Executive winners and finalists offer best practices for M&A

By MARK SANCHEZ | MiBiz

Any transaction — whether a sale, acquisition or securing capital for growth — also starts with an honest assessment of the business and potential partners. If not, owners run the risk of potential problems down the line. "You have to be brutally honest about your business," said Mark Sellers, the founder of Grand Rapids-based BarFly Ventures LLC, which operates the expanding HopCat craft beer and restaurant concept around the Midwest. BarFly Ventures received the 2016 Growth Capital Award from the Western Michigan chapter of the Association for Corporate Growth for securing $25 million in growth capital from two mezzanine lenders.

"What I mean by that is, if you're not brutally honest with yourself, the capital raise and the investors will ferret it out," Sellers said. "They'll look in every nook and cranny. You can't hide things when you're trying to raise capital. They'll find it. They ask for everything, every little detail of our financials." Bottom line: Sellers of a business can't hide anything from potential buyers, said Jim Engen, the founder and former majority owner of Netech Corp. that was sold early this year to New York-based Presidio Holdings Inc. The sale of Netech, an information technology services provider, won Deal of the Year for transactions of more than $150 million.

"It starts out with being very upfront about your finances, about your inventory. Just having a clean, well-run company to begin with is going to pay dividends in the future," Engen said, noting owners need to be "very forthright about who you are and what you are." Martin Stein, the managing partner of Grand Rapids private equity firm Blackford Capital, said that successfully putting a deal together "first and foremost" requires everyone "to be able to look at things from the other person's perspective." Blackford Capital was a finalist for Deal of the Year for transactions between $25 million and $150 million for its acquisition of Hudsonville-based Grand Equipment, which sells, leases and repairs new and used heavy construction equipment.

"As you would conduct due diligence on the company you're buying or selling to, you want to know as much about the ownership behind the company," Stein said. "Do your homework and know who you're partnering with," Stein said. "As I've said before, you can't do a good deal with a bad person, and so we feel we are really fortunate to be working with an excellent partner in Grand Equipment, which sells, leases and repairs new and used heavy construction equipment. When attorney Michael Jones works on a deal, he takes the time to really dive into his client's motivations and the details of their operations. "Effective dealmaking requires knowledge of what the client is trying to do and what is important so you can give on points that aren't important and come up with strategies to win on the important issues," said Jones, a partner at Warner Norcross & Judd LLP and winner of the Dealmaker of the Year Award in the executive category. "You have to invest in getting to know people. You have to invest in community. You have to study trend lines and know what the company is about. For our model, given that we don't do anything that's very cookie-cutter, we have to be thoughtful of how we put things together. Don't be selfish. Don't be greedy. You need to make sure it's a good deal for everyone."
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IT’S NOT JUST ABOUT “THE DEAL” ANYMORE

For a growing number of owners, the sale of their business isn’t just about maximizing the price. It’s also about keeping the jobs in the town where the business grew up — and making sure the employees, customers and suppliers have a future. Tillerman & Co. helps owners of closely held and family-owned businesses navigate complex transactions, including mergers, acquisitions and the sale of their company. Over the years, we have also done many of our own deals as business owners, corporate executives and advisers. In other words: we’ve been in your shoes. We understand it’s not just about doing the deal — it’s about the business, its long-term success, and your legacy.
By JOHN WIEGAND | MiBiz

While Bloem LLC had been hunting for in-house production capacity that would allow it to grow, the company found its solution in an unlikely place: an unsolicited email from one of its largest competitors, Fiskars Brands Inc., a Finland-based publicly traded global consumer brands company, contacted the Hudsonville-based manufacturer of plants and other outdoor lawn and garden products in a bid to spin off its American Designer Pottery business, headquartered in Apopka, Fla.

For Bloem founder and president Ryan Mast, the inquiry came as a surprise.

“I couldn’t believe it. Honestly, I was a bit shocked at first,” Mast said. “It should have been them buying us. It really was the fish swallowing the whale. They were one of the main players in the industry, and we looked at them as being a very difficult to displace competitor and we were beating our heads against the wall for several years.”

Bloem’s acquisition of American Designer Pottery from Fiskars won the company the top spot in the 2016 MiBiz Deals and Dealmakers of the Year Awards for transactions of less than $25 million.

Mast founded Bloem in his basement in 2012 along with his sister and a handful of investors. After gaining traction with a handful of key accounts, the company quickly launched an acquisition strategy to capitalize on the consolidating lawn and garden market.

While Bloem had made two previous acquisitions — DuraCo Brands and BloomBags — the deal with Fiskars was different. In its two prior deals, Bloem built the acquired companies from the ground up, whereas this deal was for a mature operation with an established book of business, Mast said.

“At that point, it’s all due diligence,” he said. “Working through the due diligence process with (advisers) who have done it at that scale was the ticket.”

The scope of the deal also presented challenges when it came time for Bloem to close on the acquisition.

Although the deal with American Designer Pottery would give Bloem much-needed access to in-house production capability, the prospect of striking a deal with a publicly traded, international firm seemed daunting, Mast said.

“You’re dealing with a publicly traded multinational company (that’s) very buttoned up in their organization and procedures,” he said. “Then you have more of an entrepreneurial-spirited company coming into the mix here looking to take over a carve out.”

The size disparity between the companies also presented challenges when it came to displace competitor and to ensure the best multiple on the deal.

“Aligning those individuals on each side to move (the deal) along expeditiously was challenge number one,” Mast said.

“The scope of the deal also presented challenges when it came time for Bloem to close on the acquisition.”

Once the deal closed in January 2016, Bloem began integrating American Designer Pottery’s manufacturing into its operations. Initially, Mast was concerned about how American Designer Pottery employees would integrate with the culture at Bloem.

“We found the people to be culturally an incredible fit for us,” Mast said. “They were hungry for more focus on their flower pot category. They were committed to the organization and the facility in Apopka, they came with years of experience, and we really hit it off well with them.”

Since acquiring American Designer Pottery, Bloem has invested approximately $1.5 million in facility upgrades and new equipment into the operation in Florida. Bloem plans to make similar investments in the future as the company continues to grow, Mast said.

