BCC ADVISERS

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Business Transfer & Valuation Information

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Minimize Business Risks for Higher Valuation

When buyers value a potential acquisition target, they most often look at projected future cash flows and discount them based on the likelihood of achieving those levels of earnings to develop a present value. Put another way, they discount the projections based upon perceived risk, with riskier cash flows being discounted at a higher rate. The discount rate accounts for risk factors that business owners cannot control, such as general economic and industry risks or changes in Treasury rates. However, many risk factors directly attributed to the business are assessed and included in the discount rate through what is called *specific risk*. Many of these factors are well within the control of the business owner.

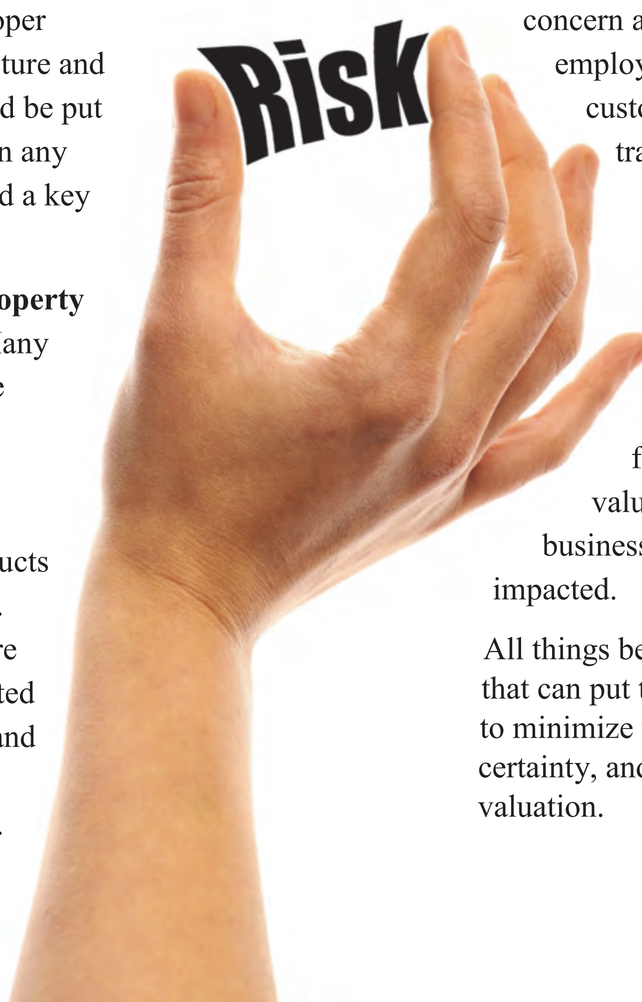
Customer Concentration – Having a few customers (or just one) make up a significant portion of your sales will increase the riskiness of earnings, as the loss of any of these could have a significant impact on your business (although this doesn't mean you should turn away additional business from these customers). Your best bet is to do anything you can to solidify your relationship, including updating customer contracts and/or spreading the relationship to other members of your team so it doesn't all lie with you. Ideally, you would acquire new customers which will diversify your client base and help reduce your company's risk profile in this area.

Management Depth – Actively preparing current employees to be future leaders is an important aspect of reducing business risk. If an executive leaves, whether voluntarily or involuntarily, your company could suffer if no one is capable of filling their role. A potential acquirer may or may not have the internal resources to fill this gap. At a minimum, proper leadership structure and processes should be put in place to aid in any transition should a key person depart.

Intellectual Property Protection – Many companies have valuable brand names or key internally-developed products and technology. Be sure these are properly protected through valid (and current) patents and trademarks.

Financial Statements – How your company's financial statements are prepared affects a buyer's confidence level in the earnings you present. Buyers will have more confidence in *reviewed* financial statements, which provide limited assurance that there are no material misstatements, compared to *compiled* statements, which provide no assurances. Likewise, *audited* financial statements instill even more confidence than *reviewed* financials. Although there are higher costs associated with a greater level of financial assurance, we are seeing more audits and quality of earnings assessments being required to build buyer confidence.

