

M&A Market Newsletter

Kansas City & Middle Market Focus

Third Quarter 2017





M&A Market Report

U.S. Market Highlights

- The lower middle market continues to remain one of the most sought-after asset classes, and seasoned private equity professionals are opening up shop in this space. Most firms entering the lower middle market are attracted by the increased number of opportunities – there are about 350,000 companies with annual revenue between \$5 million and \$100 million. Due to the increased competition, the 10-year average multiple for leveraged buyouts of businesses with enterprise values below \$250 million is currently 7.3x EBITDA, the highest it's ever been, according to Preqin. [\(Mergers&Acquisitions\)](#)
- On October 7th, Hurricane Nate made landfall near the mouth of the Mississippi, which has caused oil production to slow to a trickle in the Gulf of Mexico as energy companies turned off the taps and evacuated workers in preparation for Hurricane Nate. More than 92 percent of crude output was offline in the nation's offshore production hub as of Sunday morning, according to the U.S. Bureau of Safety and Environmental Enforcement. U.S. oil inventories have been falling, helping to drain global oversupply, but Hurricane Harvey contributed to several weeks of stock increases last month. U.S. crude prices were up 35 cents to \$49.64 on October 9th, coming off the worst weekly loss for the commodity since June. [\(CNBC\)](#)
- On September 27, the Trump administration released its tax reform plan. In addition to its obvious effects on individuals, the Unified Tax Reform Framework would have a meaningful impact on businesses as well. The Framework would lower the maximum corporate tax rate from 35 percent to 20 percent. Trump's plan lowers the maximum tax rate for small businesses to 25 percent. That includes sole proprietorships, partnerships and S corporations. As proposed, it would also allow all businesses to expense the cost of depreciable assets instead of writing them off over years. [\(TheBalance\)](#)
- Spain has introduced political additional political uncertainty into the world. A little more than a year after the historic Brexit vote, a divisive and controversial referendum on October 1 found Catalan voters in favor of independence for the wealthy, northeastern region of Spain. [\(CNN\)](#)

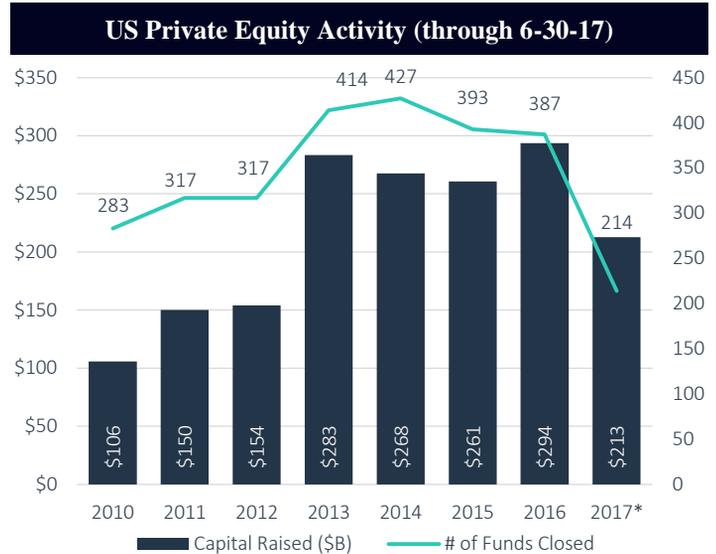


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Market Trends – Private Equity

