M&A activity transforms local public firms — and the region’s reputation, too

By MARK SANCHEZ | MiBiz

West Michigan’s homegrown public companies have often ended up as the prey rather than the predator over the past two decades.

Companies like Old Kent Bank, Upjohn, Donnelly Corporation and X-Rite grew up here and then became familiar names in the tech out-of-state public companies looking to become major players in their industries. Suddenly, though, that dynamic has changed. Over the last year, a few major transactions involving West Michigan-based public companies in five different industries have broken the old mold.

In each instance, the local corporation was the buyer rather than seller, and each deal holds the potential to transform the acquirer into a leader in its respective industry.

Taken together, the deals also bring another intangible asset that won’t show up on any company balance sheet: cachet for the region as a good place to build a market-leading business.

“When we can be proud and/or boast of having these types of companies here in the region, doesn’t that make us more attractive to other companies as well?” asked Tom Hiller, a partner in the Grand Rapids office of BDO USA LLP. “I think that the momentum can get stronger when we market that kind of success, that kind of employment base and that kind of management talent right here in West Michigan.”

Making the headlines were five potentially transformational deals:

• Rockford-based Wolverine World Wide Inc. (NYSE: WWW) $1.2 billion acquisition of the Collective Brands Inc. Performance + Lifestyle Group footwear brands in late 2012 to become the world’s third-largest maker of athletic footwear.

• Allegan-based Perrigo Co.’s (NYSE: PRGO) $8.6 billion merger with Elan Corp. (NYSE: ELN) in Ireland that will enable it to expand into Europe and become a global player in the industry. The deal is targeted to close by the end of the year.

• Grand Rapids-based Spartan Stores Inc. (Nasdaq: SPART) $3.9 billion acquisition of Finch Stores (Nasdaq: NFC) that will create a $7.3 billion (revenues) national market leader in the grocery distribution business.

• The merger of Grand Rapids-based Mercantile Bank Corp. (Nasdaq: MBWM) and Alma-based Firstbank Corp. (Nasdaq: FFBK) will create the third-largest bank in Michigan by market capitalization and deposit market leader.

• Zeeland-based Gentex Corp.’s (Nasdaq: GNTX) $700 million acquisition of the HomeLink electronics business from Johnson Controls Inc. (NYSE: JCI).

In each of the deals, the West Michigan company had strong earnings and a healthy balance sheet, Hiller said. The challenge for executives and their board members was figuring out how to maximize those strengths for shareholder value.

“They are not only transformational deals for the company, but they are very good for West Michigan,” he said. “You want to be in a region whose companies are able to do that. They are big transactions in dollars, but when you look at the scale of the companies that are doing them, they are big companies already. They are taking on acquisitions that are very manageable to their scale and capabilities.

“They are going to change the companies, but they are not by any means over-the-top aggressive.”

While each deal significantly spreads the corporation across a wider market, Hiller doubts that it will diminish their hometown ties. All have been major supporters of the region and their local communities and executives “have the common objective of keeping this a strong region and a good place to make a living and live.”

“As each company grows further across a larger market, that’s good for the headquarters and operations back home, he said. Hiller views the transactions with “more optimism than concern at this point.”

“This represents, I think, improved odds for continued employment growth in the region because of how these companies have handled these transactions and taken advantage of these opportunities,” Hiller said.

But having a homegrown company that becomes an acquirer and evolves into a major corporation does not always end well for the hometown.

In the most recent example in Michigan, Comerica Inc. moved its headquarters out of its Detroit hometown to Dallas, Texas in 2007.

And with a growing Hispanic population that becomes an acquirer and evolves into a major corporation does not always end well for the hometown.

In the most recent example in Michigan, Comerica Inc. moved its headquarters out of its Detroit hometown to Dallas, Texas in 2007.

In Muskegon, SPX Corp., after years of acquisitions and growth, decided to pull up stakes and relocate its corporate headquarters to Charlotte, N.C. in 2001. In essence, SPX outgrew its hometown.

Grand Rapids, of course, is much larger than Muskegon and has more amenities to offer, and it’s certainly not the same town it was more than a decade ago.

Yet as hometown corporations become global players, local communities and economic developers need to continue to adapt accordingly, Hiller said.

“To think for a minute that there’s not other regions around the country that would have some part of the whole of these operations would be naïve,” Hiller said.

Amid an improved economic environment from a few years ago, you can expect to see more of these big deals that M&A attorney Jeff LaBine of Miller Canfield PLC views as “a product of the times.”

Since the recession, corporations have been holding onto their cash, becoming leaner and bolstering their balance sheets, LaBine said. They’re now looking to deploy that money to expand their reach, gain market share and create greater shareholder value. Some major strategic acquisitions.

“There’s a lot of cash that’s been sitting on the sidelines that the strategies are really starting to get out there and play with,” LaBine said.

“The strategies have finally decided, ‘Look, we need to chase market share and create that we can get and playing with balance sheets isn’t going to get it anymore.‘” LaBine said. “So the growth is coming through acquisitions, and the big balance sheet is timing well for them.”

Over the next 18 months or so, LaBine expects “to see a large amount of transformative deals occurring across the state and the U.S. overall.”
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As you flip through the pages of this special section highlighting the winners and finalists of our inaugural M&A, Deals and Dealmakers Awards, you’ll probably recognize many of the companies and individuals featured here.

Most of them have been written up in the local media, as well as other niche business publications with names such as the Wall Street Journal, Barron’s and Financial Times. The PR clippings alone make them something of an anomaly in West Michigan, where deals get done quietly and fly below the radar for as long as possible.

That’s why we’re grateful that the dealmakers and the leaders of the companies profiled here were willing to talk about their transactions and share a few pages from their strategic playbooks. Virtually all of them have done multiple acquisitions over the years and have learned lessons. In some cases, the lessons came the hard (i.e., expensive) way.

While several of the deals highlighted here are notable for their size, complexity or transformative nature, the reality is that most transactions revolve around the same business strategies and best practices, regardless of deal size or the size of the companies involved.

Just ask Wolverine World Wide CEO Blake Krueger, who steered his company’s $1.24 billion acquisition of Collective Brands Inc.’s Performance + Lifestyle Group last year.