The employees appreciated the love we were showing them,” Mast said. “It really gave us the opportunity to ride in on a white stallion and that was unique. So often these acquisitions folks come in and they’re looking for cost savings. For us, that’s a long-term goal, but at the same time, they have an identity — they’re Bloem.”

Ryan Mast, founder and president, Bloem Living. PHOTO BY KATY BATDORFF

**WINNER | DEAL: LESS THAN $25M**

**Company:** Bloem LLC  
**Top executive:** Ryan Mast, President  
**Annual sales:** Between $40 million and $50 million  
**Total employees:** 10 in West Michigan; 150 in Florida  
**Business description:** Hudsonville-based Bloem manufactures a variety of molded plastic decorative planters, bird baths and other outdoor garden accessories.  
**Advisers:** Millie Johnson (legal); DWH Group (financial) and Huntington Bank

**FOUNDER AND PRESIDENT, BLOEM LIVING**

“It should have been them buying us. It really was the fish swallowing the whale. They were one of the main players in the industry, and we looked at them as being a very difficult to displace competitor and we were beating our heads against the wall for several years.”

—Ryan Mast
Honoring founder’s legacy drove inaugural deal for Tillerman & Co.

By JOHN WIEGAND | MiBiz

When Remos Lenio and Philip Blanchard set out to acquire their first company under a newly formed firm, the partners knew they had one chance to confirm what they saw as an unexplored market niche.

Tillerman & Co. LLC, a Grand Rapids-based merchant banking and investment banking firm, formed in late 2015 with the intent of investing in small, closely held companies valued between $3 million and $75 million in industries ranging from manufacturing to agribusiness, among others.

The firm’s first acquisition of Jackson Flexible Products Inc., a manufacturer of specialty rubber components for the aerospace industry based in Jackson, Mich., fit its criteria perfectly. In particular, Tillerman was searching for a company that it could grow in place by bringing on sophisticated business and production management strategies.

“We view this as a diamond in the rough,” Blanchard said. “It was very profitable, it was a unique business, but their idea of sales and marketing was answering the telephone. They had really great growth potential, good margins, really sticky business and a really good management team.”

For its acquisition of Jackson Flexible Products, Tillerman was named as the finalist in the 2016 MiBiz M&A Deals and Dealmakers of the Year Awards in the category for transactions valued at less than $25 million.

Despite positive and sustainable cash flow, Jackson Flexible Products had its share of challenges, ranging from poor financial tracking that left customer checks sitting in drawers for weeks at a time to an unused enterprise resource planning (ERP) system and inaccurate quoting processes.

“It’s no fault of theirs — they’d just never been exposed to (the systems),” Lenio said.

Since closing the deal for Jackson Flexible Products in March 2016, Tillerman invested in and implemented an ERP system, quality modules and production management technology. The firm also hired a new finance and sales person.

Tillerman’s operational philosophy, which Blanchard describes as “patient capital,” fit with the wishes of Jackson Flexible Products’ ownership.

Ronald Jakubas, along with his wife, Helen, began the company in 1969. As Jakubas reached retirement age, he wanted to pass the company to a firm that would maintain its operation in Jackson without cutting employees or moving it out of the area.

Tillerman hopes to continue to carve a niche for itself among companies such as Jackson Flexible Products that wish to maintain their founder’s legacy.

“We learned that there are baby boomers who have been making good money during their careers and aren’t interested in maximizing the value out the door,” Lenio said. “The owner’s goal was to position this company so that the employees would continue to have jobs and good growth and support the Jackson community.

OVERCOMING CHALLENGES

While the Jackson Flexible Products deal presented Tillerman with an ideal opportunity for its first acquisition, the firm had to work closely with lender Comerica Bank to finance the transaction.

“We learned that there are baby boomers who have been making good money during their careers and aren’t interested in maximizing the value out the door,” Lenio said. “The owner’s goal was to position this company so that the employees would continue to have jobs and good growth and support the Jackson community.

Tillerman & Co. LLC (acquired Jackson Flexible Products Inc.)

Company: Tillerman & Co. LLC (acquired Jackson Flexible Products Inc.)

Top executives: Remos Lenio, Philip Blanchard

Annual sales: $4.2 million (Jackson Flexible Products Inc.)

Total employees: 30

Business description: Jackson Flexible Products manufactures specialty formulated rubber parts for the aerospace industry. Tillerman & Co. is a merchant and investment bank focused on acquiring closely held companies in the manufacturing, agribusiness and other sectors and operating them with a long time horizon.

Advisers: Barnes & Thornburg LLP (legal); Comerica Bank (senior lender); Wills & Jarmek PC (accountant)

At first, banks were leery of financing a deal that was based largely on cash flow, since the manufacturer’s assets were largely outdated, Blanchard said.

“It was hard for a lot of banks to do,” he said. “I think we’ve softened several banks as to their willingness to look at a cash flow deal.”

Beyond funding, Tillerman also struggled with advisers on the sell side who weren’t well versed in the transaction process.

Jackson Flexible Products used an unnamed local attorney who specialized in real estate and ended up holding up the transaction by four months and cost Tillerman $35,000 to clear up before taking the deal over the finish line.

“Our biggest challenge was dealing with seller advisers that weren’t competent and that’s more common than not,” Blanchard said. “We had to keep everyone online and keep pulling them along delay after delay.”

Going forward, Tillerman plans to continue to hunt for add-on deals that will complement Jackson Flexible Products’ operations. The firm has several more undisclosed deals in the pipeline, according to the partners.

“We understand that at some point this is going to take more capital and add-on investment,” Blanchard said. “We don’t have a seven-year liquidity horizon. If we own this thing for 20 years, great.”
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A family affair: Crystal Flash opts for ESOP to pass business to employees

By JOHN WIEGAND | MiBiz

When Tom Fehsenfeld decided to retire from the family business he led for the past 40 years, he found himself in a position familiar to many manufacturers exploring succession options.

Fehsenfeld, who inherited leadership of the Grand Rapids-based Crystal Flash Inc. from his father, needed to balance maximizing the value of his organization with the ethos of putting workers first. Moreover, whatever path Fehsenfeld chose had to appeal to the fuel distribution company’s Indianapolis-based parent, The Heritage Group. The Indiana firm had opted to spin off Crystal Flash as it did not fit the company’s strategic plan. The Heritage Group, the majority owner of Crystal Flash, is operated by Fehsenfeld’s extended family.

