficult to avoid, leading to missed deadlines. It is important to establish what is most important to everyone involved when negotiating the transaction. This will prevent getting hung up on negotiating minor details as well as set expectations for specific terms each party deems more negotiable than others. Proactively meet with your advisors about anticipated issues. Understand who will be a part of your deal team and ensure they are committed to the task at hand. Taking these steps will greatly reduce or eliminate the chances of deal fatigue setting in.

in this issue

business lines

By Steve Jacobs

The first-in-the-nation Iowa caucuses are behind us, and what a spectacle it was. It is so much easier to focus on the success of our businesses rather than the daunting task of bringing our great nation together. Democracy is messy, but I have to trust and pray we will make the right choice for our next Commander in Chief!

As we review the status of our New Year's resolutions and reflect on the future, business activity is very healthy. Company valuations remain strong, the economy, except for commodities, continues its slow growth path, capital and debt remain readily available for quality opportunities, and transaction activity is strong. Momentum into 2016 and beyond continues to build as more and more middle market company owners begin to seriously evaluate exit strategies.

Here is a prediction for the next year. The following industry sectors are expected to thrive in the current environment:

1) The technology industry including SaaS, data analytics, and IT staffing companies,
2) Healthcare companies due to consolidation driven by the healthcare industry coming to grips with the Affordable Care Act, and
3) Manufacturing, especially the medical equipment and machinery and equipment segments.

Overall M&A activity (both buy-side and sell-side) should be robust in the next several years due to age demographics and the other favorable attributes mentioned. International buyers will continue to actively evaluate and acquire opportunities in the U.S., as well.

Please let us know if you would like to discuss possible transition strategies and global connections with our team of experts.

Our Newest Acquisition

Benjamin M. Spadt has joined BCC Advisers as a financial analyst in the business valuation and litigation support practice of the firm, performing valuation analyses and providing litigation support services to attorneys and their clients. He earned his bachelor's degree in Business Administration with a concentration in Accounting from The University of Nebraska at Omaha, and is working towards becoming a Certified Public Accountant.

Rolling into New Markets

BCC Advisers client, Country Maid, Inc., knows the challenges of developing quality, branded food products that customers crave. After starting their business in a garage in 1991 in West Bend, Iowa, continuous investments in recipes, ingredients, people, process, equipment, and facilities have made them the leader in production of high-quality, frozen dough products that include Butter Braid pastries, Butter Braid rolls, and cookie dough. In 2003, Country Maid transitioned to 100% employee ownership, providing an exit opportunity for the original founders who remain actively involved on Country Maid's Board.

With an existing focus in the fundraising market, Country Maid's management team understood their best options for significant growth would be to pursue customers in others channels such as grocery stores, restaurants, and food service. They also understood that developing products and growing organically in new customer channels is extremely difficult, even with improved facilities from their early days of producing products in a garage. With that in mind, Country Maid turned to BCC Advisers for their expertise in advising companies on growth through an acquisition.

"We had a general sense of where we might want to look, but our acquisition target criteria was quite broad," said Country Maid CEO Darin Massner. **"We engaged BCC to consult with us on refining that criteria so we would more effectively target those companies that better fit our size, geography, customer focus, product type, management team, and culture objectives.** BCC then identified and contacted prospective acquisition targets on our behalf, ultimately finding us a unique opportunity to acquire a business that had a similar story to ours, but with enough key differences to make the mutual fit attractive to both parties."

Though Dutch Country Apple Dumplings, Inc. has the words "apple dumplings" in its name, it is known for its cake rolls, more specifically its pumpkin cake rolls. Operating out of Orrville, Ohio and selling products primarily to grocery store chains, Dutch Country similarly took delicious, family-developed recipes, invested countless hours of hard work, and created decades of business success. However, the ever-approaching need for investment in automation and a new building, combined with the company's president nearing retirement, made selling to Country Maid a win-win. Country Maid will continue operations in Orrville for now, with a long-term goal of moving operations to West Bend with the goal of retaining the high quality nature of the products.