Non-Compete Agreements – A significant concern among buyers is whether key employees will leave and take customers with them following a transaction. Having employees sign non-compete agreements will reduce this risk. If a buyer must factor in the possibility of losing customers by way of former employees, their valuation analysis of your business could be negatively impacted.



All things being equal, business owners that can put the necessary pieces in place to minimize these risks will create more certainty, and ultimately a higher valuation.

in this issue

business lines

By Steve Jacobs

On the surface, the M&A news seems good. The first half of 2015 delivered around 1,100 completed middle-market transactions valued at about $140 billion, according to data from Thomson Reuters. That's roughly equivalent to the level of deal-making conducted in the same period in the previous year. And yet, there seems to be an undercurrent of doubt with many dealmakers wondering, "***How much longer will the good times roll? Has the wave of M&A already peaked?***"

The flurry of activity sounds encouraging, but it's also possible that 2015 may turn out to have been front-loaded and we're at a pivot point.

There are two schools of thought to consider: 1) It's been a long time since we have had a downturn - it has to end; or 2) It's been a very gradual recovery; we probably have a lot of room left to run. The answer is probably somewhere in the middle.

I remain optimistic that M&A in the lower middle market will continue to provide opportunities, even if the environment changes, particularly because the age demographic trends of business owners are going to accelerate activity, regardless of any other external influences.

The environment for closing transactions is challenging for everyone, since transaction multiples and expectations are relatively high. I believe this is going to continue for the foreseeable future, which means it's a great opportunity for sellers, and alternatively, a challenge for buyers seeking the right company to acquire.

- Excerpts from *Mergers & Acquisitions* article by Mary Kathleen Flynn, July 20, 2015.

ALLIANCE OF INTERNATIONAL CORPORATE ADVISORS

Americas Regional Meeting

BCC President **Steve Jacobs** and Financial Analyst **Kyle Larson** represented BCC at the Americas Regional Meeting in Chicago for the **Alliance of International Corporate Advisors** (AICA). This annual meeting for AICA member firms across North and South America provides a valuable opportunity for networking, relationship building, and sharing best practices among M&A colleagues.

Steve gave a presentation to the group and led a discussion on best practices when using industry specialist advisors. Other session topics included M&A trends across the Americas, working capital adjustments, prospect presentation tips, and current project mandates among member firms.

In a session on best practices for cross-border transactions, a prime example of how AICA membership benefits clients was presented. European shareholders of a U.S.-based company in a niche industry were looking to sell their business. The shareholders approached a member of AICA in the U.K. to be their advisor, who subsequently enlisted the assistance of another AICA firm in the U.S. with expertise in the client's industry. Utilizing the local cultural and business expertise of both AICA firms has been a major benefit during negotiations, given the complications of cross-border transactions and international tax laws. This collaboration led to a more efficient process than could be provided otherwise. BCC clients have also enjoyed the benefits of global connections, as we have assisted on projects reaching into Europe, Asia, and South America.

Preserving a Legacy

Legacy. A term we often discuss with business owners as they contemplate selling a business that has been as much a part of their identity as nearly anything else in their life. In some cases, this is an important component of the transaction. In the case of our representation of Nile Cornelison in his sale of Direct Communications Inc. (DCi), legacy was absolutely the focus and key objective. This happens when you help establish many of the industry standards used today by aftermarket automotive parts manufacturers and retailers. This happens when you are a SEMA Hall-of-Famer. This happens when your company has been around since 1981, providing differentiated product content and electronic catalog software services to manufacturers, distributors, jobbers and independent retailers in the automotive aftermarket. Companies such as Auto Zone, O'Reilly Auto and NAPA utilize standardized information from manufacturers supplied to them by DCi. When you have this type of history and reputation, chances are preserving the legacy of your company is going to be very important to the shareholders.

Part of preserving a legacy is finding the right party to transition to when you decide it's time to sell. That means finding a buyer that will take care of your customers, ideally one that can even enhance your service offering. It also means finding a buyer that will offer increased opportunities for your employees and provide growth opportunities. When DCi hired BCC to uncover this "legacy preserver," or what is more commonly known as a "buyer," we knew it would be a selective, deliberate process where our evaluating buyers would be just as critical as buyers evaluating our client.