After announcing his impending retirement, Fehsenfeld set about researching the company’s options, which included everything from taking Crystal Flash public to a merger with another business or offering the company on the market. During that process, Fehsenfeld came across employee stock ownership plans (ESOP), which seemed to cut the best balance between value and maintaining the company’s legacy in Grand Rapids. The ESOP also offered additional tax benefits that weren’t available if he took the business to market.

“That was one of the factors that made me think about that, in addition to the fact that you feel emotionally connected to your employees and you don’t really want to see the company broken up and split into pieces,” Fehsenfeld said. “You want to come up with a good future for the people you’ve worked with for years.”

In an ESOP transaction, owners can take the profit earned when selling the company and roll that into company stock that they don’t have to pay taxes on, Fehsenfeld said.

For its transition to an ESOP, Crystal Flash was named the winner in the 2016 MiBiz M&A Deals and Dealmakers of the Year Awards in the category for transactions valued between $25 million and $150 million.

While the ESOP presented the best option for Crystal Flash, the parent company had to sign off on taking less money in the transaction than if the company were put on the market.

The deal could have commanded as much as one to one-and-a-half times earnings before interest, taxes, depreciation and amortization (EBITDA) if it had pursued an option other than the ESOP according to an analysis conducted by Crystal Flash. However, the tax breaks from the ESOP helped make up for the price disparity, Fehsenfeld said.

“You may not get the highest price by selling to your employees because if you just took it out to the market and exposed it to big companies and they get into a bidding war, you might be able to get a really big price,” Fehsenfeld said. “But then there would be all kinds of taxes to pay, especially if you’re starting from a low base.”

Despite the good intentions behind the ESOP, Fehsenfeld still had to convince the ownership group that it was the right option for the company.

“One of the things that became apparent was we’d need bank financing to pay off the owners and there’d be a good period of time where the ownership money would be at risk,” he said. “One of the toughest negotiations I ever had was with my extended family about this. This was an unfamiliar concept to them.”

After a number of meetings, Fehsenfeld received tentative approval to begin the ESOP process in November 2014 on the condition that he find his replacement to lead Crystal Flash. The company eventually counted Tom Olive, who previously served as CEO of Grand Rapids-based True Textiles Inc., to lead the organization following the ESOP.

“...You don’t really want to see the company broken up and split into pieces. You want to come up with a good future for people you’ve worked with for years.”

—TOM FEHSENFELD
FORMER OWNER, CRYSTAL FLASH INC.

OWNER | DEAL: LESS THAN $25M

Company: Crystal Flash Inc. (transitioned to ESOP)
Top Executive: Tom Olive, CEO
Annual sales: Approximately $200 million
Total Employees: 250
Business Description: Grand Rapids-based Crystal Flash Inc. distributes propane, fuel oil and other fuels to customers throughout Michigan’s Lower Peninsula.
Advisers: Warner Norcross & Judd LLP (legal), Raymond James (accounting), Mercantile Bank (lender), Addyman Valuation Advisors (valuation firm), Charter Capital Partners (advisory firm)

MiBiz / OCTOBER 17, 2016
Blackford Capital investment in Grand Equipment helps accelerate growth

By MARK SANCHEZ | MiBiz
msanchez@mibiz.com

Martin Stein always noticed Grand Equipment Co. alongside I-196 when he drove through Hudsonville. The managing director of Grand Rapids private equity firm Blackford Capital got to take a closer look at the company earlier this year when it began seeking a partner to maintain its growth trajectory.

First introduced to the company by an investment banker, Blackford Capital took a quick liking not only to the company and its industry and market, but also to founder and owner Jeff Grasman. Stein describes Grasman as a “very dynamic” entrepreneur and individual “who created one of the faster-growing companies within the industry.”

Grand Equipment – which sells, leases and repairs new and used heavy construction equipment and parts – was recently named to the Inc. 5000 list of Fastest Growing Companies in America. The company even maintained growth during the recession as the construction industry declined.

“The growth of the construction industry today in Grand Equipment’s core West Michigan market added to the deal’s attractiveness. “We saw a very dynamic entrepreneur that knew the industry inside and out and knew his business inside and out, and we felt there were macroeconomic indicators and trends that were going to be very favorable for the company,” Stein said. “The right industry, right time, right management team, right leader and the right business model all made a lot of sense to us, so we were very anxious to find a way that we could work with Jeff.”

Blackford Capital’s Michigan Prosperity Fund last December bought a majority stake in Grand Equipment. The deal was the sixth by the Michigan Prosperity Fund, which invests in industrial companies based in the state. Blackford Capital was named a finalist in the 2016 MiBiz M&A Deals and Dealmakers of the Year Awards in the category for transactions between $25 million and $150 million.

Grasman retained a “very large” but minority equity stake in the company. He’s the largest individual shareholder in the business and continues to run the company, Stein said.

The two parties financed the deal with a decade-long seller’s note, enabling Blackford Capital to pay a “very high price” for the company – perhaps another 20 percent to 30 percent – and for Grasman “to participate in the upside of the business,” Stein said.

“What it said for us was, ‘Hey, here’s a long-term commitment from Jeff.’ We need to make sure that we partner with the management team and the management team has aligned with incentives, and we know that Jeff is incented to make sure the business is producing as much money as possible because he gets a good portion of that money in the future.”

Once the transaction closed, Blackford Capital recapitalized the company and helped Grand Equipment obtain the largest line of credit it’s ever had with senior and mezzanine lenders. Grand Equipment, which employs 37 people, tapped the line of credit to expand its equipment fleet by 40 percent.

“We’ve been able to invest in more equipment, more parts and more service employees so our offering is even better than what it was in years past,” Stein said. “We’re able to support Jeff in a way that he had not been supported before, and as a result the company will have its best year ever this year.”

Stein placed Grand Equipment’s annual sales “in the $30 million to $50 million” range.

