By MARK SANCHEZ | MiBiz

WITH DEAL FOR TALMER BANCORP, CHEMICAL FINANCIAL FINDS ‘THE PERFECT FIT’

M&A AWARDS WINNER | DEAL: >$150M

Provest, CEO of Chemical Financial Corp., was named the 2017 MiBiz M&A Deal of the Year for the $1.61 billion deal with Talmer Bancorp. The acquisition created the third-largest bank in Michigan, with deposits of $18 billion.

Chemical Financial Corp.

A FOCUS ON INTEGRATION

After the deal closed, the Chemical Financial board of directors consisted of representatives from both banks, with seven members from Chemical’s board and five from Talmer. The executive management team was also made up of executives from each bank.

Integrating the two banks followed the same model, Terpsma said.

“As with any merger or acquisition, integrating the two banks operationally was a key challenge, especially given the size of both Chemical and Talmer, which had about $6 billion in assets at the time of the deal. All of Chemical Financial’s past acquisitions were for much smaller banks. “Any time you acquire an organization that’s 75, 80 percent of your size, it’s a larger merger operationally,” Terpsma said. “We went through that with great preparation and it was largely successful.”

Among the decisions during the integration process was selecting which systems and products to keep. After the deal closed, teams went to work analyzing and replacing every business system used by either bank and recommended which was the best, Terpsma said.

In addition to positioning it to better absorb the higher compliance costs and to offer the higher lending limit, Chemical’s acquisition gave it a greater ability to assist in technology upgrades, Terpsma said. “We have the new bank has a ‘very sophisticated’ electronic business banking platform.”

“ar that costs money. It’s easier to do that when you’re $17 billion in assets than when you’re $9 billion,” he said. “There’s a lot of advantages in terms of technology and spend.”

MORE DEALS AHEAD?

As Chemical Financial looks ahead, the corporation will eventually get back into acquisition mode, probably as early as 2018, Terpsma said.

“Once we are an outlayer that are we digesting and fine-tuning the integration and really getting ourselves well-positioned. I would think sometime in ’18, maybe the second half, that we would want to be venturing out and supply every business system used by either bank and recommended which was the best, Terpsma said.

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CHEMICAL FINANCIAL CORP.

• Top executive: David Provost, CEO
• Workforce: 1,050 full-time employees in West Michigan
• Brief business description: Full-service bank
• Best practices for effective dealmaking: “Make sure you get the right people [and] the right talent, and make sure you figure out the culture and you can merge the cultures. That’s number one,” said Dan Terpsma, executive vice president for regional and commercial banking.
• “Number two is make sure you can leverage your capability as the acquirer with the merged company, and also go into it with an open mind. If the company you are acquiring does something better than you, try to adopt it. Too many companies go into it with the idea that everything has to be done their way. The key is to go into it saying, ‘We just want to do it the best way regardless of who owns it.’”

The 2017 MiBiz M&A Deals & Dealmakers of the Year Awards will be presented at 5 p.m., Tuesday, Oct. 17 at the Gooi Center in Grand Rapids. The event features networking, awards presentation and a strolling dinner. Tickets are $40. Visit mibiz.com/events for more information.
SPARTANNASH ENTERS HIGH-GROWTH PREPARED FOODS MARKET IN DEAL FOR INDIANAPOLIS FIRM

By JOE BOOMGAARD | MiBiz

SpartanNash (Nasdaq: SPTN) on Jan. 6 completed the $214.6 million deal to acquire certain assets of the privately-held, Indianapolis-based Caito Food Service Inc., a supplier of fresh fruit and vegetables to grocery retailers and foodservice distributors in 22 states, according to a quarterly report filed with securities regulators. The deal also included Caito’s Blue Ribbon Transport business, which offers temperature-controlled distribution and logistics services across North America. 

Byron Center-based SpartanNash funded the purchase with its lending facility, at the time saying the acquired companies would generate annual revenues exceeding $600 million. The deal included an earn-out potential of a collective $27.4 million for the sellers if the business hit certain performance targets in the first three fiscal years after the acquisition, according to a securities filing in August. Assets in the deal included $77.5 million in property and equipment, $71.9 million in intangibles, plus working capital. The purchase price accounted for $46.3 million in goodwill related to the workforce at Caito and Blue Ribbon Transport and savings from expected synergies, the company said in the securities filing. SpartanNash was recognized as a Finalist in the 2017 MiBiz M&A Deal of the Year award in the category for transactions valued at greater than $150 million. Via a spokesperson, the company declined to participate in interviews for this report.