Fortunately, we found what we confidently believe to be the right fit to meet DCi's objectives in ARI Network Services, Inc. (ARI) (NASDAQ: ARIS). ARI is a provider of a suite of SaaS, software tools, and marketing services to help dealers, manufacturers and distributors in selected vertical markets sell more products online and in-store.

(This announcement appears as a matter of record only)

ARI

ARI Network Services, Inc.
(NASDAQ: ARIS)

Provider of SaaS, software tools, and marketing services to help dealers, manufacturers and distributors in selected vertical markets Sell More Stuff!™ – online and in-store

Milwaukee, Wisconsin

has acquired the majority of the assets of

DCi

Direct Communications, Incorporated

Leading provider of differentiated product content and electronic catalog software serving manufacturers, distributors, jobbers and independent retailers in the automotive aftermarket

Des Moines, Iowa

The undersigned advised the seller on this transaction.

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"BCC expertly guided me through every stage of the sale process from start to close. I couldn't be happier with the outcome and am thrilled to see where this company will go over the next one, five and twenty years."

- Nile Cornelison, former DCi owner

As a publicly-traded company with an extensive platform of service offerings, ARI is well-positioned to build upon DCi's previous success. DCi will maintain its headquarters in Des Moines, Iowa, under the continued leadership of Nile's business partner, Mark Toebben, who will assume the role of Vice President and General Manager of DCi, an ARI Company.

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Due Diligence Preparation

One of the most important and often the most tedious aspect of a business sale is the due diligence process. Buyers use this process to verify that information used in their evaluation to date is consistent and accurate. Revelations of accounting issues, missing contracts, or other red flags can lead to renegotiated purchase prices or can derail a transaction entirely. Steps can be taken to prepare for and mitigate unnecessary issues.

Anticipating Requests
Every buyer has a unique list of due diligence requests, but there are some broad categories that are common. Preparing some of this information beforehand will decrease the time needed for this process. Listed below are categories to consider:

- Corporate and Organizational Documents
- Customer Information
- Employee Information
- Financial and Tax Documents
- Litigation and Regulatory Matters
- Intellectual Property
- Real Estate

Organization
Not only is proper organization and filing of corporate documents a good business practice, but it can save a significant amount of time during due diligence. Having an organized, digital library of corporate documents and contracts, for example, cuts down on the time and cost of searching through a multitude of unorganized folders. We utilize a *virtual data room* for storing and distributing documents among parties. This allows for quick, easy, organized, and secure sharing of information during due diligence. While you won't likely be utilizing a virtual data room prior to speaking with a prospective buyer, it is important to understand how documents are shared so you can organize your own files in a consistent fashion.

Due Diligence Team
Generally, due to the extensive requests and varying areas of focus, it takes a team to satisfy the due diligence information requests. In addition to the owner(s), these teams often include attorneys, accountants, HR service providers, insurance agents, and other key employees. Establishing a point person can help manage the flow and organization of the process.

As you can see, every aspect of your business will be analyzed during due diligence. Being prepared, organized, and honest throughout the process can go a long way toward earning the trust of a potential buyer and realizing the full value of your business.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a Central Iowa architectural services company on a sale to a Midwest full service, multi-office architectural firm.

Advised a Midwest business services company on strategic transition options.

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

Prepared a value calculation of a Midwest transportation company for purposes of buying out a shareholder.

Prepared a fair market valuation of a Midwest financial service provider 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:

International IVF equipment manufacturer – *is seeking a buyer.*

Hard goods manufacturer – *is seeking to diversify through acquisitions.*

Automotive parts distributor – *is seeking a buyer.*

Industrial equipment distributor – *is seeking a buyer.*

European lab testing company – *is seeking to acquire the same with a focus on pharmaceutical or food testing.*

For mergers and acquisitions, contact Steve Jacobs or Tom Cavanagh. For valuations, contact Al Ryerson, Greg Weber or Jim Nalley.

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