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Martin Stein, managing partner at Blackford Capital FILE PHOTO BY JEFF HAGE

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Adamy Valuation was honored to serve as Valuation Advisor to the ESOP Trustee in the Crystal Flash transaction, winner of this year’s Deal of the Year ($25m-$150m). Congratulations to Crystal Flash on this milestone.
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Engen prioritized Netech’s corporate culture in seeking a buyer

By MARK SANCHEZ | MiBiz
msanchez@mibiz.com

Jim Engen started Netech Corp. 20 years ago with five employees.

By the time he sold the information technology services provider early this year to New York-based Presidio Holdings Inc., Netech employed 435 people at 11 offices in the Midwest and generated annual revenue of $385 million. The company grew 20 percent to 30 percent annually for years and never had a down year. In 2015 alone, Netech’s revenue grew by $60 million.

That kind of track record would surely enable any company to command a premium price.

Yet when the time came for the 65-year-old Engen to exit and sell the business, he prioritized finding a buyer who would maintain the corporate culture he crafted at the company over two decades and who would be good for his employees. Getting top dollar was secondary to ensuring that under new ownership, the company would continue to treat employees “extremely well.”

“We may have gotten more money from another potential buyer, but we felt Presidio was the best fit for our people. I was very concerned about our people,” said Engen, who shared a portion of the proceeds from the sale through employee bonuses that totaled several million dollars.

“Our employees are very dear to me,” he said. The sale of Netech in February 2016 for a “shade over” $250 million won the 2016 MiBiz M&A Deals and Dealmakers of the Year Award for transactions of more than $150 million.

After deciding that it was time to sell — and upon a friend’s recommendation, Engen hired an investment bank to represent the company.

Working with the Chicago office of the global investment bank Lincoln International, Netech initially attracted 11 prospective buyers. The list was narrowed to six, and then to three, before Engen chose Presidio Holdings, a portfolio company of private equity firm Apollo Global Management LLC.

Presidio Holdings employs more than 2,400 I.T. professionals at more than 50 offices in the U.S.

Although substantially larger, Presidio Holdings shares a “very similar” corporate culture as well as offers a similar lineup of services and products as Netech, Engen said.

“It was a pretty easy sell,” he said. “They are a technology company very much like ours and they brought some stuff to the table. They had resources we could not have afforded.”

The deal, for instance, now allows Netech to offer clients high-level cybersecurity services and gave the company access to talent in cloud computing.

“We were always searching for resources. Talented engineers in the networking space are really hard to find,” Engen said. “(Presidio) had more resources than we could imagine, and we were going to be able tap into that.”

Engen owned Netech with his sons, Tim Engen and Ryan Engen, and son-in-law Mark Wierenga, who each held minority stakes in the company.

The three Engens left the company after the deal closed and are now involved in other business ventures. Wierenga, who previously served as the executive vice president of sales and operations at Netech, became president of Presidio’s north central area.

These days, Jim Engen has commercial real estate and other business interests to keep him busy. After the sale closed, he formed a family office and also has become more involved in philanthropy.

Engen describes the sale process as an “extremely emotional time,” not only for him but for Netech employees with whom he had grown close over the years — and who were anxious about what the new ownership would mean for the company.

“We had just built relationships and I wasn’t going to be there. It was extremely emotional, but we had to remove that and say, ‘Look, there’s going to be a new chapter,’” he said.

When the deal came down, Engen told employees that he had chosen Presidio based on its corporate culture and “they were very similar to us and they were not just an investment fund that wanted double their money and resell the company in five years.”

The new chapter under Presidio Holdings has resulted in “very little changes” in how the company operates. Engen recalled a recent conversation with an engineer at the company who told him that everything “is pretty much the same,” only without him as owner.

“I couldn’t have hoped for a better answer,” Engen said.

“We were always searching for resources. Talented engineers in the networking space are really hard to find. (Presidio) had more resources than we could imagine, and we were going to be able tap into that.”

—JIM ENGEN
FORMER OWNER, NETECH CORP.

WINNER | DEAL: >$150M

Company: Netech Corp.
Annual sales: $385 million in 2015
Total employees: 85 in West Michigan; 435 people overall at 11 offices in the Midwest
Business description: Information technology services provider
Personal information: 65 years old. Wife, Nancy. Three sons and two daughters, and 15 grandchildren
Advisers: Barnes & Thornburg LLP (legal); Lincoln Financial (investment bank)
When it came to seek a new owner, the team wanted to maintain that structure. With the help of attorney Tracy Larsen, a partner at Barnes & Thornburg LLP, they began the search for a private equity firm that would act more as a collaborator than as an operator.

In July 2015, SEI found that partner in Pamlico Capital, a Charlotte, N.C.-based private equity firm, but only after an exhaustive search. “We worked through a very thorough process that was very competitive,” Harper said. “We were looking for a partner that would see the success we’ve had and was wanting to allow us to continue that growth through those same avenues.”

The sale of SEI to Pamlico Capital was a finalist in the 2016 MiBiz M&A Deals and Dealmakers of the Year Awards for transactions of more than $150 million.

Of all the prospective buyers, Pamlico best understood SEI’s success and growth strategies, Harper said. The deal allowed SEI to grow more quickly in exactly the ways his team had hoped.

“We felt like we were holding back the reins and holding our employees back from the opportunities that could be created,” he said. “We really felt like there was still a lot of room to grow in our industry.”

Pamlico has provided SEI not only with capital, but also with a new array of resources and partnerships — especially in the form of Pamlico’s other portfolio companies — for solving challenges.

For example, SEI completed its first ever acquisition earlier this year in a deal for Compu-Fix, a third-party maintenance provider based in West Mifflin, Pa. In doing so, Harper said that SEI “really utilized Pamlico and their team. It went very smoothly.”

Pamlico anticipates the company will continue to bite off more acquisitions at some point in the future, but he expects them to be highly targeted — especially for servers.

The executive team didn’t want a partner that would alter the company’s growth initiatives. Harper said that the most important factor — beyond price even — was that the new owners respect and appreciate both the culture and people that SEI had worked so hard to develop. In that aspect especially, Pamlico “rose to the top,” he said. In finding the right partner, Harper said that having the right advisers was key. In addition to Larsen, SEI brought on David Hedley and Jim Reinhart of Ernst & Young Capital Advisors’ San Francisco office. Together, the advising team did a “fantastic job” of representing SEI’s expectations on all fronts, according to Harper.