NEW BUSINESS

Importantly for SpartanNash, the acquisition also included the newly-built, $32 million, 118,000-square-foot Fresh Kitchen. The USDA-certified “best-in-class” facility is in Indianapolis processes, cooks and packages fresh, ready-to-eat “protein-based foods and complete meal solutions.”

The addition of the Fresh Kitchen operations “represents a new line of business for the Company in a fast growth category,” according to an earnings statement from SpartanNash after completing the acquisition. “We are excited about the potential they provide for both the fresh-cut fruits/vegetables and freshly prepared meal solution offerings, which are right in line with the ever-increasing consumer demand for convenience,” President and CEO David Staples said in a statement in August announcing the company’s second quarter earnings.

“As we integrate the operations of our recent acquisition … and refine and expand production in our new Fresh Kitchen facility, … the positive momentum in our distribution operations will continue to drive growth as more customers will benefit from our expanded product offering and innovative solutions,” Staples stated.

The deal also added fresh-cut fruits and vegetables and other meal solutions to SpartanNash’s portfolio of products that it supplies to grocery retailers and foodservice distributors. Aside from the Fresh Kitchen facility, the deal for Caito included facilities in Indiana and Florida. According to securities filings, SpartanNash pursued the deal “to strengthen its fresh product offerings to its existing customer base and to expand into fast-growing, value-added services, such as freshly-prepared centerpieces and side dish categories.”

For the U.S. supermarket industry, prepared food departments are expected to grow at a rate of 3.8 percent for 2017, double the pace of the overall industry, according to research firm Datassential of Chicago. In a column in industry publication SmartBrief, Datassential Senior Publications Manager Mike Nysthe described supermarket-prepared food as the “fastest-growing segment of the foodservice industry.”

The Arlington, Va.-based Food Marketing Institute estimated the sales of deli and fresh-prepared foods for supermarket-hats at $35 billion last year, a growth of 5.5 percent.

POSITIONED FOR THE FUTURE

Contributions from the higher-margin Caito business helped to buoy SpartanNash’s sales in each of the first two quarters of the company’s 2017 fiscal year, which were up 5.4 percent and 3.7 percent, respectively. The company began integrating Caito into its operations in the first quarter, but reported in the second quarter that the process and the launch of the Fresh Kitchen facility “have been slower than anticipated.”

That slower integration and longer startup process led SpartanNash executives to walk back their initial expectations that the Caito/Blue Ribbon deal would be accretive to earnings in the 2017 fiscal year, but they said it would be accretive for 2018. For the 26-week period that ended July 15, Fresh Kitchen startup costs were more than $4.6 million, according to a securities filing.

“We continue to see progress integrating the recently acquired operations, have begun limited production at the Fresh Kitchen facility and remain confident about the ultimate growth potential and long-term vision for this business, and its ready-to-eat categories,” Interim CFO Tom Van Hall told brokerage analysts during the company’s second quarter earnings call in August.

“We now expect the transaction to be accretive in the second year as we get the required systems in place over the last half of this year, adjust fully to the existing volume levels in produce distribution and attract additional volume into our Fresh Kitchen operations,” Van Hall said.

For his part, Staples said the capabilities added with the deal and the Fresh Kitchen facility in particular have started to open new opportunities for SpartanNash, including a potential partnership with a “significant customer.” He declined to name.

“No we have to execute on those opportunities,” he said, “but one of those opportunities is really an exciting move into what we think is a really hot space, and a space that is right on trend with where the world’s going.”

Where do You Want to Go?

Amherst Partners is proud to celebrate the MiBiz Deal of the Year awards with our client, KL Outdoor. Whether you need support during a transition of ownership, growth financing, or help during a time of business distress, our investment banking experts can help you discover new opportunities for success.
CONGRATULATIONS TO ALL NOMINEES, WINNERS AND RISK TAKERS

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A
fter experiencing explosive growth over the better part of a decade, execu-
tives at Muskegon-based KL Outdoor LLC knew they needed a partner to con-
tinue that pace of expansion into the years ahead.

The manufacturer of kayaks, paddle boats, portable sanitation units and other consumer products found that opportunity in New Water Capital LP, a private equity fund based in Boca Raton, Fla.

New Water Capital purchased KL Outdoor in late 2016 for an undisclosed amount.

Since then, the company has continued to grow rapidly, executing a merger with a Montreal-based kayak manufacturer and moving to a new headquarters in downtown Muskegon.

“We were the leader in the industry but we wanted to expand the product line into consumer products and significantly continue the growth of the business that we had,” said Dave Harris, vice president at KL Outdoor. “We had doubled sales and EBITDA for five years in a row and we wanted that to continue to happen.

“We had,” said Harris. “We had doubled sales and EBITDA for five years in a row and we wanted that to continue to happen. We could see it was going to take significant working capital to be able to do that.

