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Business Transfer & Valuation Information

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Importance of Next Level Leadership

A common question we hear from business owners is, “What steps can I take to improve the marketability and value of my business?” There are a multitude of answers to this question, but one thing often overlooked is developing a strong team of next generation leaders. It can be hard to delegate certain tasks as you near the end of your career; however, the more comfort a buyer has that your business will continue to operate smoothly after your exit, the more comfortable they will be paying full value. Your goal should be to work yourself out of a job. The more you invest in your management team now, the less likely you will be required to stick around for years post-transaction.

The process of grooming your management successor should start long before you decide to sell your business. Passing along the knowledge you’ve accumulated can take years. Below are a few tips that will help you transition your expertise to the next generation.

Commit to Strong Candidates

It is important your next level of management knows you are committed to their success. Having candid conversations with them indicating your intentions to make them an important part of the company’s future will make them feel valued and loyal to you. Invest in training to improve their skill sets in areas they might be weak.

Keep an Open Mind

Although promoting from within is generally more appealing, you may need to keep an open mind about looking outside of your company for a quality leader. Someone who is fantastic with details may not learn to see a big picture strategy, and a strong salesperson may have difficulties managing an entire organization. Although you may have extremely talented managers, you should ensure at least one has the ability to serve as a well-rounded leader.

Transition Duties Slowly

Allowing someone else to take the reins can be stressful, particularly if you’ve managed the business for many years. As opposed to having someone step into your role immediately, many times it makes sense to transition your duties slowly over time, particularly if you have a lot of knowledge in your head that isn’t easily transferred. Have your protégé master one thing before moving onto the next. This will be less stressful for your successor while allowing you to continue having some control over the tasks that may take longer to transition.

Have a Buyer’s Perspective

Put yourself in a buyer’s shoes and identify transition items they would view as higher risks. One example is customer relationship

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By Steve Jacobs

Unique Challenges, Continued Deal Flow

The mergers and acquisitions market turned out to be very robust in 2021, reaching \$5.9 trillion in deal value globally. Although unlikely to eclipse the high-water mark of 2021, deal activity remained strong in the first half of 2022.

With that said, we are keeping a close eye on economic changes that could generate some pause. In July, the Federal Reserve tightened

monetary policy by increasing its benchmark Fed Funds Rate to a range of 2.25-2.50%, an increase of 75 basis points, in an effort to slow the economy and ease the inflationary pressures we are all facing. This was the second consecutive 75-basis-point increase, following a 25-basis-point increase in March of this year and a 50-basis-point increase in May. Borrowing costs are increasing as shown by the significant rise in mortgage rates, from sub-3% for a 30-year mortgage in late 2021 to nearly 6% in June. Time will tell if the Fed can successfully navigate a “soft landing.”

Inflation has spiked, and in conjunction with supply chain issues, is causing challenges for businesses. Pricing on raw materials, if you can get them,

seems to change weekly creating headaches for business owners trying to plan production schedules and future investments. These inflationary pressures have trickled down to the consumer, particularly as they relate to fuel and food prices, but there is some optimism that inflation has peaked and key commodity prices are decreasing.

Despite these headwinds coupled with heightened geopolitical tensions, there are still reasons for optimism. The labor market continues to be healthy with an unemployment rate of 3.5%, capital remains readily available for completing transactions, and private equity firms continue to be very active investors.

We continue to see activity in the lower middle market, particularly for quality assets. Valuations remain strong, although off their highs, and buyers continue to focus on detailed due diligence processes to support their offer price. The current environment has created unique hurdles to overcome when selling your business, but we remain cautiously optimistic for the remainder of 2022 and 2023.

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Management Meeting Advice for Sellers

In dating terms, it's on par with meeting the parents or family for the first time. You have expressed mutual initial interest through a first date (NDA signed), had a few nice conversations (financial and operational information shared), and maybe even had some more serious discussions about plans for the future (indication of interest received). The relationship has progressed and is serious enough that it is now time to meet the family...or in a seller's process, it's time for management meetings.

Management meetings come after your confidential information has been shared with a buyer and initial questions have been answered. Before either party is ready to commit to moving forward with the other, there needs to be a face-to-face meeting where the buyer can see your operations, perhaps meet some of the key members of your team, and hear your company's story directly from you as the owner. Similar to bringing a significant other home to meet your family, these can be stressful events. However, by leveraging best practices and properly planning, management meetings can be an invaluable way to get a buyer excited about buying your company.

Here are a few considerations as you plan for that first meeting:

- 1. Break bread together.** Have dinner the night before (if possible) and use it as an opportunity to get to know the individuals on the buyer's team better. Typically, the conversation during dinner is casual and less focused on specifics of your business.
- 2. Interviews must go both ways.** Develop a list of questions to ask the buyer. This is potentially going to be who takes your

company to the next level. Do they have the right skill sets, financial resources, and culture to do that?

- 3. Confidentiality remains key.** If having dinner, book a private room, perhaps in a neighboring town, to avoid unwanted run-ins with folks you know. If doing a site visit, hold it after hours or on a weekend when employees aren't present. Additionally, have a “story” ready as to who you are meeting with in the event you run into someone unexpectedly.
- 4. Trial runs are worth it.** Prepare an agenda and/or list of questions in advance and practice. Define who will be responsible for answering each question, or at least addressing each topic. Practicing in advance will put you more at ease during the actual meeting, and you'll come across more confident with a clearer message. Preparation is particularly key if you are including employees who may not be comfortable with these types of meetings.
- 5. Don't get too far into the weeds.** While you'll want to use this time to answer the buyer's questions, it is more important that you engage in discussions rather than address specific personnel or financial issues that can be emailed as a follow up.

