BCC ADVISERS

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Business Transfer & Valuation Information

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Employee Retention

One of the most important transition items when selling a business is the retention of employees. When employees learn of a pending or recently closed transaction, it can be natural for them to fear the unknown, which can be motivation to explore alternative employment opportunities. Will they still have a job? What changes will be made to their benefits? What kind of expectations does the new owner have of them? It is up to the buyer and seller, collectively, to implement a strategy for retaining employees post-transaction. BCC advises clients to consider the following tools as part of a successful transition strategy for keeping key employees.

Non-Compete Agreements

One tool that is best implemented in advance of pursuing a sale is a non-compete agreement. Non-compete agreements are valued by buyers, as they help minimize the risk that an employee will leave, particularly to join a competitor. We have seen buyers walk away from acquisition opportunities due to a lack of non-competes with key managers, salespeople, or other employees critical to the operations of the business. A seemingly random request for an employee to sign a non-compete can raise unwanted questions, so it is advised that you present this document upon making new hires, during annual employee reviews, or while negotiating new employment agreements with current employees. Each state has its own laws governing non-compete agreements, so it is important to have your attorney review the effectiveness of the agreement within the context of your specific circumstances.

Retention Bonuses

We are seeing more business owners offering key employees retention bonuses, which offer compensation if the employee remains and assists with the sale and/or transition process under specified terms. These are often utilized as a means for 1) rewarding key employees that have helped build the business, 2) compensating employees that will be necessary to fulfill a buyer's due diligence requests which adds to the employee's existing workload, and 3) incentivizing the employees to stay through closing or through an anniversary date. These retention bonuses can take a variety of forms including paying the employee 100% of the bonus at closing, paying the employee 100% upon staying with the company post-transaction for a specified term, or a combination of payments. Similar to a non-compete, buyers value these bonus agreements as they reduce the risk of key employees leaving the business. When and how to present retention bonus agreements is key, as it obviously requires the owner to tell employees about a pending transaction, or at least that the owner is considering selling. To help control the spreading of this news, we sometimes see a confidentiality agreement presented at the same time.

Clear Communication

Last but certainly not least, is to properly communicate what the transaction means for employees. Delivering a clear and comprehensive message outlining what will change for the employees is key. Employees are often most interested in understanding what, if any, changes will occur to their wages, benefits, role, and to whom they report following a transaction. Each business is unique and your strategy for different employees or groups of employees will likely vary. Will you deliver the news in person? Will the buyer be present? Will it be a one-on-one meeting or a presentation to a group of employees? Who should the employee go to with questions? A seller that truly believes the new owner will be a good partner and steward of the business will have an easier time delivering the message to employees.

Transition of ownership always raises some concern among employees. Although this list of tools to retain talent is not exhaustive, it should provide a strong foundation of options.

in this issue

business lines

By Steve Jacobs

With uncertainty in the markets at the end of 2018, dealmakers were unsure about the level of M&A activity that would occur in 2019. Surprisingly, private equity and corporate executives now foresee an increase in deal flow and size in 2019.

In Deloitte's recently completed M&A trends report, 1,000 corporate and private equity executives provided their outlook on deal activity for the next 12 months. Anticipated trends for 2019 are surprisingly positive, as 76% of M&A executives at U.S. corporations and 87% of leaders at U.S.-based private equity firms expect the number of closed deals at their firms to increase. A recent survey of middle-market companies by TD Bank supports these expectations, with 68% of respondents indicating they plan to engage in M&A activity over the next six to twenty-four months and 85% believing there are no barriers to M&A activity. However, this does not mean that there will not be challenges as economic uncertainties remain and interest rates have risen.

Deloitte's report goes on to say that unlike the past couple of years in which technology was a major focus of acquisition strategies, businesses are instead transitioning towards inorganic growth. Buyers are pursuing companies in their existing geographic regions because they offer a good way to grow their customer base while also, potentially, diversifying products and services for current customers.

From what we are seeing, we expect activity to be strong for the remainder of 2019. Companies turning towards inorganic growth strategies and sellers uniquely positioned in their industries will continue to drive the M&A market late into the year.

Steve Jacobs
steve@bccadvisers.com
(515)777-7077

Our Newest Acquisitions

Jack Arndt has joined BCC Advisers as a financial analyst while he completes his final year at Simpson College, working on his bachelor's degree in Mathematics and Economics: Finance. Jack's responsibilities include assisting in the gathering, analyzing, and documenting company background, financial, comparable company, economic, and industry information pertinent to supporting business valuations as well as the development of merger and acquisition intelligence.

Mahala Doyle has joined BCC's real estate appraisal affiliate, Iowa Appraisal and Research Corporation, as a real estate appraiser while she completes her final year at Iowa State University, working on her bachelor's degree in agriculture business. Under the supervision of a licensed appraiser, Mahala prepares appraisals for a wide variety of commercial real estate. She is working towards certification as a General Real Property Appraiser and has completed additional education with regard to that goal. Mahala holds a Real Estate Salesperson license with the State of Iowa.

DJ Ludemann has joined BCC's real estate appraisal affiliate, Iowa Appraisal and Research Corporation, as a real estate appraiser, preparing appraisals for a wide variety of commercial real estate under the supervision of a licensed appraiser while he works towards his certification as a General Real Property Appraiser. DJ's academic career includes an education from UNI's nationally top-ranked real estate program, which offers the only Bachelor of Arts Real Estate degree in the state of Iowa.