Among their considerations, Harris said he and his colleagues had to find a partner with a vision to see what the company was capable of in the future.

“Among our considerations, Harris said he and his colleagues had to find a partner with a vision to see what the company was capable of in the future. While KL benefited greatly under the firm, the investors were always transparent about their plans to make an exit in the future.

“It was expected from day one,” Harris said of the original investors’ plans to direct the business.

FINDING A MATCH
In many ways, New Water Capital’s purchase of KL Outdoor showcases the under-
pinnings of a classic private equity-driven transaction. KL Outdoor — once distressed and in financial receivership — had grown to the highest level possible under its family and investor ownership, and the company was primed for further growth.

“To get to where we want to take this company, I’m not sure there’s another way,” Harris said. “For us, private equity is the best way to get to that level.”

To help find the right match for KL Outdoor, the executive team hired Birmingham-based Amherst Partners LLC to broker a deal.

When it came to selecting a partner, KL Outdoor was specifically looking for a suitor that was well versed in manufacturing and consumer products and had familiarity with how to navigate big-box retail customers.

“We know that the typical buyer would be someone that understood consumer products, the strength of a brand, and appreciated the big-box retailer, but also understood manufacturing,” said Chas Chandler, a partner with Amherst. “That’s a lot.

Chandler noted that many of the buyers understood manufacturing but didn’t want to be involved with big-box retailers, or they were comfortable with the big-box retailers but didn’t have an appreciation for the nuances of manufacturing.

“At their heart, these were manufacturing guys who really knew how to sell consumer products into the big-box channels,” Chandler said of the Harris brothers’ leadership of KL Outdoor.

New Water Capital happened to fit that bill.

“It was pure alignment and excitement from New Water about where the company could go,” Chandler said. “That’s why they were selected. Yes, the price and the terms were good. But at the end of the day, one of the key issues was the vision and where the business was headed. They saw all that.”

FORGING A PATH FORWARD
With the backing of a large private equity firm behind them, KL Outdoor has already made great strides in growing the business. Just months after the transac-
tion with New Water Capital, the PE firm brokered a merger between KL Outdoor and Montreal-based GSC Technologies Corp., a manufacturer of kayaks and other water-
craft, and a main competitor.

Four months later, KL Outdoor announced it planned to establish a $9.2 million headquarters in downtown Muskegon.

New Water Capital also brought in a CEO, Chuck Smith, to assist in running the business.

Going forward, KL Outdoor executives have faith that the company will con-
tinue on its growth trajectory. On one hand, Harris said the company is scouting for more deals. He also noted that KL Outdoor was always intended to be a plat-
farm company to grow sales.

Organically, KL Outdoor plans to leverage its connections with big-box retailers to include new products into its operation.

“We do business with every conceivable big-box store or specialty retailer that you can think of,” Harris said. “When you think of the various products available in these stores, we really have an avenue to get our foot in the door with a lot of these products, not just the existing ones. I think the team is looking at continuing the (product) lines we have but will give consideration to just about anything that uti-
lizes our processes and that can get us competitively priced into these stores. I think there’s growth opportunities in a lot of areas.”

Harris said New Wave hasn’t committed to hold the company for a specific period, and has held some companies in its portfolio for longer than the customary five-year cycle for many private equity-backed firms.

“They really look for the opportune time to get the company where they want,” Harris said. “I wouldn’t say that this is going to be spans five years. It’s really what they think and when they think.”

In addition to driving further growth at the company, the New Water acquisition also gives the Harris brothers a way to take some chips off the table, and provides them an exit strategy in the coming years. The four brothers, each of them in their 60s, are contemplating their own plans for retirement in the coming years.

“They’ve been very good about saying, ‘You’re welcome to stay here and if you see a need to exit, we’re OK with that too,’” Harris said of New Wave Capital’s man-
agement team.

KL Outdoor LLC

Top Executive: Chuck Smith, CEO
Annual Sales: N/D
Workforce: 250 full-time employees in West Michigan, plus another 250 temporary workers

Brief business description: KL Outdoor manufactures a variety of watercraft, including kayaks, paddle boats and other vessels. The company also produces a line of portable sanitation equipment, hunting blinds and other consumer products.

Best practices for effective dealmaking: Both Chas Chandler of Amherst Partners and Dave Harris of KL Outdoor noted the importance for buyers in finding a good cultural fit for their companies. For KL Outdoor, that fit translated into a firm that understood the nuances of manufacturing, consumer products and how to move those products through big-box retailers.

The sellers also emphasized the importance of finding a partner with a vision to see what the company was capable of in the future.