Country Maid COO Jim Schonert explained, "The further we dug into Dutch Country's business, the more we realized it had a very similar story to our own. It was a really good fit for both sides, and we will certainly do our best to be good stewards for both businesses going forward. Though there were definitely times when a successful transaction seemed uncertain, BCC's experience, patience, and expert guidance throughout enabled us to navigate the challenges, complete the transaction, and begin the next chapter in our story."

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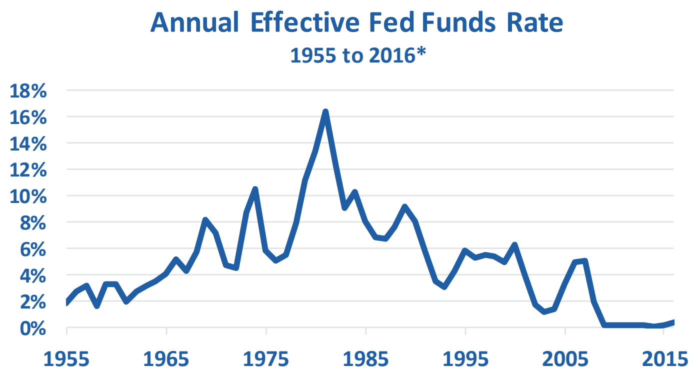
How Will Interest Rates Affect M&A Activity?

Last year was one for the record books for global merger and acquisition activity. According to Dealogic, over $5 trillion of deal volume was announced during the year, breaking the previous record of $4.6 trillion set in 2007. Not only was 2015 a record year for M&A, it marked the end of the Federal Reserve's zero interest rate policy. On December 16, the Federal Open Market Committee raised its target federal funds rate by a quarter point to a range of 0.25 to 0.50 percent. This marked the first increase in nearly a decade and served as a small vote of confidence that the economy continues to gradually improve.



**Rate projection for 2016 is represented by the middle of the current Fed target range. Source: Federal Reserve*

So, how do we think this increase in rate will impact M&A in 2016? Will it significantly stall activity? We believe not.

The chart above shows that interest rates remain extremely low relative to historical levels, so the slight increase made by the Fed should not have a large impact on financing, especially since the Fed plans to raise rates gradually.

On a $20 million acquisition, utilizing a mix of 50% senior debt at 5.1%* and 50% cash to fund the transaction, an increase in the cost of debt of 25 basis points would result in paying approximately $70,000 more in interest over a five-year term. This represents less than 0.4% of the total deal size and should not sway a buyer's decision if it is truly an attractive opportunity.

That being said, the recent rate hike should not be disregarded entirely. Many times financial markets tend to move in anticipation of events instead of waiting for them to happen. Currently, the market is of the opinion that further rate hikes, if they occur, will be gradual and be accompanied by a strengthening economy. If this expectation proves to be wrong and interest rates rise faster than expected, or without a strengthening economy, the market could see deal multiples contract and activity slow.

** Rate estimate from GF Data Leverage Report - November 2015.*

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a producer of laminated dough pastries on the purchase of a cake roll, dumplings and crisps producer.

Advised a Central Iowa temporary staffing company on a sale to a diversified business services firm.

Prepared a fair market valuation of a technology company for purposes of a buy-sell agreement.

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

Prepared a fair market valuation of an Iowa bank to assist in establishing an ESOP.

Prepared a fair value purchase price allocation of an Iowa manufacturing company for financial statement reporting purposes.

The Market Front

Some opportunities available through BCC Advisers:

Asian industrial company – *is seeking to acquire U.S.-based aviation component manufacturers.*

Advertising services company – *is seeking a buyer.*

Automotive parts rebuilder – *is seeking a buyer.*

Building products manufacturer – *is seeking a buyer.*

South American office product manufacturer and retailer – *is seeking a buyer.*