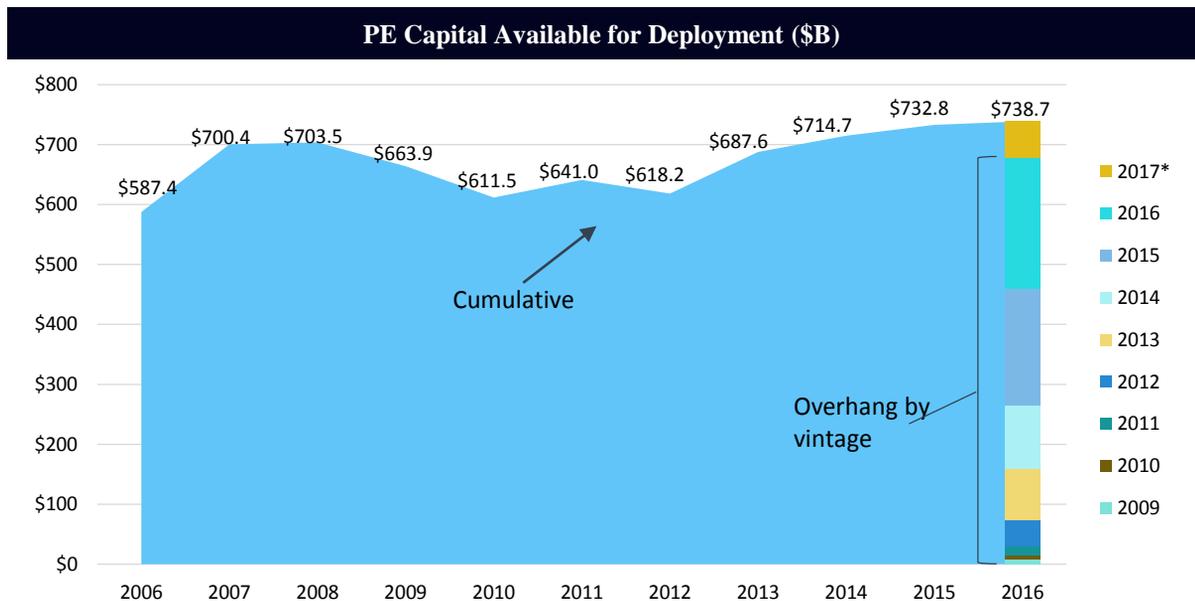
- PE firms are raising more capital than at any point since 2007. Funds based in North America and Europe garnered \$212.6 billion across 214 vehicles through August 1—on pace for a 24% increase in value from the already stellar 2016. Notably, that capital is accumulating in the hands of fewer fund managers, as successful repeat funds have been able to dominate a larger part of the market.
- The main reasons for the exuberance surrounding exposure to PE include the asset class’s continued outperformance of public markets, unprecedented low yields on credit, and lackluster performance by other alternatives such as hedge funds.



Sources: Pitchbook, CapitalIQ

“PE firms continue to raise record levels of capital at a time when company valuations are at an all-time high. This has resulted in almost \$1 trillion of cash overhang and increased pressure to find good deals.”

John Hense, Managing Director



- Dry powder levels in North American and European PE funds reached new heights of \$738.7 billion as of year-end 2016. Barring a severe economic downturn, these sums will support future deal flow, putting further upward pressure on pricing for buyout targets. Since more of this capital continues to be amassed in larger funds, which necessitate larger minimum equity deployments, we expect the average size of PE deals to continue growing.

Sources: Pitchbook, CapitalIQ

Economic Snapshot

Note: Financial figures as of 10/6/2017

Economics	Current	3 Mo Ago	6 Mo Ago	Year Ago
Unemployment	4.4%	4.3%	4.4%	4.8%
Consumer Confidence	96.90	93.40	97.00	87.20
Housing Permits (millions)	1.29	1.19	1.15	1.34
S&P/Case-Shiller 20 City	192.81	201.99	197.19	191.79
CPI	0.78%	1.72%	1.78%	1.64%

- U.S. job growth slowed in August as employers added 156,000 jobs, though still enough to suggest that most businesses remain confident in an economy now in its ninth year of recovery from the Great Recession.

Equity Market	Close	Week Ago	4 Weeks Ago	Year Ago
Dow Industrials	22,773.67	22,405.09	21,797.79	18,240.49
S&P 500	2,549.33	2,519.36	2,461.43	2,153.74
NASDAQ	6,590.18	6,495.96	6,360.19	5,292.40
Dow Utilities	731.15	723.60	746.94	643.46
VIX S&P 500 Volatility	9.65	9.51	12.12	13.48
S&P 500 Earnings / Share Projection		TTM - E	2017	2018
S&P		\$ 107.61	\$ 114.90	\$ 131.36
P/E Ratio (Trailing & Forward)		23.69x	22.19x	19.41x

- The third-quarter earnings season is scheduled to ramp up over the coming weeks, and some major investment banks say the market, despite trading near all-time highs, hasn't priced in how good results could be relative to current forecasts. According to FactSet, earnings for S&P 500 companies are seen coming in at \$32.34 a share in the third quarter, which represents growth of 2.81% from a year ago while sales are seen rising 4.79% compared with the third quarter of 2016.