Advisers: Amherst Partners LLC (financial)
DEAL WITH STERLING PARTNERS POSITIONS GRAND RAPIDS OPHTHALMOLOGY TO GROW

By MARK SANCHEZ | MiBiz

The 2014 sale of a Baltimore, Md.-based optical practice to a Los Angeles private equity firm was one of two industry deals that led to an opportunity for the partners at Grand Rapids Ophthalmology PC.

An investment banker involved in one of the transactions later approached Grand Rapids Ophthalmology to ask if it wanted to learn more about the deal. In order to keep growing and explore its options, the practice agreed to the meeting.

“Grand Rapids Ophthalmology has never been an organization that sticks its head in the sand, so we said, ‘Of course we’d like to know more.’ We brought them in to talk to our board and there was a level of interest,” said Bob Wolford, executive director of the eye care practice.

That interest started a process that culminated with the sale early this year of a majority stake in Grand Rapids Ophthalmology to Chicago private equity firm Sterling Partners.

With the deal, the private equity firm formed a medical services organization, Great Lakes MSO, that looks to acquire complementary practices in the state and across the Midwest.

The deal earned recognition as a finalist in the 2017 MiBiz M&A Deal of the Year Awards in the category for transactions between $25 million and $150 million.

Since the transaction closed Feb. 2, Grand Rapids Ophthalmology has acquired an eye care practice in East Grand Rapids, hired additional top-level executive talent — including CEO Bill Hughson — and is actively seeking deals.

“Part of our doctors’ interest was we’ve always been an organization that was progressive and growth oriented, and yet our ability to continue to grow would have been somewhat limited because of the capital required for acquisitions,” Wolford said. “A transaction like this sort of facilitated continued growth, and in health care growth is really important.”

In the West Michigan marketplace that’s home to three large health systems — Spectrum Health; Mercy Health, owned by Trinity Health; and Metro Health-University of Michigan Health System — any health care company has “to have a level of significance,” Wolford said.

Formed in 1982, Grand Rapids Ophthalmology has 10 offices in West Michigan, including two surgery centers, with more than 30 physicians. The practice includes optometry, refractive, cataract, glaucoma and LASIK eye surgery, and retinal subspecialties.

The deal with Sterling Partners came amid a consolidation trend in health care that’s pushing into specialties such as ophthalmology, dermatology and emergency medicine practices, said Ray Kothari, managing director of Southfield-based investment banking firm Cascade Partners LLC, which advised Grand Rapids Ophthalmology in the deal.

“The field of medicine is getting too complicated for smaller physician practices to compete on their own,” Kothari wrote in nominating Grand Rapids Ophthalmology for the award. “Doctors want to be doctors.”

Physicians who were partners in Grand Rapids Ophthalmology retained a minority stake in the practice.

Through the transaction, Grand Rapids Ophthalmology got access to capital to finance growth and achieve a larger scale needed to better operate and compete in today’s health care world.

“For doctors, the increased size and scale helps them focus on practicing medicine, reducing the difficulties associated with billing and collections, human resources, negotiating with payers, securing the best possible pricing from vendors, and giving them a stronger seat at the table as more and more of health care becomes consolidated,” Dan Hosler, senior vice president of strategy and business development at Grand Rapids Ophthalmology, said in a statement.

Hosler was previously a principal at Sterling Partners, which has more than $4 billion in assets under management and invests in middle-market companies involved in the health care industry and business services.

The deal has enabled Grand Rapids Ophthalmology to actively pursue acquisitions or partnerships “to make something that’s really strong and has the ability to bring technology and specialized eye care to a really broader area,” Wolford said.

The company is presently “working hard” on a couple of potential deals, he added.

Patients benefit from any deals through the eye care practice’s ability to invest in the latest medical technology that’s “a little pricey,” Wolford said. He cites the recent purchase of a new laser equipment for LASIK surgery.

“Some of those practices that are around the state of Michigan, maybe even outside of Michigan in neighboring states like Ohio and Indiana, now we can talk to them,” Wolford said. “Maybe there is some value about doing things together that we otherwise couldn’t do, and maybe consolidating into one practice can have even more impact on the delivery of eye care throughout the region.”
ACG is where local deals are discussed, dissected and, quite often, done. Simply put, ACG is business networking for grownups.
ACG Western Michigan’s community congratulates the winners of the 5th Annual M+A DEALS & DEALMAKERS AWARDS presented by MiBiz

acgwmich.org
AMID STRONG GROWTH SPURT, RANIR PRIORITIZES DUE DILIGENCE IN DEAL FOR REMBRANDT BRAND

By MARK SANCHEZ | MiBiz

A phone call Ranir LLC CEO Rich Sorota got in early 2016 offered an opportunity Multinational medical device and pharmaceutical company Johnson & Johnson Consumer Inc. wanted to sell its Rembrandt teeth-whitening product line.