“We’ve learned over the years that the amount of time and effort that it takes to integrate a small acquisition can be almost as much as what it takes to integrate a larger brand or business,” he told us during a recent interview. “The issues are always the same. One of the advantages of doing a larger transaction is simply it’s one that can move the needle for you. It just takes a little guts to do it.”

The other executives and their teams of employees involved in the deals profiled in this section had guts, too. Come share their stories.
Nicely done.

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Wolverine steps up its game with blockbuster acquisition

By JOE BOOMGAARD | MiBiz

Wolverine World Wide Inc. has laced up its running shoes to compete with the giants of the footwear industry. That’s because the $1.24 billion acquisition of the Collective Brands Inc.’s Performance + Lifestyle Group (PLG) last year positioned Wolverine with a 16-brand portfolio including Hush Puppies and Merrell that trails only industry titans Nike Inc. and Adidas AG in the volume of footwear sold.

The transaction was part of a $2.0 billion deal involving two West Coast private equity firms to buy Collective Brands Inc. and split the company into two parts. In the deal, Wolverine took on PLG with its four brands — Sperry Top-Sider, Saucony, Stride Rite and Keds — but Blum Capital and Golden Gate Capital jointly acquired the remaining portions of Collective Brands, including Payless ShoeSource and Collective Licensing International.

Blake W. Krueger, chairman, CEO and president of Wolverine, said the Rockford-based company engaged in a year-long strategic planning process toward the end of 2010 with its board of directors to lay the groundwork for a potential transformational acquisition. The company had just come off the 2009 acquisitions of the Cushe and Chaco brands, which came to about $15 million combined, and wanted to envision what the company and the industry could look like in 2020, he said.

“It was really that year-long process that got us ready — mentally and fiscally and with our board of directors — to consider a much larger acquisition than maybe we thought was historically norm,” Krueger told MiBiz.

Still, few would have expected a company with about $4.4 billion in revenue at the time to pursue a deal that would nearly double its size.

“When this opportunity came around, we realized that it was a perfect dovetail fit even though it was a substantially larger acquisition — almost essentially buying a company of our same size,” he said. “We were ready strategically to pull the trigger and give it our best shot.”

A number of factors aligned to create a favorable environment for the deal. Crucially, the traditionally conservative West Michigan company known in its industry for being a good operator had the ability to access financing for the deal, the timing of which coincided with historically low interest rates.

To finance the deal, Wolverine borrowed $1.275 billion in long-term debt through a bank syndicate and a new issue of senior unsecured notes. The company, which had not accessed the bond market since 2002, received an A+ rating from Standard & Poor’s. The deal was financed at a multiple of 7.1x EBITDA.

Wolverine then had to use its balance sheet to pay off the remaining $1.64 billion of liabilities and manage its debt through a bank syndicate. Wolverine also borrowed $1.275 billion in long-term debt after completing the deal, bringing total long-term debt to $2.95 billion.

While the company finds itself in this unusual position of being highly leveraged, Krueger said the company had been “aggressive in its planning process toward the end of 2010, starting working on the integration process before the deal even closed.”

With the PLG acquisition, the company was able to leverage its cash flow to pay off some of its debt. The company had a near-record $2.0 billion deal involving two West Coast private equity firms to buy Collective Brands Inc. and split the company into two parts. In the deal, Wolverine took on PLG with its four brands — Sperry Top-Sider, Saucony, Stride Rite and Keds — but Blum Capital and Golden Gate Capital jointly acquired the remaining portions of Collective Brands, including Payless ShoeSource and Collective Licensing International.

Wolverine Chairman, CEO and President Blake Krueger said the Rockford-based footwear company planned out how it might make a transformational deal a year before it announced that it would acquire the Performance + Lifestyle Group from Collective Brands Inc. as part of a $2 billion deal with two private equity firms. PHOTO: REX LARSEN

Wolverine’s footware was marketed internationally in 200 countries. Building the four newly acquired brands in outside markets will take time, as Wolverine needs to set up new distributors and get them familiar with the products, Krueger said.

“We’re spending a lot of calories this year working on new distribution agreements. We signed about 20 so far, and we’ll probably sign about 20 more before the end of the year,” he said. “Our international business — takes a little time, but it builds like an annuity over time. It tends to take business risk out of the equation. We’re not dependent on any single country, territory or region to deliver superior results every year. It makes for a complicated business model, but we’re pretty good at operating against that business model.”

As Wolverine pays down its debt and returns to a more comfortable leverage ratio, it will continue to pursue more acquisitions, although likely not for another year and a half, Krueger said. When the company goes back on the hunt, it will stick to its formula of seeking out strong brands — whether they’re head-quartered here in the United States or Europe or other parts of the world.”

“We’ve been a brand accumulator. In 1994, the company really had three brands. Today, we’re operating with 16,” Krueger said. “We like brands.”
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Perrigo eyes new growth in animal health segment

By MARK SANCHEZ | MiBiz
msanchez@mibiz.com

Months before signing its blockbuster $8.6 billion deal for Elan Corp. of Ireland, Perrigo Co. made an acquisition that put it solidly into an entirely new growth business: animal health.

The Allegan-based Perrigo paid $285 million in cash for Sergeant’s Pet Care Products Inc. of Omaha, Neb. The deal, which closed in October 2012, represented Perrigo’s entry into the animal health business, an $8 billion industry.

In cutting the deal, Perrigo sought to use its manufacturing capabilities, existing customer relations, and an extensive logistics and distribution network to penetrate a new product market and sell animal medicines over the counter at retail stores.

Perrigo followed up the Sergeant’s acquisition with the April 2013 acquisition of Yardley, Penn.-based Velcera Inc. for $160 million in cash. Velcera produces pet flea and tick medicines sold over the counter at retailers.

Chairman and CEO Joe Papa expects further moves in the animal health arena in the future.

“We think there may be more opportunity for us in pet care,” Papa said during a Sept. 10 health care investor conference hosted by Morgan Stanley.

The Sergeant’s Pet Care transaction was Perrigo’s first foray into the animal health market and, combined with the Velcera deal, should initially generate annual revenues of about $200 million for Perrigo in the present 2014 fiscal year and projected earnings of 20 cents per share. Revenues from the two for FY 2013 totaled about $67 million.