Economics	Last Q	1 Q Ago	2 Q Ago	3 Q Ago
GDP Growth	3.1%	1.2%	2.1%	3.5%

- The US economy expanded an annualized 3.1 percent on quarter in the second quarter of 2017, above a second estimate of 3 percent and beating market expectations of 3 percent. It is the strongest growth rate since the first three months of 2015.

Sources: WSJ, US Treasury, Bloomberg, Yahoo Finance, Oanda.com, CME, Bureau of Labor Statistics, Bureau of Economic Analysis



Deals from July 2017

Announced	Target (Parent)	Buyer	Comments	Press Release
7/2/17	Truck Cap Division (Jason Industries) Elkhart, IN	ATC Truck Covers, Inc. Ottawa, KS	ATC Truck Covers acquired the truck cap division of Jason Industries Inc. Following the sale, Jason Industries will focus on its custom pontoon and towable RV cap divisions.	Link
7/5/17	Mosaic Life Care, Occupational Medicine Clinic (Heartland Regional Medical Center) St. Joseph, MO	US Healthworks, Inc. Valencia, CA	U.S. Healthworks, Inc. acquired Mosaic Life Care's Occupational Medicine Clinic in St. Joseph, MO from Heartland Regional Medical Center, one of the largest operators of occupational health and urgent care centers in the United States.	Link
7/6/17	Dente Engineering, PC Watervliet, NY	Terracon Consultants, Inc. Olathe, KS	Dente Engineering and its employees will continue to serve clients locally as Dente Group, A Terracon Company. Dente's affiliate organizations, Evergreen Testing & Environmental Services and Acme Boring Company also join Terracon.	Link
7/10/17	Great Plains Energy Inc. (BlackRock Fund Advisors) San Francisco, CA	Westar Energy, Inc. Topeka, KS	Westar Energy, Inc. agreed to acquire Great Plains Energy Incorporated in a merger of equals transaction. The transaction involves no premium paid or received with respect to company, no transaction debt, no exchange of cash. The acquisition will create a combined company having an equity value of \$14 billion.	Link
7/11/17	Shreveport, LA Location (Consolidated Truck Parts & Services, LLC) Monroe, LA	Inland Truck Parts Company Overland Park, KS	Inland Truck Parts Company acquired Consolidated Truck Parts and Service of Shreveport from Consolidated Truck Parts Inc.	Link
7/11/17	Yogurt Manufacturing Plant (Dairy Farmers of America) Kansas City, MO	HP Food LLC Lynnfield, MA	HP Hood LLC acquired yogurt manufacturing plant in Batavia, NY from Dairy Farmers of America, Inc. As a result of this transaction, HP Hood will invest more than \$200 million over several years and create 230 new jobs in New York State over five years.	Link
7/12/17	Northland Meals on Wheels, Inc. North Kansas City, MO	Northland Shepherd's Center Kansas City, MO	Northland Shepherd's Center acquired Northland Meals on Wheels on Jul 12, 2017.	Link
7/17/17	Surety Support Services, Inc. Overland Park, KS	General Indemnity Group, LLC Boston, MA	General Indemnity Group, LLC acquired Surety Support Services, Inc. The acquired business and its employees will continue under the leadership of Gary Bradley in the current location outside of Kansas City.	Link
7/19/17	DeVero, Inc. San Jose, CA	Netsmart Technologies, Inc. Overland Park, KS	Netsmart Technologies Inc. acquired DeVero, Inc. on July 19, 2017.	Link

Deals from July 2017 (cont.)