From Larsen’s perspective, the SEI executive team clearly articulated those expectations. The transaction was highly strategic, he said, but was made simple because “the management so understood every aspect of their business.”

The only complications occurred in handling some of the finer points of the deal, Larsen said, such as rollover components for current investors, which required a separate set of negotiations. Still, SEI’s leadership structure remained relatively the same, except that a board of directors was created with three members from Pamlico.

According to Harper, the deal has allowed SEI to grow more quickly in exactly the ways his team had hoped.

“They’ve been an outstanding partner for us since this started,” he said. “They ask great questions and allow us to try some new things. They’ve really just been fun to work with and thoughtful in how they approach us, but at the same time very clear in what their expectations are.”
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DeBoer tackles deals with engineer-like precision, focuses on human element

By JOHN WIEGAND | MiBiz

It’s been a busy year and a half for David DeBoer.

The CEO of Grand Rapids-based Burke Porter Group spent 2015 consuming three acquisitions that would give the manufacturer of complex vehicle testing equipment a range of new products.

“These (deals) complemented a strategy we started probably six years ago,” DeBoer told MiBiz. “It’s patience and strategy first — that’s the primary driver, not price or necessarily opportunity. These were all warmed up without a broker. It was a private talk introduced and talked to personally by me with a specific strategic endgame in mind.”

Burke Porter Group’s acquisitions during the July 2015-June 2016 period included:

- Epic Equipment and Engineering Inc., a Shelby Township-based manufacturer of integrated assembly lines for the automotive industry.
- Universal Balancing, a Bristol, United Kingdom-based producer of equipment to ensure proper balance on components such as brake rotors. OIMAT, a Poland-based producer of balancing machinery for turbochargers, driveshafts and other components.
- corridor equipment and Engineering Inc., a Bristol, United Kingdom-based manufacturer of complex vehicle testing equipment including acoustic testing, dynamometers and balancing. The company operates 800,000 square feet of manufacturing space across 31 global locations. Burke Porter Group also serves the life sciences, consumer electronics and advanced automation markets.

For his success in closing the three deals last year, DeBoer was honored as a winner of the 2016 MiBiz Deals and Dealmakers of the Year Awards in the executive category. However, DeBoer has been active in M&A at Burke Porter Group for some time. He led the manufacturer through a sale of its own, inking a $90 million deal with Hong Kong-based China Everbright LTD in March 2015, and has kept up dealmaking this year. Burke Porter closed on two additional transactions in August for Korvis Automation Inc., an Oregon-based manufacturer of automation equipment, and Kleinknecht Group, a Germany-based producer of control panels and systems for a variety of machinery. The five acquisitions mark the culmination of a six-year strategy to enter new product segments in the automotive market, he said.

In a conversation with DeBoer, it might be easy to confuse him for an engineer accustomed to working on the plant floor. The CEO can speak without pause about every aspect of the machines Burke Porter Group and its affiliates produce, which measure everything from noise, vibration and harshness, to wheel and tire alignment, sensors and the functionality of other equipment.

While DeBoer began his career in engineering, earning his mechanical engineering degree from the former General Motors Institute, now known as Kettering University, he’s parlayed that same precision and analytical prowess into his dealmaking strategy.

For one, once a company agrees to disclose its financial information, DeBoer does all of his own financial analysis and benchmarking before comparing notes with a financial adviser.

“There’s a lot of factors and a lot of thinking,” DeBoer said. “Every morning, you wake up around six, drink your coffee, read a little news, then for me it’s constant scenario planning — playing out the different chess moves. If I did this, would the customer appreciate it? Would they be offended? You have to play that all out.”

However, the dealmaking process is far from strictly analytical, DeBoer said. Getting the deal across the finish line really comes down to understanding people.

“People are big bags of emotions,” he said. “I’m describing it as analytical but it’s about people.”

DeBoer believes that understanding people, particularly the seller of a business, is essential when it comes to managing information uncovered by advisers during the due diligence process.

“You are surrounded by advisers that fear-monger a little bit,” DeBoer said. “People can get really wrapped up into the potential cancers in a business so you get reports from very professional advisers who found a lot of problems and some people get cold feet.”

However, those “uglies” may not always be negatives, he said.

While a family-owned company may not adhere to strict inventory management principles or generally accepted accounting practices (GAAP), those challenges do not need to derail potential transactions outright, he said.

“For me, it’s just realizing that this person had run a business,” DeBoer said. “I’m stepping into their shoes (and) looking for, ‘Was it a rational way to run the business?’ You’re hunting for, ‘Is this really what I thought it was or is it different?’ … Not everyone is running a Fortune 500 company with perfect, proper systems.”

Through it all, DeBoer stresses the importance of “knowing when to turn it off” as an important strategy to help stave off deal fatigue.

“It can consume you so you have to be able to compartmentalize and say, ‘I’m going to resolve this, I’ll look at it on Monday, it’s still going to be there,’” he said. “Usually, I just use my Saturdays and Sundays to clear my head.”

With the marathon of acquisitions over the last year and a half largely in the rearview mirror, Burke Porter has now entered what DeBoer describes as a “digestion period.” Although the company will keep an eye out for tuck-in opportunities, DeBoer said he plans to use the next six months or so to develop new products and craft an organic growth strategy, noting the deals should position the company to grow $150 million in organic revenue.

In reflecting on the company’s active dealmaking, DeBoer said he’s most proud of crossing the finish line in a win-win situation with all the stakeholders involved in the deals.

“You have employees that you want to excite and keep motivated. You have the ongoing person who won’t sell unless they’re satisfied. You have advisers, shareholders, bankers — you have quite a few constituents that you’re juggling, so hunting for and convincing people there is a win-win outcome here — that’s not exactly easy,” he said. “The day you close is probably a solid year’s worth of work, or in some cases multiple years.”