The amount will go higher as Perrigo rolls out store-brand products for the animal health business. The company recently began shipping a store-brand version of the Frontline flea and tick treatment for dogs and promises to follow up with additional pet care offerings that sell for a price lower than brand-name products, Papa said.

The Sergeant’s deal was structured similarly to the acquisitions Perrigo has made over the years: The company was integrated into an existing business unit, in this instance the $2.08 billion Consumer Healthcare division. The strategy behind the deal followed the same rationale behind numerous past acquisitions for Perrigo: providing an entry into an adjacent product category that has high-priced products and where Perrigo “can drive enhanced product offerings and value for its retail customers,” said Art Shannon, Perrigo’s vice president of investor relations.

Shannon cites as an example of a similar deal the $808 million acquisition of infant formula maker PBM Holdings in 2010. “Consumers are treating their pets like members of the family and are spending a higher proportion of discretionary income on pet care and wellbeing,” Shannon said. “We believe that our store brand offering is what the consumer and our retailers need.”

Perrigo had looked at entering the animal health business “for some time,” Shannon said. The Sergeant’s deal was a “perfect category” for Perrigo’s acquisition criteria.

Animal health also has a high barrier for competitors and there’s no overlap with the company’s existing products, he said.

The American Pet Products Association projects that American consumers will spend $13.21 billion in 2013 on pet supplies and over-the-counter medications, up 4.4 percent from 2012 and 12.2 percent from 2011.

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Custom Profile keeps local connection in sale to PE firm

By MARK SANCHEZ | MiBiz
msanchez@mibiz.com

After 20 years of running the business he founded, Sam Nichols wanted to pull back, share some of the management workload, spend more time with family and maybe travel. He still wanted to work, however. And if he sold his business, Custom Profile Inc., Nichols wanted to make sure that what he had built over two decades remained intact and that his employees were taken care of.

Working with a private banker, he put Custom Profile on the market. Among those who were interested: Blackford Capital, a private equity firm in Grand Rapids that had a new fund that sought to acquire and grow mature manufacturing companies in Michigan.

Nichols, 54, cut the deal with Blackford Capital in August 2012 and remains the company’s president. The deal was structured using private capital, senior debt, mezzanine debt, Nichols’ personal funds and a seller note.

The deal for Custom Profile was the first for Blackford Capital’s Michigan Prosperity Fund. The firm liked Custom Profile’s strong management team, focus on lean manufacturing and proven track record. The company has grown revenue and earnings in 19 of its 21 years in business.

Blackford Capital managing directors Jeff Helminski, left, and Martin Stein, right, both sit on the board of directors for Custom Profile Inc., after the private equity firm acquired the manufacturer in August 2012 from its founder, Sam Nichols, who remains as president.

Selling the business to the private equity firm not only accomplished his personal goals but those for the business. For one, key customers were beginning to ask how Custom Profile would continue without Nichols.

“As we got bigger, our customers started questioning what happens if something happens to Sam? If I were to leave, for whatever reason, I wanted people to be able to know this is a sustainable business and it has legs without me,” said Nichols, who also wanted to grow Custom Profile faster and provide employees greater opportunity within the company.

Custom Profile had been growing revenue at about 15 percent annually in the last four years, a rate Nichols calls “pretty good” but not necessarily one that can create a lot of opportunity for promotion within the company.

“We were hiring people, but we weren’t promoting many people,” he said.

Since the acquisition by Blackford’s Michigan Prosperity Fund, several employees have been promoted, 25 new employees have been hired, and the firm established an apprenticeship and training program “to create the employee base that we need to support faster growth. Custom Profile, as it grows faster, has had “a lot of difficulty” finding qualified employees for the shop floor and technical support positions, Nichols said.

The company’s sales are on track to reach an estimated $28 million this year, versus about $21.7 million at the time of the deal.

Key customers for Custom Profile include Steelcase Inc., Herman Miller Inc., Haworth Inc., Whirlpool Corp. and Electrolux.

Under Blackford’s ownership, the company has a goal of growing as much as 30 percent annually and extending its reach to new markets such as recreational vehicles, health care and medical devices, and construction and building products.

“What that’s going to allow us to do is create more value for the investors than had been created previously,” Nichols said. “It allows us to reach other markets than what is typical for us, the appliance and the office furniture industry.”

Nichols, Custom Profile’s sole owner before the sale, chose Blackford Capital because of its expertise in growing companies and because it is a local private equity firm that knows the region.

“They’re West Michigan-based. They understand the culture,” said Nichols, who retained a minority stake in the company.

“They’re West Michigan-based. They understand the culture,” said Nichols, who retained a minority stake in the company.

“There were several people that were from Chicago and New York (who were interested in Custom Profile). I wasn’t leaving West Michigan values or ownership, and I’m getting a West Michigan board, which I wouldn’t have gotten if I had gone outside to some of these other private equity companies. I kept it local.”

Nichols also likes that Blackford Capital has a longer-term ownership horizon, 10 years or more, alleviating worries about the company getting sold again in just four or five years.

One obstacle Nichols had to overcome at the time of the sale was the reaction of employees, who were “shocked” by the deal and began to worry about their future. They asked if the company was in trouble and how the sale would affect their jobs, pay and benefits. Some also held negative views of private equity firms.

“Selling the business to the private equity firm not only accomplished his personal goals but those for the business. For one, key customers were beginning to ask how Custom Profile would continue without Nichols.”

At employee meetings, Nichols sought to answer all of their questions.

“The employees were not happy,” Nichols said. “Ultimately, I told them, ‘I know this comes as a surprise to you, but it’s a good thing for Custom Profile and all I’m asking you to do is trust my judgment and you’ll know within six to eight months if I delivered on my word.’

So far, he said, “it has been about as smooth as I sort of ever expected. I’m not surprised at anything that has happened. They represented themselves exactly how they are and they are supportive.

“What was represented to me is what actually happened … You created a great business. We want you to continue to run it the same way. The day after the close, the day-to-day activities, we don’t want you to change. We want you to continue what you’re doing,” Nichols said.

Blackford Capital did form a board of directors for Custom Profile that includes Martin Stein, the firm’s founder and managing director, and Jeff Helminski, also a managing director.