Announced	Target (Parent)	Buyer	Comments	Press Release
7/19/17	St. Charles Plant (The Coca-Cola Co.) St. Charles, MO	Heartland Coca-Cola Bottling Co. Kansas City, MO	The Coca-Cola Co. sold the plant to Heartland Coca-Cola Bottling Co. as part of a refranchising initiative for its North American bottling operations.	Link
7/19/17	Burns Publishing Company Inc. Olathe, KS	NextPage Kansas City, MO	Next Page, Inc. acquired Burns Publishing Company, Inc. from John and Diane Burnell. Post acquisition NextPage will offer jobs to all 20 of Burns Publishing employees and move them into NextPage production plant.	Link

Deals from August 2017

Announced	Target (Parent)	Buyer	Comments	Press Release
8/7/17	Indian Hills Hardware, Inc. Wichita, KS	Westlake Hardware, Inc. Lenexa, KS	Westlake Hardware, Inc. acquired Indian Hills Ace Hardware from Douglas Paul and family. Indian Hills Ace Hardware will retain its name.	Link
8/7/17	Lindsey Propane & Sevier County Propane (The Tennergy Corporation) Jackson, TN	Ferrellgas Partners, LP Overland Park, KS	Ferrellgas Partners, L.P. acquired Lindsey Propane and Sevier County Propane from The Tennergy Corporation on August 7, 2017. The transaction is expected to be immediately accretive.	Link
8/7/17	Open Road Films, Inc. (AMC Entertainment Holdings, Inc.; Regal Entertainment Group) Leewood, KS	Tang Media Partners, LLC Los Angeles, CA	Tang Media Partners, LLC acquired Open Road Films, Inc. from Regal Entertainment Group and AMC Entertainment Inc.	Link
8/8/17	Atlas Labels & Packaging Kansas City, KS	ALP Holdings St. Louis, MO	ALP Holdings acquired Atlas Labels & Packaging, LLC on August 7, 2017. Post-completion, Rick Leininger will be joining Atlas Labels & Packaging, LLC as a new president.	Link
8/8/17	Jet Quest Georgetown, TX	jetAviva New Century, KS	Jet Quest sells used jets, with a focus on the Cessna Citation aircraft. It is based just outside Georgetown Municipal Airport.	Link
8/8/17	Catalyst Healthcare Research (Prince Market Research) Nashville, TN	Service Management Group Kansas City, MO	Service Management Group, Inc. acquired Catalyst Healthcare Research from Prince Market Research, Inc. As a part of the transaction, Catalyst Healthcare Research will retain its name and Catalyst's team will continue to operate from Nashville.	Link

Deals from August 2017 (cont.)

Announced	Target (Parent)	Buyer	Comments	Press Release
8/8/17	Accubuilt, Inc. Lima, OH	SPV Coach Company, Inc. Kansas City, KS	Southwest Professional Vehicles Inc. acquired Accubuilt, Inc.	Link
8/8/17	We Are IT, LLC Kansas City, MO	Versent Group LLC (The Purple Guys) Kansas City, KS	Versent Group LLC acquired We Are IT on August 8, 2017. With the acquisition, The Purple Guys increases their employee count to forty, making them one of the largest managed service providers in the region, providing outsourced IT support to over 200 local companies and organizations.	Link
8/9/17	LAK Reporting, Inc. Prairie Village, KS	The Cooper Group, LLC Kansas City, MO	The Cooper Group acquired LAK Reporting, Inc. on August 9, 2017. Kelly Rexroat, the Founder of LAK Reporting will join The Cooper Group post completion of the transaction.	Link
8/11/17	RemitDATA, Inc. (Gefinor Capital; SSM Partners) Purchase, NY	eSolutions, Inc. Olathe, KS	eSolutions, Inc., a leading provider of healthcare technology and analytics solutions, announced the acquisition of RemitDATA Inc., a pioneer of comparative data analytics technology bringing 360-degree data transparency to the healthcare industry.	Link
8/11/17	Reveal Management Services, Inc. Overland Park, KS	MTM, Inc. Lake St. Louis, MO	MTM, Inc. acquired Reveal Management Services, one of the top routing, scheduling, and dispatching (RSD) technology platforms in the transportation industry.	Link
8/14/17	Hickory Run Energy, LLC (Tyr Energy, Inc.) Overland Park, KS	Siemens Aktiengesellschaft; The Kansai Electric Power Co, Inc. Munich, Germany	The Kansai Electric Power Company, Inc. and Siemens Aktiengesellschaft acquired 50% stake in Hickory Run Energy, LLC from Tyr Energy, Inc. On completion, Kansai Electric Power Company owns 30% stake, Siemens owns 20% stake and Tyr Energy owns the remaining 50%.	Link
8/14/17	Kansas City Sausage Company, LLC Kansas City, MO	Smithfield Foods, Inc. Smithfield, VA	Smithfield Foods, Inc. acquired the remaining 50% stake in Kansas City Sausage Company, LLC on August 14, 2017.	Link
8/15/17	Proventus Consulting LLC Overland Park, KS	Trozzolo Communications Group Kansas City, MO	Trozzolo Communications Group acquired Proventus Consulting LLC. Proventus' team will move to Trozzolo's Gee Whiz Factory in downtown Kansas City and retain its Denver, Colorado presence.	Link
8/16/17	ShanAm Inc. Winston Salem, NC	GlynnDevins, Inc. Overland Park, KS	GlynnDevins, Inc. acquired Frogman Interactive. The transaction marks add-on acquisition for Falfurrias Capital Partners through GlynnDevins.	Link
8/16/17	USA800, Inc. Kansas City, MO	The Results Companies, LLC Fort Lauderdale, FL	One Equity Partners, a middle market private equity firm, announced that its portfolio company, The Results Companies, a global business process outsourcing and contact services provider, has completed the acquisition of USA800, an employee-owned call center services business.	Link