The person on the other end of the call wanted to know if Ranir was interested. An “intrigued” Sorota agreed to meet.

At the follow-up meeting, execs at the Grand Rapids-based producer of store-brand and oral-care products liked what they heard, and Johnson & Johnson “liked what Ranir could do and how we could do it,” Sorota said.

“It was an important opportunity for us,” he said as he recalled the origins of the deal. “It was well worth learning more.

“As we got more information it was clear to me this was something we should try to go after.”

Rich Sorota of Ranir LLC. PHOTO BY KATY BATDORFF

From the first phone call to gauge interest and their subsequent get-together, Johnson & Johnson and Ranir began working toward a deal that culminated in July 2016. The acquisition gave Ranir a well-established brand in a growing product category that furthered the company’s “simple purpose of delivering millions of affordable healthy smiles.”

“That’s kind of the key thing. We look at where we want to invest our resources and say, ‘Will this help deliver that purpose?’ We felt Rembrandt could,” said Sorota, Ranir’s CEO since July 2015. “Whitening is an important category for many consumers. They can’t afford to pay a $500 whitening treatment or a $70 whitening treatment and they felt that with Rembrandt and (with) our innovation, we would be able to give consumers an affordable option.”

With the deal for the Rembrandt brand, which Johnson & Johnson had acquired in 2005 from Proctor & Gamble Co., Ranir won a 2017 MiBiz M&A Deal of the Year Award in the category for transactions valued at less than $25 million.

Since-closing the deal in July 2016 after what Sorota describes as a “very strong” due diligence process, Ranir has worked to realize the Rembrandt product line, which includes whitening toothpastes, strips, whitening systems and mouth rinses. The goal, he said, was “to make it even more desirable for more consumers.”

Rembrandt complements Ranir’s store-brand line of teeth-whitening strips and is aligned with the company’s stated purpose that drives strategy and decisions for growth, Sorota said.

“When there’s clarity of purpose with our associates and with our board, it becomes simpler to do,” he said. “We’re very growth-oriented so my charge and my team’s charge is to continue to grow our business. When opportunities present themselves that make sense for us and our purpose, I have tremendous support.”

The Rembrandt brand was Ranir’s first significant acquisition in years and the start of a trio of deals over a 12-month period. The company in October 2016 bought BrushtPoint, a Toronto-based manufacturer of store-brand manual and power toothbrushes, and later picked up London-based Solent Group Holdings Ltd. in July.

The acquisition of the Rembrandt brand was “more straightforward” than other prior acquisitions the company has done, Sorota said. Johnson & Johnson has divested many brands over the years and “they had their act together.”

“I think both parties respected each other and that helped,” he said. After closing the Rembrandt transaction and two other deals in a year, Ranir remains open to further M&A.

“If they’re smart and they’re aligned with our purpose and we’re confident we can create additional value, then we’ll be very active in looking at that.”

Retailers that carry Ranir products and the Rembrandt brand embraced the deal.

“They were glad they were dealing with someone they were already dealing with,” and excited about the potential for Ranir to grow the product category, he said.

Ranir has been experiencing double-digit top-line and bottom-line growth in an oral care market that San Francisco-based Grand View Research Inc. projects to grow from an estimated $27.02 billion last year to $40.92 billion globally by 2025.

“The greatest challenge is just continuing to prioritize and making sure you put the right amount of time and effort to ensure you know what you’re getting, and then when you get it, that you’re confident you’ll be able to create even more value.”

Key to executing the Rembrandt deal, or any acquisition, is fully understanding the product category of the target and how it fits into the Ranir business, Sorota said.

Any buyer should make sure they have a “real clear strategy and the deal is consistent with that strategy.”

“If you know the space, so that you know what you’re getting into and the challenges and the opportunities, it just helps a great deal,” Sorota said. “When you really look and say, ‘OK, what’s our purpose and where are we going to deploy our assets, and let’s deploy those assets against our core, those things that we do exceptionally well,’ you’ll be successful.

“Sometimes when you get distracted or get out of your core, the risks can be far greater. It’s just a really simple rule of staying focused on our purpose.”
The family-owned Middleville Tool & Die Co. found itself in a precarious position in the last couple of years leading up to December 2016. As the second generation of the Middleton family hit retirement age, the company struggled to find the resources necessary to keep up with the growth opportunities in front of it. Meanwhile, the third generation of the family was active in working with the business from an engineering standpoint, but lacked the experience to marshall the company through what appeared to be a major inflection point in its more than five-decade history.