Operating partners from Blackford Capital also serve as “go-to guys for day-to-day issues that arise that are outside of the norm, and most of that is developing a growth strategy that allows us to grow at a faster pace. They were our go-to people to implement it.”

Much of the first year under the new ownership involved getting used to new reporting structures, and Blackford Capital’s staff and Nichols and his management team getting to know one another.

“It was quite a feeling-out process of getting to know each other a bit. They didn’t know us well, we didn’t know them super well, so we spent a fair amount of the first year getting to know each other and establishing a reporting structure,” Nichols said.

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CUSTOM PROFILE

- Top executive: Sam Nichols, president
- Annual sales: $21.7 million at the time of the sale
- Total full-time West Michigan employees: 115 in Grand Rapids, plus 60 at a facility in Juarez, Mexico
- Business description: Producer of extruded plastic components for the office furniture and appliance industries
- Best practices for effective deal-making: “In this situation, what I appreciated was that from the beginning we felt they were being open and honest and we were as well. We weren’t trying to hide anything and they weren’t trying anything, and that makes for a much better negotiation.”

PHOTO: JEFF HAGE
In striking a merger deal in late 2012, two competing Grand Rapids-based architectural firms determined they could be more competitive and more profitable together than they could as separate entities.

As the recovering economy touched off a wave of mergers and acquisition activity in the architectural and engineering industry last year, the merger of Progressive AE and Design Plus was notable for being the largest deal in the sector in West Michigan. The transaction created a firm that boasts some 170 professionals and that is licensed in each of the 48 contiguous states.

“Despite being more specialized, when we look at national market trends, we are adopting innovative services that much earlier than our competitors,” said Dan Gentzel, senior principal of Design Plus.

The merged firm is the 32nd largest among AIA members, up from 41st place.

The merger comes as the growing community of designers and engineers are realizing there were mounting pressures to offer more services in pre-design, business development and process management.

“We came into this very open-minded and wanting to build a sense of togetherness. Out of the gate, we didn’t want to talk in terms of ‘us and them.’ We used Progressive Uptown and Progressive Downtown,” Thomas said, referring to the firm’s two offices after the merger. “It was less divisive, and even though it was very subtle, it felt very different.”

A sense of respect from both firms was key from the outset and the deal wouldn’t have happened as easily without that, Horman said.

“A lot of mergers often measure by how well you integrate,” Thomas said. “As the saying goes, culture eats strategy for lunch.”

If the company is to continue its growth trajectory, it will need to look beyond Michigan to a national audience, Thomas said.

“We have plans to continue to grow, and part of that growth is our goal to grow outside of Michigan,” he said. “With about 50 percent of our work already outside the state, our growth is greater than the state can support and that the new leader of the combined entity is prepared to lead. Be thorough in preparing for integration and engage departmental leaders on both sides to work together to find the best practices for moving forward. Things will be different – frame it in the context of opportunity and then work to achieve it.”

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– Ken Filippini, President of The Worden Company

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– Rick Arnold, President of Broadway Product Development

“Progressive AE is a full-service design firm that works in the mature industry of architecture, engineering and construction. It’s been just over a year since the completion of the merger, and it’s clear that the new firm has achieved all the goals it set out to accomplish through the merger.”

“More than simply needing a building, ‘The deal was largely about looking at complementary markets and adding deep specializations that Progressive was not in,’” said Bradley Thomas, CEO of Progressive AE. “There was also a specific interest around growing our technology.”

Over the past couple of years, the architecture and construction industries were rapidly adopting Building Information Modeling (BIM). While Progressive was moving toward widespread use of the technology, Design Plus was already a leader in the use of the BIM, Thomas said. Merging the two firms only helped accelerate that process.

Beyond BIM, leaders from both firms realized there were mounting pressures to offer more services in pre-design, business development and process management.

“A lot of mergers often measure by how well you integrate,” Thomas said. “As the saying goes, culture eats strategy for lunch.”

But it’s not just about integrating the technology, Thomas said. The merger allows us to bring deeper skills beyond architecture and engineering.

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Rooks, Parkland Properties find role in Muskegon's turnaround

By ELIJAH BRUMBACK | MiBiz ebrumback@mibiz.com

One of Muskegon's biggest cheerleaders happens to be a developer who has amassed the largest portfolios of property being redeveloped in the city's downtown.

In the last few years, Parkland Properties' founder Jon Rooks has amassed a bevy of properties in the lakeshore city, culminating this year with the acquisition of the Holiday Inn Muskegon Harbor.

Parkland Properties used the tax benefits of a 1031 exchange to purchase the hotel, the owners of which had recently completed a $2 million renovation. Rooks agreed to spend another $1.5 million over two years to update the hotel's mechanical systems, roof and windows.

The acquisition was Parkland's second foray into the hospitality industry in Muskegon, the company having purchased the struggling Shoreline Inn & Conference Center from the brink of foreclosure in 2009.

"In the sense of the synergies we had in terms of management and cross utilization of the people I hired to turnaround the Shoreline Inn, it was just natural for us to buy the Holiday Inn," he said.

In part, Rooks said the successful turnaround of the Shoreline Inn led to the owners of the Holiday Inn approaching him about buying the property. They talked once a year after Rooks purchased the Shoreline Inn and were able to come to a deal very quickly this year.

"Why not do it again? Why not take the same approach we took with the Shoreline Inn and use it on the Holiday Inn?" he said of his company's thinking in approaching the deal.

That latest acquisition follows a string of transactions for Rooks in Muskegon, deals that started with Parkland's acquisition of the former Comerica Bank building in downtown Muskegon in 2008. Rooks is now planning to redevelop the site into HighPoint Flats, a 72-unit, two-phase residential apartment development.

Last year, he also added to his portfolio a former Muskegon fire station that he plans to use as a sales, leasing and construction office for HighPoint Flats and the new Terrace Point Landing, a fire station that he plans to use as a sales, leasing and construction office for HighPoint Flats and the new Terrace Point Landing.

But Parkland Properties and Rooks weren't always so keen on projects in Muskegon.