2016 MIBIZ M&A DEALS AND DEALMAKERS OF THE YEAR AWARDS

Winner | Dealmaker: Executive

David DeBoer, CEO, Burke Porter Group

Annual revenue: Approximately $300 million
Tota employees: 197 (275 across Michigan; 896 worldwide)
Business description: Burke Porter Group manufactures a variety of automotive and other vehicle testing equipment including acoustic testing, dynamometers and balancing. The company operates 800,000 square feet of manufacturing space across 31 global locations. Burke Porter Group also serves the life sciences, consumer electronics and advanced automation markets.

Personal info: Wife, Mara. Two daughters, Bianca and Hannah.

Academic degrees: Master of Science in Industrial Administration from Purdue University, Bachelor of Science in Mechanical Engineering, General Motors Institute (now Kettering University).

Advisors: JP Morgan Chase, Bank of America, Fifth Third Bank, HSBC (banking), Planit Moran and Deloitte (finance); Barnes & Thornburg LLP (legal).

Honored as a winner of the 2016 MiBiz Deals and Dealmakers of the Year Awards in the executive category. However, DeBoer has been active in M&A at Burke Porter Group for some time. He led the manufacturer through a sale of its own, inking a $90 million deal with Hong Kong-based China Everbright LTD in March 2015, and has kept up dealmaking this year. Burke Porter closed on two additional transactions in August for Korvis Automation Inc., an Oregon-based manufacturer of automation equipment, and Kleinknecht Group, a Germany-based producer of control panels and systems for a variety of machinery. The five acquisitions mark the culmination of a six-year strategy to enter new product segments in the automotive market, he said.

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VanGessel works strategic partnerships for large developments

By NICK MANES | MiBiz

Mike VanGessel, CEO of Rockford Construction Company Inc., says he likes to talk about the “why” behind his company’s decisions to invest in the long-neglected west side of Grand Rapids. That could be because the “how” makes for a significantly more complex story.

Three years ago, the west side native and CEO of Grand Rapids-based Rockford Construction Company Inc. opened the firm’s ultra-modern headquarters just blocks from where he grew up. Since that time, the general contracting, development and property management firm — as well as several strategic partners and other investors — have left their mark along Bridge Street and Fulton Street, where new mixed-use projects seem to pop up daily.

In mid September, the company opened the first phase of perhaps its most ambitious project in the area: a $25 million mixed-use development featuring apartments, office and commercial space, and a massive 40,000-square-foot satellite taproom and production facility for New Holland Brewing Company LLC of Holland.

“So how did we do that? We had some setbacks — two steps forward, sometimes, and one step back,” VanGessel said while sitting for an interview in one of the several bars featured in the New Holland Brewhouse. “We had hoped that this would be one of the first things that got done on the west side, and that’s not quite what happened. This was a complicated deal.”

Specifically, VanGessel, along with New Holland Brewing President Brett VanderKamp, a partner in the development, had to figure out how to structure the project.

New Holland Brewhouse wanted to own its space, while a Rockford Construction subsidiary would own the rest of the project and the land it sits on along Bridge Street between Turner and Summer Avenues.

The site was formerly home to a lingerie and adult store, which VanGessel thought did not represent the “west side brand” he had grown up with and hopes to bring back, at least to some extent.

Additionally, the partners had to rework their deal several times with the Michigan Strategic Fund, which ultimately committed $2.5 million in loans to the project.

Ultimately, VanGessel credits his development partners with getting the project over the finish line.

“I think what was driving all of that is that the entire time was understanding the value of unity in this,” VanGessel said. “We really needed to stay nimble in those negotiations to get to a situation where it was a win-win-win. I think that’s where we ended up. We’re really pleased with the project and its impact, but we’re also pleased that it’s a real estate deal we understand makes sense.”

Strategic partnerships and creative development tactics such as the New Holland Brewhouse deal made VanGessel a finalist in the 2016 MiBiz M&A Deals and Dealmakers of the Year Awards in the executive category. “I think people outside the business don’t realize the non-linear fashion of development that happens,” Jennifer Boezwinkle, Rockford Construction’s vice president of communications, said of complex deals such as the New Holland project. “Somehow, miraculously, through all these different series of twists and turns, everything will finally come into place all at the same time. … And I think what carries you through some of those difficult times where something goes wrong or something doesn’t align … is that trust you build over the course of a relationship.”

The New Holland Brewhouse space directly overlooks the recently completed 81-unit Lofts on Alabama apartment development, a 616Lofts LLC project that also involved Rockford Construction. 616Lofts partnered with Rockford Construction to buy the land for the development in addition to serving as the project’s construction manager.

“It’s a win-win-win,” VanGessel said of the 616 Lofts partnership. “They brought a new set of investors in, they get to enjoy a good project and we’re very happy for them.”

Now with the New Holland Brewhouse and 616 Lofts projects wrapping up, VanGessel and his company will soon commence work on a series of new developments a few blocks west along Bridge Street.

As MiBiz has previously reported, the company and a variety of partners including grocery chain Meijer Inc. and nonprofit affordable housing developer Inner City Christian Federation (ICCF) will come together for what VanGessel has described as a “superblock” project.

Current plans call for the mixed-use project that will include apartments, office space, a Meijer store and parking to be built on the mostly-vacant block bordered by Bridge Street and First Street from Seward Avenue to Stocking Avenue.

Overall, VanGessel said the partnerships and strategic maneuvering needed for the New Holland project will be just as necessary on the next planned development. But the addition of a grocery store and affordable housing options excites him.

“The next project is significant. It takes a lot of attention and that’s where we’re at,” VanGessel said, adding that having a variety of housing types as part of the development is critical. “At the end of the day, you need to know you’re competing with other developers, so that’s part of the plan. But you’re also trying to do the best thing for the community.”

Local decisions benefit local business.

Mike VanGessel, CEO, Rockford Construction Company Inc.

Annual sales: $523 million in 2015
Total employees: About 270 full-time employees
Business description: General contracting, development and property management firm with offices in Grand Rapids and Bonita Springs, Fla.
Personal info: Wife, Gayle; three children
Education: Bachelor’s degree in construction management from Michigan State University
Advisors: Rhoades McKee PC (legal), Crowe Horwath LLP (accounting), Works with several banks

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Dealmaker/Adviser of the Year

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Michael Jones, Partner, Warner Norcross & Judd LLP, Photo by Katy Bawdstoff

**WINNER | DEALMAKER: ADVISER**

Michael Jones, Partner, Warner Norcross & Judd LLP

**Personal info:** Wife, Cara; daughter, Claire; and son, Garrett

**Academic degrees:** B.A., University of Michigan, 2001; J.D., Wayne State University, 2004

**Community involvement:** East Grand Rapids Library Board of Directors, 2005-2012. Member of the State Bar of Michigan and Grand Rapids Bar Association.