Middleville Tool, which had just invested a collective $5 million in bricks and mortar and equipment, brought in professional managers to run the business. However, it became clear to them that the company needed to find a partner that could help it scale up and be sustainable.

“We borrowed what we could, but it wasn’t enough,” said CEO Bill Blanton, part of the outside management team that also maintains a legacy tool and die business for the automotive and office furniture industries. 

The impending transition for the company posed a number of challenges as Blanton courted various buyers, including family offices, private-equity funds, and strategic firms.

“It was a $15 million company for a lot of years, and now all of the sudden you’re moving to being a $40-, $50-million company,” he said. “There’s a lot of blue sky that somebody’s buying into because you can’t look at a return from the past and say, ‘OK, that’s what the value of the company is.’ You’ve got all this new work laid in, all this equipment.”

On top of that, he needed to ensure the buyer would treat the Middleton family fairly in any transaction.

As it turns out, the Bayer family who owned Bayloff Stamped Products Detroit Inc. and several other companies in Southeast Michigan bought into the vision for the company and acquired a controlling equity interest. The founding Middleton family retained a 30 percent stake in the company after the transaction.

“Middleville Tool was owner-operators of businesses and wanted to expand and wanted to get into new markets and something different,” Blanton said.

For the deal, which closed at the end of 2016, Middleville Tool & Die was named a finalist in the 2017 MiBiz M&A Deal of the Year Awards.

Middleville Tool & Die’s growth was driven by the success of the company’s patented tubular stamping process, which it developed in 2003. The engineered solution took off in recent years among the company’s automotive industry clients, shifting Middleville away from its legacy as a tool and die maker, which now accounts for just a tenth of the business.

It’s not that the tool and die business went away, but rather that the company’s contract manufacturing business quickly accelerated, according to Blanton. The technology offered customers “the whole nine yards” of better cost, better yield of material and better quality, he said.

Despite Middleville’s investments in its building and new equipment, the company was unable to react fast enough to keep up with demand, Blanton said.

“I think that’s what happens sometimes when you grow and you grow too fast,” he said. “You have to kind of weigh that stuff all out and I think the opportunity was there and the family wanted to continue to go forward. We did what we could to try to make sure we did everything we could to utilize every resource we could before we went out and tapped into the equity market.”

Compounding the company’s financial situation was the long run-up to lead time inherent in the automotive product cycle. Middleville needed to develop product prototypes that had to be validated by an OEM ahead of being awarded any business. Then, if the company was successful in getting the job, it needed to deploy capital for equipment and tooling 12 to 18 months before the part went into mass production, Blanton said.

Ultimately, the Bayer family understood the changing dynamics at Middleville “and wanted to be a part of the excitement of the organization. And for the Middletons, I think it was feeling comfortable that they were going to gain a partner,” he said.

As Middleville transitioned away from family ownership to “more corporate feel” even as the two firms operate independently, it’s allowed the company to become more collaborative.

“In a family business, sometimes the family possesses all of the technology, all of the acumen, and they’re the ones making all the decisions,” Blanton said. “Now we’re in this enterprise value where it’s really not about that type of thing, it’s about what’s best for the company, how are we going to attract the best people, and what are the best practices. … This becomes much more sophisticated.”

Visit www.mibiz.com
While advising on more than two-dozen transactions over a 12-month period, Dustin Daniels saw firsthand the growth of private equity’s role in mergers and acquisitions in West Michigan.

A member of Grand Rapids-based Miller Johnson Snell & Cumminskey PLC and co-chair of the firm’s mergers and acquisitions practice, Daniels said that up to 90 percent of the deals he worked on between July 1, 2016 and June 30, 2017 had some element of private equity.

To Daniels, the winner of this year’s MiBiz Dealmaker of the Year Award in the adviser category, the level of private equity interest in recent years stands in contrast to the activity locally in previous market upswings. It’s a trend driven by the need for advisers category, the level of private equity interest in recent years stands in contrast to the activity locally in previous market upswings. It’s a trend driven by the need for

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Jeff Ott of Warner Norcross & Judd LLP, Phtos by Katy Batdorf

Jeff Ott
Company: Warner Norcross & Judd LLP
Workforce: 330 attorneys and staff in West Michigan
Brief business description: Full-service law firm with eight offices in Michigan, including Grand Rapids, Muskegon, Holland, Kalamazoo, Lansing, Midland, Southfield, and Macomb County
Best practices for effective dealmaking: “Listen to what your clients are looking for and the important points for them. In every deal, there are going to be different things that are critically important to the client, whether they are on the buy side or sell side. These are the things that absolutely need to be addressed and that you fight for until the end,” Ott said. “It doesn’t make a lot of sense to argue over points that aren’t important to the client and that don’t make a difference in the transaction.”