Rooks cut his teeth in the 2000s developing condo properties in the Grand Rapids market, where he made use of Renaissance Zone designations to spur buyer interest. Since 2003, Rooks has developed more than 500 condos and 53 offices spaces, all of which maintain above a 97-percent occupancy rate, he said.

With that track record behind him, Rooks' reasons for heading to Muskegon stem back to 2007 when three of his friends convinced him to come to the city and get a firsthand look at the opportunities for development. That ultimately led to his purchase of the HighPoint Flats site.

The other acquisitions just came together because of his connections in the market, he said. All of a sudden, Rooks said his company was much further embedded in Muskegon than he ever intended.

"Once I was there, it was like I drank the Kool-Aid," he said. "I became more impressed by their commitment and enthusiasm and the masterminding of the turnaround of Muskegon." Another reason for coming to Muskegon: The city was very supportive of development proposals. Rooks had just walked away from a frustrating residential proposal to redevelop the former Sligh Furniture factory on Grand Rapids' south side after failing to win approval for a Renaissance Zone designation after other developers objected.

"I was frustrated and the timing from Muskegon's city leaders was perfect," Rooks said. "They said, 'We have (the former Comerica Bank building) and we want to give you a Renaissance Zone extension here. It got me excited about the resurgence and the enthusiasm of the people who have a focused mission of turning around downtown Muskegon.'

"It wasn't just city leaders that kept selling him on investing in Muskegon, either. He said the community raised roughly $15 million in private funding in one year, funding that went to build the new farmers market, endow the arts museum and help fund an expansion of Grand Valley State University's new Annis Water Research Institute.

"It's shocking," he said. "The city has a lot of quiet money, smart people and effective planning in place, and we just want to be a part of that."

Despite the risk involved in being part of Muskegon's turnaround, Rooks said he prides himself on being the first to put a flag in the ground.

"It's a tough deal in the beginning, but we always like to be at the front end of the emerging markets," he said. "We were the first to offer condos in Grand Rapids under $200,000, and at a time, we were selling a condo a day. We liked being the first."

With that confidence, Rooks said he wants to do the same thing in Muskegon. While it may not be strictly condos, he is bringing a mix of what he thinks are complementary property types to the market.

A good project should be able to stand on its own and make money, but another thing a good project can also do is become a catalyst for further development in a community, he said.

"We want to be the catalyst and we want our project to be what appraisers look at to see whether it's prudent to lend money to new projects," he said. "That's ultimately the best compliment we can get when appraisers call and use our project as a comp."
616 Development flies under the radar no more

By ELIJAH BRUMBACK | MiBiz
embrumback@mibiz.com

When faced with plans for a redevelopment project that just “didn’t feel right,” 616 Development LLC founder Derek Coppess knew it was time to get creative.

After purchasing the building at 1 Ionia Avenue in Grand Rapids, Coppess had originally planned for 10 apartment units on floors four and five and office space on the second and third floors. The initial design also called for My Bar, the existing retail tenant at the highly visible corner, to stay put.

But the inefficiencies of the design made Coppess think twice about moving forward with the project. “It worked well enough to continue going down that road to buy (1 Ionia), but then I was staring at the building and I thought, ‘Maybe we should look at the building next door,’” Coppess said, referring to 7 Ionia.

It was one of those double-down moments, where he could have gone the easy route and potentially buying the building and extending 616 Development’s project. Poppin almost immediately hung up on him, Coppess said. But Coppess persisted and convinced Poppin to sit down, have coffee and give the two developers a chance to learn about each other. They eventually came to terms for a deal.

Before the redevelopment of the Hawkins and Gunn buildings at 1 and 7 Ionia Avenue in Grand Rapids, Coppess and his “tribe” at 616 Development operated mostly under the radar, but the high-profile project landed the firm at the center of attention for offering residential units in the city’s Arena District.

Combining the two buildings allowed the scope of the project to expand considerably. The larger available retail space attracted the attention of Mark Sellers of BarFly Ventures LLC, the owner of HopCat, Stella’s and McFaddens in downtown Grand Rapids. Sellers envisioned relaunching the revamped Grand Rapids Brewing Co. at the high-profile corner of Ionia Avenue and Fulton Street in the city’s Arena District.

Coppess and his firm also attributes a lot of its ability to complete deals to its focus on community-driven decision making, taking feedback from previous projects and applying it to the new. Coppess said 616 Development emphasizes collaboration with its partners so that deals and eventual projects are timely and equitable for those involved.

Initially, it didn’t look as if the gamble would pay off. When Coppess contacted Bruce Poppin, the owner of 7 Ionia, about potentially buying the building and extending 616 Development’s project, Poppin almost immediately hung up on him, Coppess said. But Coppess persisted and convinced Poppin to sit down, have coffee and give the two developers a chance to learn about each other. They eventually came to terms for a deal.

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The plans for the brewery got jump-started with funds from the Michigan Economic Development Corp.’s Community Revitalization Program (CRP). 616 Development’s overall project was backed by a construction loan from The Bank of Holland, seller financing and equity investor backing. The Bank of Holland also helped to bridge the Building Redevelopment Incentive Program (BRIP) from the Grand Rapids Downtown Development Authority and the state CRP funds.

The project was the first in West Michigan to receive CRP financing, which 616 Development has since applied to other projects. “I think we performed so well on this redevelopment, keeping it on time and on budget, that we were able to attract more investors, increase our track record and hone in our format to how we stack these deals from a capital standpoint,” Coppess said.

Advisers on the 616 Lofts at Ionia project include both Rhoades McKee PC and Warner Norcross & Judd LLP.

Coming off the successful completion of the 1 and 7 Ionia project and others in and around Grand Rapids, Coppess says his firm remains hungry for additional deals. In July, 616 Development branched out to downtown Battle Creek, buying the mostly vacant, 19-story Heritage Tower and an adjacent building.

Coppess said the firm plans to offer 65 residential units as well as a boutique hotel at the site. “1 and 7 Ionia was a very visible deal, and it was a big vacancy spot right downtown that got a lot of attention,” he said. Until this deal, we had been flying under the radar for a long time. (The project) has led to a lot of cool conversations with a lot of people that we probably wouldn’t have been in before.”