Every family and every business have their favorable attributes and their quirks. Having an experienced investment banker present to guide you through management meetings, ensuring you show your best side, is akin to having a trusted sibling in your corner to ease tensions and keep mom from bringing out the family photo albums too early.

Ready to Expand

For nearly half a century, the Hamilton family and Hamilton Redi-Mix (HRM) had been supporting the construction of concrete floors, foundations, roads and more throughout North Central Iowa through its ready-mix concrete plants. Founded in 1976 in Jefferson, Iowa, the business has grown to include three modern batch plants (Jefferson, Boone and Fort Dodge, Iowa), a sand and gravel operation, and a fleet of late model mixer trucks, dump trucks, and heavy equipment.

In its second generation of family ownership, brothers Bob and Johnny Hamilton had been fielding inquiries from companies interested in buying their business for years. It wasn't until recently that the family started to seriously consider a transition. Wanting to ensure they were proactive and strategic in their approach towards a potential sale, HRM shareholders met with the M&A team at BCC Advisers to discuss owner objectives, BCC's thoughts on the anticipated valuation if they went to market, and the confidential auction process. Additionally, they sought help with evaluating whether to retain the sand and gravel operation and enter into a royalty agreement with a buyer, or package it with the business adding complexities to the process. "BCC's candid and professional guidance was key to our decision-making process. We wanted to be very intentional with the sale to ensure we met all stakeholder objectives, and BCC was fantastic in leading us to determine if the timing was appropriate for us to pursue a sale," said HRM President Bob Hamilton.

Unsurprisingly, there was substantial market interest in HRM due to its strong reputation and top-notch upkeep of its plants and equipment. It was critical for Bob and Johnny to spend time in person with top buyer candidates before choosing a party to move



forward. Ultimately, the Rasmussen Group, through its Concrete Supply (CSI) division, stood out.

Bob stated, "The Hamilton family and our employees appreciate the relationships we've built over the past 46 years and look forward to continuing those great partnerships into the future. Joining with Concrete Supply will expand our customer base greatly, allowing us to provide quality products and services on even more projects."



With headquarters in both Des Moines and Omaha, Concrete Supply has over 25 plants with over 300 employees offering concrete deliveries to the Des Moines metro area, West Central Iowa, Southwest Iowa, and Omaha, Nebraska. CSI has supplied ready-mix concrete for over 60 years and can supply equipment and labor to projects large or small. CSI produces over one million yards of concrete annually. "The Rasmussen Group is excited to add Hamilton Redi-Mix to our wide-ranging portfolio of construction companies," shared Tim Mallicoat, chief executive officer of the Rasmussen Group. "HRM is a great fit with Concrete Supply, sharing values of providing customers with quality products and outstanding service."

Early preparation for a sale typically results in a more seamless process while providing greater assurance to the selling shareholders. Strategic planning and a proactive sale process enabled the Hamilton family to achieve a well-deserved successful outcome.



Importance of Next Level Leadership

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management. Successfully transitioning direct customer relationships from yourself to someone else ahead of a sale can de-risk your operations, particularly customers that represent a significant portion of your sales.

Cross Train

Many times, quality leaders have experience in several areas of your business. This can either be the result of the employee moving into new roles during their career or via a purposeful rotation throughout the organization to gain experience. Strong leaders successfully connect with their employees and there is no better way to do that than to have a strong understanding of what your employees deal with on a daily basis.

There are a lot of things to think about when preparing for the sale of your business. The management transition is an important one, but it is also one that takes time to get right. Grooming your successor well in advance of a sale can make the transition much smoother and less stressful, while at the same time solidifying the value of your business in the eyes of a buyer.



Jack L. Courter
FMVA

Jack Courter Earns FMVA

Jack Courter, financial analyst, has earned the Financial Modeling & Valuation Analyst (FMVA) certification from the Corporate Finance Institute. Jack is responsible for gathering and analyzing data pertinent to supporting the development of BCC merger and acquisition intelligence. He also supports senior team members in all aspects of the firm's sell-side and buy-side deal execution.



Michelle R. Temeyer
CPA/ABV, ASA

Michelle Temeyer Earns ASA

Michelle Temeyer, senior financial analyst, has earned the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers. Michelle is a member of BCC's business valuation team, responsible for gathering, analyzing, and documenting company background, financial, comparable company, economic, and industry information.

on the dotted line

Some Recent BCC Advisers Transactions:

Advised a ready-mix concrete supplier on a sale to a multi-faceted construction and concrete company.



Performed a fair market valuation of a cutlery manufacturer for a redemption of shares.



Advised a radio broadcasting company on fair market value for a proposed acquisition by an ESOP.



Performed a fair market valuation of a bank for annual 401(k) plan administration.



Prepared a fair value purchase price allocation of an organic energy producing co. for financial statement reporting purposes.



Advised a roofing company on fair market valuation for a possible sale of shares.

The Market Front

Some opportunities available through BCC Advisers:

European-based supplier of healthcare equipment and services - is seeking acquisitions of the same.

U.S.-based supplier of protective clothing for health care settings - is seeking a buyer.

European-based value-added B2B distributor of kitchen and bedroom furniture components - is seeking a buyer.

U.S.-based tool and die company - is seeking a buyer.

WE'D LIKE TO HEAR FROM YOU!

Is there a topic related to mergers and acquisitions you'd like to learn more about?
Send your request to us at info@bccadvisers.com
and we will do our best to address your question in a future issue!