Deals from August 2017 (cont.)

Announced	Target (Parent)	Buyer	Comments	Press Release
8/17/17	Golar Hilli LLC (Black & Veatch; Golar LNG Limited; KS Investments Pte. Ltd.) Overland Park, KS	Golar LNG Partners LP Hamilton, Bermuda	Golar LNG Partners LP signed a purchase and sale agreement to acquire 50% stake in Golar Hilli LLC from KS Investments Pte. Ltd, Golar LNG Limited and Black & Veatch Corporation. The consideration price is \$658 million less net lease obligations under the financing facility for the Hilli Facility that is expected to be between \$468 and \$480 million.	Link
8/21/17	Meers Advertising Kansas City, MO	Barkley Inc. Kansas City, MO	Barkley Inc. acquired Meers Advertising, Inc. Post-acquisition Meers Advertising will be renamed as Barkley Health and Finance.	Link
8/22/17	Unitherm Food Systems, Inc. Bristow, OK	Marlen International Inc. Riverside, MO	Marlen International, Inc. acquired Unitherm Food Systems, Inc. Post transaction Unitherm Food Systems, Inc. will continue to be based in its current manufacturing, sales and test facilities.	Link
8/23/17	PPS Group LLC Kansas City, MO	Designer Group Engineering Contractors Limited Dublin, Ireland	Designer Group Engineering Contractors Limited acquired the business and assets of PPS Group LLC.	
8/25/17	Air Power Systems Co. LLC (Apsco) Tulsa, OK	TPG Investments II LLC Kansas City, MO	Kansas City-based private equity fund TGP Investments II LLC added a manufacturing operation called Air Power Systems Co. LLC to its TGP Capital Partners II portfolio.	Link
8/28/17	Triple-I Corp. Overland Park, KS	MegaForce Overland Park, KS	The acquisition added about 35 employees to the MegaForce team, bringing the total head count to about 60. MegaForce plans to retain the Triple-I name in the foreseeable future.	Link
8/31/17	Ranch Fiberglass Inc. Elkhart, IN	LTA Manufacturing, LLC Kansas City, MO	LTA Manufacturing LLC acquired Ranch Fiberglass. Ranch Fiberglass will continue its production in Elkhart, IN following the acquisition.	Link