616 DEVELOPMENT, LLC

Top executive: Derek J. Coppess

Annual Sales: Not disclosed; The firm projects adding 150-200 apartment units within 18-24 months

Total full-time West Michigan employees: 9

Brief business description: 616 Development is an urban development firm specializing in building residential communities

Best practices for effective deal-making: In the effort to make deals happen, Coppess and his team put a high value on making sure there is a good deal of transparency between the parties involved so that everyone is on the same page and understands the goals of a particular project. The firm also attributes a lot of its ability to complete deals to its focus on community-driven decision making, taking feedback from previous projects and applying it to the new. Coppess said 616 Development emphasizes collaboration with its partners so that deals and eventual projects are timely and equitable for those involved.

CHILDREN'S INSTITUTIONS

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Martin Stein’s first deal didn’t work out too well. Quality Imaging Products in Irvine, Calif., a producer of remanufactured ink cartridges, had been an Inc. 500 company for four straight years prior to its acquisition by Stein’s private equity firm, Blackford Capital. Operating in a high-growth industry with its largest customers went bankrupt, too, Stein said.

“For that first deal, Stein has done much better and handled 27 more transactions, including two in Michigan in the last year that earned him recognition as Dealmaker of the Year in MiBiz’s 2013 Deals of the Year Awards. The deals were for Mope Inc., a producer of pathology and mortuary equipment based in Oak Park in suburban Detroit, and Custom Profile Inc., a Grand Rapids producer of plastic components for the office furniture and appliance industries.

An Ada native, Stein started Blackford Capital in 2000 in Chicago and soon moved the firm to Los Angeles. With 70 percent of Blackford Capital’s holdings based in the Midwest or on the East Coast, Stein decided in 2010 to relocate the firm to his hometown in Grand Rapids.

After returning home, he launched the Michigan Prosperity Fund in 2012 that seeks to acquire mature, profitable manufacturing companies in Michigan with annual revenues of $20 million to $100 million, a potential for solid growth, and whose owners want to sell. Stein wanted to tap Michigan’s robust manufacturing sector for acquisitions.

In moving Blackford Capital to Grand Rapids, Stein wanted to tap Michigan’s robust manufacturing sector for acquisitions. Blackford Capital’s own market research shows that Michigan has 15,000 to 20,000 manufacturing companies, some 1,500 to 2,000 of which fit into the firm’s investment criteria. Stein believes 30 percent to 40 percent of those companies will transition ownership over the next decade, generating plenty of opportunity for investors.

While the move opened opportunity for the firm, it initially posed a significant hurdle to overcome, Stein said.

“We had to start all fresh when we came here,” he said. “It felt like, in some ways, we were really starting over.”

The Michigan Prosperity Fund as of August had raised about $10 million from investors, twice the amount of capital committed at the end of 2012. Stein hopes to eventually raise $20 million for the fund. The capital committed to date came from more than 55 limited partners, some of whom have coupled their commitment with a personal investment in the first two companies the Michigan Prosperity Fund acquired.

In supporting Stein’s nomination as Dealmaker of the Year, John Jackoboice of Fourth & Fifth Capital Ventures called Blackford Capital “a terrific addition to the business and investment arena in Greater Grand Rapids and West Michigan.”

“With their fund, they have improved the economic impact of manufacturing and have helped to sustain our manufacturing base,” Jackoboice said. “Investing in and keeping manufacturing in Michigan is critical to our local economy, and Blackford Capital has done and will continue to focus on those goals.”

Between the Michigan Prosperity Fund and a national private equity fund, National Growth Practice, Blackford Capital presently owns seven portfolio companies that have collective revenues of $225 million and employ nearly 1,000 people in 13 states.

In examining potential acquisitions, Blackford Capital first focuses on identifying prospects with strong management teams “that want to get the business to the next level.” Together, Blackford Capital and the acquired company’s executive team look at how to grow the business, whether into new product and geographic markets or by adding capabilities.

Of the seven companies Blackford Capital owns, five or six are on track to have their best years ever, Stein said.

In any acquisition, the firm takes a “very disciplined focus on what are the two to three things that we need to do very well here, and then let’s do those things,” Stein said. Quite often, Blackford Capital can create opportunities for its portfolio companies by connecting executives with investors who can offer their own personal networks to tap or introduce them to potential customers.

“It’s just a real neat culture and community that we’ve assembled,” he said.

In describing his deal philosophy, Stein said much of what makes a transaction work comes down to “partnering with good people.”

“When you are putting a transaction...
together, you are getting married, and you need to look real closely and see who it is that you are going to be partnering with and is it someone you want to be connected with over an extended period of time?” he said. “For us, that is the most critical piece. We’ve not always done it perfectly, and we’ve not always been perfect partners. I think there’s been an opportunity to learn and to grow, but that’s what the deal is — not thinking about that transaction independently, but who you each are, what you each bring to the equation and where you want to go over time.”

Blackford Capital, through its two private equity funds, looks at deals for 3,000 to 6,000 companies a year. Of those, the Michigan Prosperity Fund will look at 100 to 200 companies. The firm identifies prospects through ongoing business relationships with investment banks and M&A firms, as well as professional advisers such as lawyers, accountants, estate planners and bankers whose clients may want to sell.

Blackford Capital has a database of 13,000 intermediaries around the nation that it contacts regularly, Stein said. The firm tries to close three to five deals a year between the Michigan Prosperity Fund and National Growth Practice. “There’s no home delivery in private equity. You have to go out and get it yourself. You have to find it,” Stein said. “We’ll look at a very large number of deals and we can toss out 90 percent of those because they don’t fit. They’re too big, they’re too small, they’re too profitable or not profitable enough, they’re in the wrong industry or the wrong geography. There are a lot of reasons. We’re able to eliminate 90 percent of them in five seconds.”

Blackford Capital’s staff then goes about analyzing and whittling down the remaining prospects for consideration at a weekly deal review meeting, where each is debated back and forth as an investment. The prospects chosen to go to the next level are then further analyzed in an eight-step process that starts with contacting the owner or management to gauge their interest in a deal.

Stein estimates that between internal staff and outside advisers, Blackford Capital puts about 2,000 hours of work into due diligence in every deal “to figure out what is going on in the company.”

Most recently, Blackford Capital formed an advisory board led by former Michigan Gov. John Engler.