Personal information: Spouse, Mary Ann Sabo
Academic degrees: Law degree from University of Michigan, and undergraduate degree from Albion College in government administration
Community involvement: Habitat for Humanity of Kent County, board director, 2014-present; Albion College Board of Trustees, 2012-present; Expert Center for Therapeutic Riding, president, 1999-2005, and board of directors, 1994-2014

M&A AWARDS FINALIST | DEALMAKER/ADVISER

OTT ADVISED CHEMICAL FINANCIAL ON BLOCKBUSTER DEAL FOR TALMER

By MARK SANCHEZ | MiBiz
msanchez@mibiz.com

I
n his 25 years in practice, attorney Jeff Ott has worked on almost 70 transactions, nearly a dozen of which involved Chemical Financial Corp.’s acquisitions of other banks. Valued at $1.63 billion, the 2016 deal for Talmer Bancorp Inc. was far and away the largest acquisition for the Midland-based Chemical Financial. Ott, who has represented Chemical Financial for 25 years, organizes and guides a team of attorneys at a Warner Norcross & Judd LLP in Grand Rapids to provide legal counsel and bring together two publicly traded companies in a highly regulated industry.

“This deal was obviously larger in terms of size, as there were far more people involved in this transaction than I had involved in others,” said Ott, a partner at the Grand Rapids-based law firm who specializes in bank mergers and acquisitions. “It took more coordination. It wasn’t terribly unusual, but there were a lot of parts that all came together in just one deal.”

The work involved negotiating the final agreement, due diligence, a securities offering, regulatory review and approval, antitrust analysis, and the eventual divesting of a couple of former Talmer Bank branches in other states.

The Chemical Financial-Talmer Bancorp deal closed Aug. 31 of last year, creating the largest bank headquartered in Michigan with total assets of $17.2 billion.

For his role in helping to fashion the deal, Ott received recognition as a finalist in the 2017 MiBiz Dealmaker of the Year awards in the adviser category.

The Talmer deal was the largest acquisition ever for Chemical Financial and “posed a fair amount of complexity,” according to William Collins, the corporation’s executive vice president and general counsel.

“Jeff and the Warner team helped guide us through the myriad of securities, corporate, regulatory and business issues that had to be addressed,” Collins wrote in an email to MiBiz. “The successful and timely completion of the Talmer/Chemical affiliation was a major accomplishment for our company, its shareholders, and the state of Michigan. Jeff was with us every step of the way.”

In his career, Ott has handled transactions across a variety of industries, including banks, software and technology companies, power plants, and furniture and furniture makers.

The personal reward and satisfaction from the work comes from helping a young company make an acquisition that builds the business to a new level and allows the owner to pursue a vision, or from working with a long-time owner to sell his or her business after years of hard work.

“You’re helping people achieve goals in life,” Ott said. “On the sell side, you have people that created a very successful business and for one reason or another, they decide to sell. It’s a huge event for them and giving them the ability to realize a lifetime of work and be able to enjoy it is just fun.”

Whatever the industry the deal is in, Ott approaches each transaction by assembling “a great team of experts I can turn to in issues that pop up,” and always keeping issues critical to the client at the forefront.

“It’s paying attention to what is important to the client and being extremely responsive to the time constraints of the transaction, moving the transaction forward as quickly as possible — those are the keys,” Ott said.

Aside from the Talmer transaction, Ott’s work for Chemical Financial included deals for Byron Center-based OM Financial Corp. in 2010, Northwestern Bancorp Inc. in Traverse City in 2014, and Holland-based Lake Michigan Financial Corp. and Monarch Community Bancorp Inc. in Coldwater in 2015, as well as branch acquisitions from Independent Bank in 2012. Even with the Chemical Financial deals of the past few years, the market for M&A in the banking industry in Michigan has been “soft” of late, Ott said. Banks that either wanted to sell or needed to find a buyer have already done a deal, he said.

High regulatory compliance costs have been a driver in many bank deals across the U.S. over the last several years. As the industry hopes for regulatory relief under President Trump’s administration, banking M&A has tapered off, Ott said.

“You have another group of them out there that I think would be willing to look at a transaction, and probably the regulatory compliance costs would cause them to look at a merger or acquisition from a cost savings’ perspective,” Ott said. “But right now with the talk in Washington about easing up on the bank regulations and paying attention to some of the smaller banks, I think people are kind of holding back and have adopted the position of let’s wait and see whether any of this actually comes to fruition.”

“At least in terms of banking, probably one of the things that would help make the market better is if there was some certainty at some point with respect to what they’re doing with regulatory requirements.”