Deals from September 2017

Announced	Target (Parent)	Buyer	Comments	Press Release
9/1/17	Lathrop FSG, LLC Lathrop, MO	The Redwood Group, LLC Mission, KS	The Redwood Group, LLC acquired an unknown majority stake in Lathrop Feed & Grain, Inc. As a part of the transaction, The Redwood Group acquired Lathrop Feed & Grain, Inc.'s facilities in Lathrop, Missouri and Pleasant Hill, Missouri.	Link
9/4/17	Community Buying Group, LLC Lee's Summit, MO	Think Realty Kansas City, MO	Think Realty acquired Community Buying Group. CBG affiliates and members transitioned to Think Realty in early September.	Link
9/5/17	Service Plus Propane, Inc. South Hill, VA	Ferrellgas Partners, LP Overland Park, KS	Ferrellgas Partners, L.P. acquired Service Plus Propane, Inc. an independent propane retailer based in South Hill, Virginia.	Link
9/6/17	Cornerstone Assisted Home Care, Inc. Overland Park, KS	Hearts at Home, LLC Overland Park, KS	Hearts at Home acquired Cornerstone Assisted Home Care. Cornerstone Assisted Home Care will operate under the Hearts at Home name.	Link
9/6/17	Electronic Design & Manufacturing Lynchburg, VA	Pivot International, Inc. Lenexa, KS	Pivot acquired Omaha-based Electronic Design & Manufacturing, which has expertise in production of electronic surface boards and the device boxes that house them.	Link
9/8/17	Rockfish Digital Rogers, AR	VML Kansas City, MO	Digital innovation agency Rockfish Digital, which is based in Rogers, AR, officially merged Wednesday with VML. The move creates a division called Rockfish and adds about 250 employees to VML's team.	Link
9/14/17	Seven Theatre Properties NY, NJ, & IN (AMC Entertainment Holdings, Inc.) Leawood, KS	Unidentified American Buyer	An unidentified American buyer acquired seven theatre properties in New York, New Jersey and Indiana from AMC Entertainment Holdings, Inc. for \$130 million. The properties were simultaneously leased back to AMC Entertainment. The sale will generate approximately \$128 million in cash for AMC Entertainment after closing costs and will create a deferred gain on sale of approximately \$80 million that will be amortized throughout the long-term leases, under current accounting standards.	Link
9/14/17	33 Megawatt Commercial & Industrial Solar Portfolio (Kenyon Energy, LLC; Sun Financial, LLC) Jacksonville, FL; Safety Harbor, FL	Tortoise Energy Infrastructure Corporation; Tortoise Capital Advisors, LLC Leawood, KS	Tortoise Energy Infrastructure Corporation managed by Tortoise Capital Advisors L.L.C. acquired 33 megawatt commercial and industrial solar portfolio from Kenyon Energy, LLC and Sun Financial, LLC on September 14, 2017.	Link
9/18/17	12M shares of National CineMedia Inc. (AMC Entertainment Holdings, Inc.) Leawood, KS	Standard General LP New York, NY	AMC Entertainment Holdings, Inc. announced it has entered into an agreement to sell 12.0 million shares of National CineMedia, Inc. common stock to Standard General, L.P. for approximately \$73.1 million, representing a price of \$6.09 per share.	Link

Deals from September 2017 (cont.)

Announced	Target (Parent)	Buyer	Comments	Press Release
9/20/17	Ash Grove Cement Co. Overland Park, KS	CRH plc Dublin, Ireland	CRH plc, the international building materials group, announced it has reached an agreement to acquire Ash Grove Cement Company, a leading US cement manufacturer headquartered in Overland Park, KS, for a total consideration of \$3.5 billion.	Link
9/21/17	Innovative Telecom Consultants, LLC Overland Park, KS	Clarus Communications, LLC St. Charles, MO	Clarus Communications acquired Innovative Telecom Consultants. The transaction brings Brad Allen, founder of Innovative Telecom Consultants, to Clarus' technology consulting team and gives Clarus an office in the Kansas City area.	Link
9/21/17	Fulton Medical Center (NueHealth) Leawood, KS	EmpowerHMS North Kansas City, MO	EmpowerHMS, a North Kansas City rural hospital operator, bought Fulton Medical Center on Friday from Leawood-based health management company NueHealth .	Link
9/27/17	Roger the Plumber Lenexa, KS	4 Eco Services, Inc. Kansas City, MO	4 Eco Services, Inc., a Kansas City, MO-based privately held local provider of residential heating, air conditioning, plumbing, and central water filtration services, announced it has acquired the assets of Roger the Plumber of Lenexa, KS.	Link