The advisory board for the Michigan Prosperity Fund will “help us be the absolute best we can be,” Stein said. The members will provide advice and guidance on prospective investments, talent and other aspects about the Michigan Prosperity Fund’s operations.

“We have the best of the best helping us,” Stein said. “We are just getting started here and we have a long, long way to go. We’re elevating our cause and enhancing our team.”

Engler, who served three terms as governor, is presently the CEO of the Business Roundtable, an organization of corporate CEOs. Joining him on the Michigan Prosperity Fund Advisory Board are Meijer Inc. co-CEO Mark Murray; David Porteous, an attorney from Reed City and a director at Huntington Bancshares, who once chaired the board of trustees at Michigan State University; and Mary Petrovich of The Carlyle Group, a $180 billion private equity firm, who focuses on industrial buyouts and previously served as chairman and CEO of AxleTech International in Troy.
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Fehsenfeld fuels Crystal Flash for growth

By ELIJAH BRUMBACK | MiBiz

crystal Flash Energy President Tom Fehsenfeld has been finding a promising climate for acquisitions across Michigan lately. In the last 20 months, Crystal Flash acquired six companies — four of them in the last 12 months. These six acquisitions added nearly $70 million in revenue to the petroleum and fuels wholesale distribution firm, more than $100 million of which occurred in the last year.

The wave of deal activity for the Grand Rapids-based firm resulted from Fehsenfeld and his team contacting the owners of 250 similar businesses across five states in the last 12 months, all while following a systematic process, he said.

Crystal Flash worked to develop its targeted growth strategy with advisers at The Charter Group, a Grand Rapids-based mergers and acquisitions consultancy.

“Like a lot of sales processes, it’s a numbers game, but you have to make an effort to make contacts,” he said. “It’s kind of like a funnel, and it takes weekly attention.”

As an owner of a third-generation, family-owned company, Fehsenfeld can meet many of the business owners at their level since many of them have been building their businesses for decades.

At 64, Fehsenfeld said he’s working harder than he ever has.

“These owners that we deal with have a lot of sweet equity in their businesses,” he said. “Being a family company ourselves, I think the owners we deal with feel that we’ll be able to come in and take care of their employees and try to give them a fair deal so they can see the benefit of their lifetime of work.”

Fehsenfeld started working for the company in 1974. When he came into the company, his task was to take the 15 full-service gas stations his father had built and continue to grow the business. Over the next 20 years, Fehsenfeld eventually built and operated 32 self-service gas stations and convenience stores.

At the same time, he started to develop the distribution side of the business. In 2002, he sold 32 gas stations to Speedway, moving solely into distribution. This move set the stage for the next chapter of the company and defined Fehsenfeld’s vision to move into five states and serve the entire Great Lakes region. Most recently, the company acquired Monroe-based C. Barrons & Sons, which has about $40 million in sales and 25 employees and serves the Southeast Michigan and northern Ohio markets, Crystal Flash’s first presence in Ohio.

While there is no timeline in place for the strategy to be fully implemented, the company is accelerating its movement in the right direction, Fehsenfeld said.

“In the early 2000s, we had a couple of losing years and had trouble transitioning from a company that had two different divisions, retail and distribution, to just distribution,” he said. “It took three or four years to sort things out. We went from a company with 400 employees to 250 employees, and we had to change a lot of how we operated.”

After getting past that volatility, Fehsenfeld said the company has been performing consistently with good profitability since 2006 and good growth through the acquisitions.

Looking ahead, Crystal Flash is continuing to pursue acquisitions and is currently vetting two potential purchases.

“There are lots of owners who started in 1960s and are now just looking for an exit strategy,” he said. “There aren’t many drivers out there, but things are getting more complicated for small companies to comply with regulations.”

Financing, upgrading equipment and keeping up with Department of Transportation compliance are just a few of the issues impacting the industry, he said.

“We’re pretty simple-minded when it comes to putting deals together,” he said. “We’re not into a lot sophisticated financial maneuvers, and I think that’s appealing to owners we work with because most aren’t big companies. We offer the kind of emphasis on giving them value instead of just a big check.”

Employees:

Crystal Flash Energy

Fehsenfeld, President

Annual sales: $200 million

Full-time Michigan Employees: 250

Business description: Crystal Flash is a wholesale distributor of petroleum-based products and fuels ranging from gasoline to lubricants.

Best practices for effective dealmaking: Fehsenfeld said when it comes to deal making, the company emphasizes having a clear process, being a good listener when talking to owners and making sure to bring greater value — instead of just a big check.

Spouse/Children: Wife, Carolyn. Three children: son, Alan, who is Crystal Flash’s CFO; daughter, Dana, a fabric designer; son, Ben, co-director of Fourth World, an international anti-poverty agency.

Academic Degrees: Walden University, Ph.D. in organizational design; MBA and undergraduate degree, University of Michigan

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Larsen ‘invaluable’ in Wolverine acquisition

By GARY ANGLEBRANDT | MiBiz
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When it comes down to the nitty-gritty of making a big deal, the heads of the parties in question may or may not be at the table, and the same goes for their bankers.

The group that definitely will be: The lawyers.

In the case of one of West Michigan’s biggest deals last year, Wolverine World Wide Inc.’s $1.24 billion purchase of a major portion of Topeka, Kan.-based Collective Brands Inc.’s business in May, there were “easily 50 lawyers” tidying up all the final details, said one of those lawyers, Tracy T. Larsen, managing partner at Barnes & Thornburg LLP’s Michigan office in Grand Rapids.

Larsen headed Wolverine’s advisory team in the negotiations.

“Larsen was more than a match for the New York attorneys on the other side of the deal. His overall strategy, gut instincts, negotiation skills and stamina were invaluable to the successful conclusion of this critically important transaction for WW,” wrote Wolverine CFO Donald Grimes in nominating Larsen for the Dealmaker of the Year award in the adviser category.

The large number of lawyers resulted from the complexity of the deal. Besides Wolverine, there were two private equity firms working to buy the rest of Collective Brands’ business. The resulting combined $2 billion buy turned over Collective Brands’ Payless ShoeSource and Collective, together bought Collective Brands’ Performance + Lifestyle Group to Wolverine, which picked up the Sperry Top-Sider, Saucony, Stride Rite and Keds brands.