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**By MARK SANCHEZ | MiBiz**

In what he describes as a “good year,” Michael Jones was involved in closing 20 transactions in late 2015 and the first half of 2016 that had a collective value of $1.5 billion.

A law partner and co-chair of the M&A practice group at Grand Rapids-based Warner Norcross & Judd LLP, Jones is presently working on another 11 deals for clients.

Among the deals he advised on was the $532 million acquisition of Checkpoint Systems Inc., by Toronto-based CCL Industries Inc., a specialty labeling and packaging company. Jones led a team of Warner attorneys that represented CCL Industries.

He also handled deals involving Consumers Energy Co.’s $155 million acquisition last December of a gas-fired power plant from an affiliate of JPMorgan Chase & Co., the August sale of Perrigo Co. plc’s vitamin, minerals and supplements business; product line purchases and a divestiture by Portage-based Stryker Corp.; and Haworth Inc.-owned Poltrona Frau Group’s April acquisition of a majority stake in Los Angeles-based JANUS et Cie., a producer of luxury outdoor furniture.

Those deals were among the achievements that won Jones recognition in the adviser category of the 2016 MiBiz M&A Deals and Dealmakers of the Year Awards.

“It has been a good year for M&A so far. I think the typical things are making dealmaking conducive. Interest rates are low and the debt markets are still favorable,” Jones said. “I think that the rest of the year and the beginning of next year will continue to be strong. There is a lot of dry powder with private equity that needs to be deployed.”

Jones takes pride in making partner in 2012 at Warner Norcross & Judd, where he started in 2004 after earning his law degree from Wayne State University. He credits fellow law partners Steve Waterbury and Greg Schmidt with providing mentorship and giving him plenty of responsibility early in his career.

About three-quarters of Jones’ practice has involved representing buyers. In an M&A market that continues to be in good shape, the biggest challenge for buyers remains finding quality acquisition targets for the right price.

The market right now has more buyers than sellers, keeping multiples high.

“A major challenge has been finding then winning deals. There are more buyers than sellers right now. Even when a good opportunity is found, it is usually in a competitive process, so the chances of actually getting the deal are reduced,” he said. “I have talked to lots of companies that want to do deals but are having a hard time finding them at the right price. Multiples and valuations are still high right now, so buyers need to be disciplined and make sure they don’t pay too much.”

In any transaction he’s involved with, Jones works to be “extremely responsive,” available at all times and able to produce and revise documents quickly. Paying close attention to what both parties need in a transaction “allows you to come up with creative solutions and compromises for the issues that will inevitably arise.”

When representing sellers, Jones advises them to prepare for an extensive due-diligence process that most buyers will likely require. He’ll provide clients a sample due-diligence request list early in the process “so they can begin to gather the relevant documents and we can access and address any problems early on.”

“A lot of times the seller is shocked at how cumbersome the due-diligence requests can be, so it is good to have lots of time in advance so management isn’t distracted on gathering documents in the midst of the deal when they should be focused on the deal and running the business,” Jones said.

On the other side of a transaction, he reminds buyers to stay disciplined to avoid overpaying for a company, as well as to focus on post-deal integration. Many deals fail to meet the expected rate of return for a buyer because they did not focus enough on integration, he said.

Jones also cautions clients to avoid getting too far down the road on a potential transaction before hiring professional advisers. He’s had times when a client signed a letter of intent (LOI) before getting professional advice and later learned the deal could have been structured better.

“Although the LOI is typically not binding, after agreeing to something in an LOI, it is difficult to change down the road,” said Jones, who cites examples where buyers allowed the seller to draft the first purchase agreement.

“A buyer customarily drafts the first proposal, unless the sale involves an auction. Allowing the seller to draft it “puts the buyer at a disadvantage right off the bat and it is usually more costly to mark up a seller draft than doing the first draft,” Jones said.

“A major challenge has been finding and then winning deals. There are more buyers than sellers right now. Even when a good opportunity is found, it is usually in a competitive process, so the chances of actually getting the deal are reduced.”

—MICHAEL JONES

**PARTNER, WARNER NORCROSS & JUDD LLP**

**2016 MiBiz M&A DEALS AND DEALMAKERS OF THE YEAR AWARDS**

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**WNJ’s Jones closed 20 deals valued at $1.5 billion**

By MARK SANCHEZ | MiBiz

WNJ’s Jones closed 20 deals valued at $1.5 billion
Barnes & Thornburg’s Larsen remains confident for future dealmaking

By NICK MANES | MiBiz
nmanes@mibiz.com

For Tracy Larsen, the work of evaluating and closing deals continues to push ahead even in the face of global tumult and a general sense of economic uncertainty.

The Grand Rapids-based managing partner of the Barnes & Thornburg LLP law firm maintains a reputation for having one of the most active practices in the competitive M&A market around the Midwest, as well as a book of business that spans the country, if not the globe.

Larsen says that readily available capital, hungry buyers and West Michigan’s stable of long-standing quality businesses make the area ideal for an active M&A practice.

“I think people are taking advantage of what we have in the market, but they’re somewhat cautious about what might happen if interest rates start to rise, if the economy slows down a little bit,” Larsen said. “It’s more of an uncertain period looking to the next year than it was last year looking at what we did.”

Larsen, this year’s finalist in the advisor category for 2016 MiBiz M&A Deals and Dealmakers of the Year Awards, says he personally worked on more than 30 different transactions and closed more than 20 deals.

Larsen estimates that deals he closed in the last year amounted to approximately $2.5 billion in total value, compared to about $2 billion in 2015. He says the book of business in the last year stands out for both its volume and its diversity.

Two of the deals Larsen ran in the last year — the acquisitions of Netech Corp. and Service Express International Inc. to different private equity firms — were the winner and finalist, respectively, in the MiBiz M&A Deals of the Year Awards for transactions of more than $150 million.