Maximizing the Check

Terry Christenberry
Managing Director

Over the course of the last year, my colleagues have written articles that focused on a number of important factors in the valuation and sale of a business. In our Third Quarter 2016 newsletter, Stephanie Siders wrote about “*Valuation Drivers*” (size, profitability, cash flow characteristics etc.) and most recently, in our Second Quarter 2017 newsletter, John Hense

wrote about “*10 Factors That Make a Company more Valuable.*”

Positioning a company to maximize its value is one of the most important task sellers expect an investment banker to accomplish. And make no mistake, if a company is not well positioned, NO check or a relatively small check will be forthcoming. However, having a company well positioned with its valuation drivers is no guarantee of “Maximizing the Check.” Garnering the maximum value for a business at closing requires more work than positioning for a favorable valuation. A seller’s situation can be viewed from different perspectives, just as the following story of Forrest Gump’s entry to the Heavenly Gates illustrates.

Forrest Gump is met at the Pearly Gates by St. Peter himself. St. Peter says, "Well Forrest, it's certainly good to see you. However, I must inform you that the place is filling up fast, and we've been administering an entrance examination for everyone. The tests are fairly short, but you need to pass before you can get into Heaven."

Question 1: What days of the week begin with the letter T?

Question 2: How many seconds are there in a year?

Question 3: What is God's first name?

Forrest goes away to think the questions over. When he returns, St. Peter waves him up and says, "Now that you have had a chance to think the questions over, tell me your answers."

Forrest says, "Well, the first one - how many days of the week begin with the letter T? Shucks, that one's easy. That'd be Today and Tomorrow."

The Saint's eyes open wide and he exclaims, "Forrest! That's not what I was thinking, but, you do have a point. How about the next one?" asks St. Peter.

"How many seconds in a year? Now that one's harder," says Forrest. "But I think and think about that and I guess the only answer can be twelve."

Astounded St. Peter says, "Twelve!? Twelve!? Forrest, how in Heaven's name could you come up with twelve seconds in a year?" Forrest says "There's gotta be twelve: January second, February second, March second..."

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Managing Director

"Hold it," interrupts St. Peter. "I see where you're going with this and I guess I see your point, although that wasn't quite what I had in mind. I'll give you credit for that one, too. Let's go on with the next and final question. Can you tell me God's first name?"

Forrest replied, "Andy."

"Ok, ok," said a frustrated St. Peter. "How in the world did you come up with Andy as the first name of God?"

"That was the easiest one of all," Forrest replied. "I learned it from the song, "...ANDY WALKS WITH ME, ANDY TALKS WITH ME, ANDY TELLS ME I AM HIS OWN."

As the story relates, given the same situational factors, not everyone arrives at the same conclusion. That couldn't be more true than when it comes to valuation and the risk of future performance of a company. Getting the maximum funds at closing for a seller is significantly influenced by both traditional valuation methods and a buyers' perceived risk.

I believe prior articles by my colleagues have done a great job in describing the factors that influence traditional valuation methods such as growth rate, margins, recurring revenue, strength of management, customer base, recognizable brand etc. However, a buyer has to write a check knowing as the TV commercials tell us "past performance is no assurance of future results." Thus, maximizing the size of the check, in large part, means minimizing the buyer's perceived risk regarding future results.

Preparation with anticipation

Reducing perceived risk is best accomplished by "preparation with anticipation." Just as Forrest Gump viewed the facts differently than St. Peter did, sellers and their advisors, should carefully consider how third parties may view the risks associated with a company's future financial performance. This is especially important in a buyout world driven increasingly by private equity firms whose acquisition team may not have an intimate understanding of the seller's industry. Among the most important considerations are the following:

1. Can historic financial results and seller proposed adjustments to those statements be readily supported in a way that should provide a prospective buyer comfort as to their accuracy? Can the value of important elements of the balance sheet, such as accounts receivable and inventory, be readily supported?

While a buyer's ultimate concern is future financial performance, not past performance, historic performance is generally viewed as extremely important because it is the "starting point" for new ownership. If there is doubt as to the accuracy of historic results, future results are immediately put into question.