Rayser Upfits Service Offering with New Acquisition

Some entrepreneurs start a little earlier than others. For KELTEK, Inc., a provider of vehicle upfitting services primarily serving law enforcement, it traces its roots back to the garage of founder Kelly Milligan's parents, where at age 14 Kelly began installing radios and antennas in vehicles and equipment for farmers. A few years later, he built his first police car and in 2007, KELTEK was born.

Together with his wife, Jamie, Kelly grew KELTEK's team to 26 employees handling over 100 customers that have been with the company for over ten years. Headquartered in Baxter, Iowa, KELTEK has established itself as an innovative provider of vehicle upfitting, communication products and technology solutions to law enforcement, fire, EMS and public works agencies. After tirelessly working to ensure KELTEK was favorably positioned with a strong team and culture, Kelly and Jamie were ready to pass the company on to someone who would lead it into its next successful chapter.

KELTEK engaged BCC Advisers to guide them through the sale process. Identifying a buyer that would value their culture and employees was a top priority. **"BCC was able to present us with a wide range of buyers, which enabled us to selectively focus on the one we felt would provide the best fit and the most upside potential for our employees and our customers,"** said Kelly. When KELTEK's owners and management team first met with Rayser Holdings Inc., an ESOP-owned holding company based in Cedar Rapids, Iowa, the fit was apparent.

The opportunity to sell to a company that would offer their employee stock ownership plan (ESOP) to KELTEK's employees made the decision that much easier. "Having an ESOP group like Rayser at the helm gives me an opportunity to structure the ownership back to my employees, accomplishing one of my lifelong goals - to reward those who have worked so hard in the public safety space," said Kelly.

For Rayser, acquiring KELTEK provides for diversification while adding a company with high growth potential to their portfolio, complimenting their investment in CarePro Health Services, a provider of pharmacy services, home medical equipment, and home care and wellness services.

Jamie reflects, "One of the most important things for Kelly and me was to find a company that honored our values, which are shared by every person here. Rayser's values couldn't have aligned with ours any better."

1707 High Street
Des Moines, IA 50309-3313

BCC ADVISERS
www.bccadvisers.com

ALLIANCE OF INTERNATIONAL CORPORATE ADVISORS
www.aicanetwork.com

BREXIT and M&A in the UK

Anyone that follows global news has surely come across multiple headlines over the past few months regarding the United Kingdom's (UK) looming exit from the European Union (EU), better known as "Brexit." Outlined below is a timeline of how Brexit has unfolded:

- **June 2016** – UK referendum in which voters supported leaving the EU.
- **March 2017** – Article 50, which governs procedures for a member state withdrawal, was invoked leading to a two-year process for the EU and UK to agree on terms of the withdrawal.
- **November 2018** – A draft withdrawal agreement was agreed to by the EU and UK.
- **Q1 2019** – UK voted against Prime Minister May's withdrawal agreement three times.
- **April 4, 2019** – UK passes the Cooper Letwin bill, requiring May to request an extension to the April 12 exit date from the EU if no deal is agreed upon.
- **April 10, 2019** – The UK and EU agree to an extension of Article 50 until October 31, 2019, subject to the UK holding elections for the European Parliament in May. If elections are not held in May, the UK would exit the EU on June 1 without a deal.

The media would certainly have us believing that if a "no-deal Brexit" were to occur there would be significant uncertainty regarding trade flows in Europe that would have wide-ranging implications globally, and therefore affect cross-border M&A activity between the UK, other EU countries, and the rest of the world.

But what is the reality? How is it truly impacting business in the UK and what might it mean for cross-border M&A activity? Fortunately for BCC, we have good friends in the UK that were willing to provide clarity on the situation, as they are living it every day.

Simon Davies, Managing Director at Spectrum, our Alliance of International Corporate Advisors (AICA) partner firm in the UK, states, "There is a significant disconnect between the political situation and reality amongst businesses. The UK and EU are each other's biggest trade partners and therefore will find a way for trade to continue." Spectrum is seeing very strong deal flow both domestically and with international buyers, including a sale to a U.S. buyer they recently closed. Added Managing Director Clive Hatchard, "We believe overseas buyers are ignoring Brexit to a large extent because the UK, as the world's fifth largest economy, makes it attractive for both sides to come to a solution and if the UK does become separated from EU trade, companies will need to have a presence in both markets."

The situation in the UK continues to rapidly change but one thing is certain: it will be interesting to see the ultimate resolution and possible changes in the economic landscape as a result. However, despite what the media might want us to believe, business and M&A activity in the UK appears to be steadily moving forward with limited real impact from the Brexit uncertainty.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised an equipment supplier for public safety and public works agencies on a sale to an ESOP-owned holding company.

Prepared a fair market valuation of a medical product manufacturer for restructuring.

Advised a metal fabrication, design & engineering company on a sale to a provider of locomotive rebuilding and repair services.

Prepared a fair market valuation of a real estate holding company to settle an estate.

Assisted a landscaping services company in establishing an ESOP.

Prepared a fair market value of a bank for purposes of annual ESOP plan administration.

The Market Front

Some opportunities available through BCC Advisers:

European-based milling company - *is seeking to acquire gluten-free corn milling operations.*

U.S.-based residential and commercial security solutions provider - *is seeking a buyer.*

U.S.-based corporate wellness solutions provider - *is seeking a buyer.*

Asian-based manufacturer of synthetic aroma chemicals - *is seeking a buyer.*

European-based auto center chain - *is seeking a buyer.*