“(Larsen) has a highly effective approach to deal-making that yielded tremendous results in this transaction,” said Brad Keyworth, a director in the Chicago office of investment banking firm Lincoln International, who nominated Larsen for his work on the Netech deal.

“It started with the upfront effort that (Larsen) put into truly understanding the business — the positioning and value drivers, as well as the potential risks that could come up over the course of the process.”

The “upfront effort” noted by Keyworth in his nomination is a trait Larsen himself finds as among the most valuable assets in successful dealmaking.

“You have to launch the deal before you launch the deal, frankly,” Larsen said. “We’re very strategic in our deals. ...(Economic factors), if you don’t control them, they can get out in front of you and work adversely to your client. We spend a lot of time on the front end knowing exactly how we’re going to sell the asset, what the value drivers are, what we need to do on third-party diligence before we take the company out. Then we try to run a quick process.”

ADAPTING TO THE TIMES

Despite entering a period of what he deems as economic uncertainty, Larsen contends there hasn’t been much of a change in terms of overall deal flow in the last year.

However, he said that some industries — particularly in specific sectors of manufacturing like non-proprietary automotive components — have decreased slightly in terms of valuations in recent times.

“I’m sensing that the buying market is perhaps a little bit allocated heavily in that asset space,” Larsen said. “That said, we’ve got some great auto companies at market that will get sold at great valuations.”

Larsen remains confident for future dealmaking.

“There are a number of fueled clients he and his firm represent.

A 2015 report by global business consulting firm Baker & McKenzie looking at worldwide M&A activity through 2018 also painted a positive picture.

The report notes that global transactional activity will grow 2.9 percent over the next two years, bolstered particularly by favorable monetary policy and lower oil prices.

Even in the inevitable event of an economic downturn or slowdown, Larsen said he’s confident that his practice will endure. The attorney likes to point out that during the Great Recession, his book of business was actually up by double digits, to point out that during the Great Recession, his book of business was actually up by double digits, largely because of the number of strategic and well-financed clients he and his firm represent.

“We know how to morph pretty well into what the market needs at the time,” he said. “But don’t kid yourself: The number of transactions will be down, but the transactions that go are much more likely to be completed.”

Tracy Larsen, Partner, Barnes & Thornburg (managing partner of the firm’s Grand Rapids office)

Total employees: About 50 full-time employees
Business description: Barnes & Thornburg is a full-service business law firm with 13 offices around the United States. The firm offers a range of practices including litigation, corporate law, labor and employment and Transportation.
Personal info: Wife, Karen; five children.
Educational degrees: B.A. from Hope College, law degree from Indiana University.
Community involvement: A number of conservation groups, plus the Boy Scouts and ACG’s capital initiative for the Midwest.

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For Mark Sellers, the magic number of sorts is $300. That's the cost per square foot the founder and owner of Grand Rapids-based BarFly Ventures LLC shoots for when looking at potential new locations for his growing HopCat chain of craft beer bars and restaurants. At that price, Sellers says the company can use its existing cash flow to open three to four locations per year, each in the range of 8,000 to 12,000 square feet. Sellers admits that the cost per square foot for HopCat is significantly more than the $200 to $250 per square foot the company was previously spending. "We do it because I want the atmosphere to feel like you're stepping into another world when you're stepping in and I want it to seem like a really unique experience," Sellers said.

To get to the point where Sellers and his organization could begin financing the expansion, the bar owner and former hedge fund manager had to secure the right capital partners. The process required working with Southfield-based investment bank Cascade Partners LLC, who in turn sent out pitch decks to about 200 funds. The company got 55 responses expressing interest. Sellers' goal was to get enough high-interest debt to propel the expansion forward without diluting his own equity in the company, or that of the company's senior employee shareholders.

Last September, BarFly Ventures secured $25 million in mezzanine debt financing from two Texas funds, Congruent Investment Partners and Main Street Capital Corporation, a raise which earned the company the 2016 ACG Growth Capital Award. "It was a pretty good deal. Interest rates are higher than a bank, but we didn't get any dilution of our equity," Sellers said. "Since then, the value of the company has gone up a lot."

Institutional capital providers aren't often that interested in restaurants, which are traditionally considered risky investments. To offset that, investment banker and Cascade Partners Managing Partner Rajesh Kothari told MiBiz he played up the regional chain's managerial experience, previous demonstrated success and — of course — the company's focus on the booming craft beer segment. "Restaurants aren't an investment area that everyone's excited about because of the perceived risks," Kothari said. "But people don't see craft brewing going through a cyclical trend."

Indeed, research from the Boulder, Colo.-based Brewers Association puts the $22.3 billion craft beer segment on an annual growth trajectory in the range of 16 percent. Economists and brewers frequently note that as long as trends toward hyperlocalism continue, there's room for more growth in craft beer and the supporting industries. Now with 11 locations in seven states — and several more at various stages of planning — Sellers said BarFly had to get considerably more sophisticated in its financial processes. "When I first started opening bars, HopCat and others such as Stella's Lounge, I didn't really have any (process)," Sellers said. "I just made them look the way I wanted them to look. In fact, that even continued through the East Lansing and Detroit (HopCat) buildouts. But over time, we've really refined the financial budgeting before we open. Now we don't do a project unless we think we can open it for less than $300 per square foot."

The refined financial procedures appear to be paying off for the company. Just in the last month, HopCat opened locations in Chicago and Kalamazoo, and the company announced a Royal Oak site after MiBiz reported that the company had filed to transfer a liquor license from an existing bar. Additionally, Sellers confirmed that a Cleveland location is on deck after the company's lease was leaked to a reporter with Crain's Cleveland Business in August. Sellers admitted the company has filed LLCs in cities where it doesn't necessarily have intentions of opening a HopCat, partially as a way of throwing off reporters.

For the time being though, Sellers plans to stick with the strategy of opening three to four locations per year. That means he doesn't have to go out and raise any more money and incur all the related headaches. "You just have a very bright light shined on your business," he said. "You have to answer all these questions you've never had to answer before and even after all that, (potential investors) can still say no. Raising capital is no fun."
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