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Managing Director

While a buyer may agree to valuation based on the presented numbers, doubts as to accuracy will likely result in larger escrow amounts and the requirement for an “earn-out” to ultimately garner the potential value of the business. In addition, a seller runs the risk of larger negative post-closing working capital adjustments reducing a hard won valuation discussion.

The best way to support historic performance is a record of audits by a reputable accounting firm. If those are not available, the sellers should consider obtaining a Quality of Earnings Review (“QER”) by a reputable accounting firm. Such a report can provide the buyer additional confidence in the reported results and adjustments. In addition, the QER can assist in establishing a realistic Working Capital Target agreeable to both buyer and seller. In addition, if the condition of fixed assets may have a significant impact on the purchase price, such as in a capital intensive manufacturing operating, an appraisal or third party report on the condition of the assets may be helpful in providing confidence to a buyer that he isn’t facing immediate large capital expenditure requirements.

2. How can a potential buyer become satisfied that there is low probability that a major customer will be lost in the near future?

There is nothing better than a proprietary product or a long term contract. However, many businesses operate in an environment without either. In those cases, a documented record of long term relationships, inter-company computer to computer communications, minimum order commitments etc. can provide effective evidence of an ongoing customer relationship.

3. What information can be provided to a prospective buyer to alleviate concerns about the future of the industry segment in which the company participates or the “go to market strategy” it utilizes?

Sellers should get their head out of the sand. Any company, industry and go to market strategy has risks, particularly in this period of rapidly changing technology and consumer trends. Sellers should address industry changes and give a buyer confidence that their business is positioned to evolve with changes, rather than downplay them. This should include as a minimum an “internet presence” or internet marketing strategy and key metrics as to how it is progressing for both the selling company and its customer base. Just because the selling company has taken steps addressing technology and consumer changes, doesn’t mean its major customers have done the same. Buyers must become confident their customers or their customers’ customers aren’t in a downward trend as to revenue or margins.

4. Are their opportunities to continue or accelerate growth?

Not only are growth opportunities a key to a higher valuation, they are also key to reducing a buyer’s risk. Few buyers write a check with the anticipation of no-growth.

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Managing Director

Abundant growth opportunities, both through organic growth and through acquisition provide a “cushion” against a buyer’s belief that they might be overpaying and also reduce a buyer’s desire for an earn-out. Thus; a seller should pay careful attention to documenting with as much detail as possible both how further organic growth is achievable and identifying logical, achievable, near term acquisition opportunities.

5. Could a buyer have concerns about buying or occupying the company’s facilities due to potential environmental issues?

For any business except those with no processing, distribution or manufacturing facilities, environmental concerns are likely to arise. Sellers should consider providing potential buyers assurances with a Phase I environmental report for any manufacturing or distribution facility that has a history of or current operations that could result in environmental damage. For a relatively modest cost, a seller can increase a buyer’s comfort that it isn’t stepping into a situation that could result in unexpected costs for environmental cleanup.

A buyers’ due diligence process will most certainly challenge the historic results, particularly adjustments to EBITDA and the quality of current assets. It is not practical to anticipate every question a potential buyer may raise. It is practical, however to be well prepared and inspire a buyer’s confidence with accurate and timely responses to their questions. If a buyer is well prepared and can quickly provide sound documentation of the data presented or requested by a buyer during due diligence, a buyer’s confidence is greatly increased and the probability of obtaining a larger check at closing is significantly increased.

Forrest Gump Story Source: Abundant Hope.org; Author Candace Frieze



John
Hense

Stephanie
Siders

Julian
Buegers

Mike
Lierz

Terry
Christenberry

Bill
Conway

Chris
Brito

Jill
Mortensen

ABOUT CC CAPITAL ADVISORS

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Country Club Financial Services, Inc., dba CC Capital Advisors, Member FINRA, SIPC

RECENT CCCA TRANSACTION:



SCF Partners has invested in Hi-Tech Industrial Services, a premier provider of integrated specialty services to the downstream energy, infrastructure and industrial markets along the Gulf Coast and the Midwestern United States.

CC Capital Advisors represented Hi-Tech as an advisor in the transaction.

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