The two San Francisco-based private equity firms, Golden Gate Capital Opportunity Fund LP and Blum Capital Partners LP, together bought Collective Brands’ Payless ShoeSource and Collective Licensing International operations.

Wolverine began looking at an acquisition of the Performance + Lifestyle Group in 2011 and made an overture at that time, but it was unsuccessful, Larsen said. When Wolverine met with success a year later, it found out on a Wednesday evening at 5 p.m. The public announcement was made the following Tuesday before the market opened.

“We basically never stopped for those six days,” Larsen said.

There wasn’t actually a negotiating table in this deal, at least not in the final heated days. The work was all done by phone, and it took place at all hours. Crossing all the Ts on the paperwork with four parties involved took a little longer than usual. “The documents were voluminous.”

The deal nearly doubled Wolverine’s revenue to about $2.5 billion a year.

“Tracy’s deal experience and savvy helped drive the overall transaction structure and successfully resolve a very complicated set of issues brought about by the nature of our joint proposal,” Grimes said. “He was a leader in keeping the team cohesive and on point through the deal process.”

Larsen was able to head off issues developing from the deal’s complexities, Grimes also said.

Among them were the separation of Collective Brands’ international business and the rules involved with the purchase of a publicly-traded company.

“The transaction was inherently different by its very nature, in that it was a club bid partnered with two private equity groups,” Larsen said.

Wolverine and the two firms formed a separate entity to present a clear, unified bid against other single bidders and to structure the deal as a merger. They then split apart the entity immediately after the deal.

“Tracy is our go-to guy, not if, but when we do our next deal,” Grimes said in an interview.

Larsen said the biggest challenge on complex transactions is dealing with all the “variables we don’t have control over.”

“My job running the legal team is to make sure everything comes together contemporaneously,” he said. “It’s trying to put some reasonable measure of control over things we can’t control.”

His trick to keeping all the balls in the air is a combination of communication, speed and setting expectations.

“I’ve always had this belief that time kills deals,” Larsen said.

Effective dealmaking comes down to preparation, anticipating obstacles and thinking creatively, he said. Locking in finances, key employees, vendors and regulatory issues such as antitrust laws at the front end is the way to ward off trouble, and he moves clients in this direction at the outset, he said.

“We come up with strategies to deal with mitigating issues at the front end,” Larsen said.

His work has led to professional accolades, including rankings and lists from Chambers USA and Best Lawyers.

The last year was a good one for deal-making in West Michigan and the country because a return of the availability of financing coincided with an improved sense of confidence in the economy, he said.

Larsen has led 35 M&A advisory teams in the last year for a total transaction value of more than $5 billion, including the $1.24 billion Wolverine World Wide acquisition of Collective Brands’ Performance + Lifestyle Group.

PHOTO: REX LARSEN
Kerschen balances unique needs of transactions

By GARY ANGLEBRANDT | MiBiz
editor@mibiz.com

The hand of John Kerschen, managing director of M&A advisory firm The Charter Group in Grand Rapids, has been in 85 transactions in his 17 years at the company, representing a total transaction value of more than $500 million.

In that role, his past year’s work has included advising a family-owned manufacturing and machining business, Merrill Technologies Group in Saginaw, on moving the company’s ownership from the first generation to the second, while at the same time needing cash on hand to support growth.

He also worked on the sale of The Worden Co., a contract furniture manufacturer, and advised Crystal Flash Energy, a Grand Rapids-based fuel hauler, on six acquisitions over the last two years. Charter guides Crystal Flash’s technology industries are the main sources of business for Charter, which typically targets transaction values ranging from $10 million to $100 million.

Many of the firm’s customers are family-owned businesses with less than $50 million in annual revenue, requiring an extra layer of the delicate treatment that comes with handling other people’s money. This aspect of the work generally goes unrecognized by the casual observer, Kerschen said.

“Certainly there’s the financial and technical aspects, but an added element on top of that is the personal side, or maybe call it the emotional side of a family business,” he said.

The added considerations go outside the usual, hard-nosed, dollars-and-cents lines of thinking that go along with M&A transactions. Employee welfare, the family’s reputation and a sense of community become more important. “It’s not necessarily about fighting against it. It’s something you recognize as part of the process for these types of businesses,” Kerschen said.

Kerschen also hopes to bring more furniture industry business to Charter Group, which launched a furniture industry practice group in June at the NeoCon trade show in Chicago. The industry is very fragmented and filled with good companies in the $20 million-$200 million revenue range, he said.

“There are needs on a regular basis for companies either growing through acquisitions or seeking to exit the business,” he said.

The firm has four clients in that space now on both the buy and sell side, and he plans to get more. “It makes sense for Grand Rapids to be the center for an industry-focused M&A practice,” Kerschen said, referring specifically to the furniture sector.

Kerschen also is involved in Michigan’s venture capital community. He is managing director of the Michigan Accelerator Fund 1, also based in Grand Rapids. The $15 million MAF-1 fund mainly targets life sciences companies and has seven in its portfolio.

The fund’s biggest investment in the past year has been in Ablative Solutions Inc., a Kalamazoo medical device startup led by prolific medical device inventor Tim Fischell and based on a technology for improving a surgery for lowering hypertension. The fund co-led the $5 million round with BioStar Ventures in Petoskey.

This year Kerschen also helped launch a new fund targeted solely at medical device startups. The Novus Biotechnology Fund 1 LP, based in Kalamazoo and launched in June, plans to invest in early stage biotechnology companies, especially medical devices and diagnostics, with target investment sizes of between $500,000 and $1.5 million. The Charter Group has the contract to manage the new fund, which aims to raise $15 million.

Kevin McLeod, who heads the Michigan Medical Device Accelerator in Kalamazoo, is one of the general partners. Kerschen is a board member of the accelerator.

Dealmaking in West Michigan and the nation at large has gotten better – in line with improving confidence and optimism in the economy, as well as greater availability of capital, he said, though things have yet to fully work themselves out.

“Even though the economy is definitely better and continues to improve, that’s not uniform, it’s not for everybody. There are still pockets,” Kerschen said. 

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