In any industry, Ott advises clients to choose a partner carefully. Businesses must avoid transactions that later lead to regret and saying, “this may not be the best fit” or “this isn’t exactly what I thought.”

“A deal has to make sense,” he said. “Don’t do a deal just for the sake of doing a deal if the partner doesn’t make sense.”
Martin Stein of Blackford Capital. PHOTO BY KATY BATDORFF

STEIN’S ‘TENACITY’ DRIVES DEALMAKING FOR BLACKFORD CAPITAL

By NICK MANES | MiBiz
nmanes@mibiz.com

Martin Stein continues to drive a steady pace of deal activity at Blackford Capital. The founder and managing partner of the Grand Rapids-based private equity firm credits a continually booming economy both locally and regionally with driving a solid year for his company. That strong economy also has created a strong pipeline of deals for the firm to pursue. “We had solid financial performance, plus a solid business model, plus a great, healthy economy,” Stein said. “You get good traction and high valuations, and we were the beneficiary of those.”

“I think we definitely had a little bit of luck (on the exits), but these were multi-year processes to get the companies into a position where they could get those amounts.”

For its exits, the firm sold its interests in Brooklyn-Park, Minn.-based manufacturer Staging Concepts and Westlake Village, Calif.-based Key Health Medical Solutions Inc., both for undisclosed sums. “I think I am as proud of those (exits), if not more proud, than the deals that we closed,” he said. Stein, the winner of the 2017 MiBizDealmaker of the Year Award in the corporate executive category, pegged the firm’s overall economic activity between acquisitions and exits at about $250 million.

According to active M&A professionals in West Michigan, Blackford Capital’s dealmaking activity is indicative of the firm’s focus on driving results. “It illustrates to me that it’s a good sellers market and that even professional buyers like Blackford recognize that they pick their spots for exits,” said John Kerschen, managing partner of Charter Capital Partners, a Grand Rapids-based investment bank. “That is the purpose: to acquire, improve, grow, increase the value and then realize a return on that investment for the limited partners. The two transactions have helped Martin and Blackford demonstrate that the model works.”

Moreover, the exits represent a broader deal trend playing out globally, according to the 2017 Global Private Equity Report released by Boston-based Bain & Company Inc., a private equity and management consulting firm. “The remainder of deals that had been on hold during the global financial crisis and its immediate aftermath, and many deals invested since then, wound their way to daylight. Corporate buyers, flush with cash, remained willing to pay a premium for assets that would expand their reach or create synergy. PE firms and corporations were eager buyers during the year, offsetting the uncertainties of public markets that led to a stall-out in initial public offerings,” according to the report.

The ‘CONSUMMATE DEALMAKER’

On the buy side over the last 18 months, Stein and the Blackford Capital team invested in three new companies. The firm acquired Addison, Ill.-based hotel furniture and design firm Sonnette Hospitality Inc., Fort Wayne, Ind.-based commercial bakery Ellison Bakery, and Chesterfield-based manufacturer Duvale Mold Corp. Both Duvale Mold and Ellison Bakery are part of Blackford’s Michigan Prosperity Fund, a fund that targets regional companies with the goal of keeping jobs and investment in the Michigan area.

Tracey Larsen, a veteran M&A attorney and partner at the Grand Rapids office of Wolverine Miller Schwartz & Cohn LLP, advised Blackford Capital on its transaction for Ellison Bakery. Larsen described the negotiations with both the sellers and other co-investors as quite complex and one of the larger transactions the private equity firm had undertaken. “Martin is a consummate dealmaker. That was a very complicated transaction,” Larsen said. “I have extremely high regards for Martin’s abilities as a dealmaker. He is tireless, he’s thoughtful, he’s resourceful, creative. I’m really impressed with his tenacity to bring a transaction to close that, candidly, many people would not have been able to do.”

Larsen also noted that he’s been an investor in a handful of Blackford Capital’s deals and has received significant returns from his investments.

MORE DEALS TO COME

Particularly with its Michigan Prosperity Fund that targets Michigan companies for investment, Stein and Blackford Capital see an opportunity to combine the private equity firm’s two main goals — profitability and generating returns for its limited partners — with keeping the deals close to home. For Stein, that investment technique sometimes flies in the face of the strategies at other PE firms where the numbers are paramount. “You know, private equity funds have done an amazing job for our economy and helping grow businesses, helping companies be more financially sound. With that said, there’s certainly private equity firms that . . . (buy businesses) and companies seem to get shut down,” Stein said, noting that companies go out of business all the time for numerous reasons. “But private equity firms are an easy sort commentary because we’re so clearly motivated by being profitable.”

As Blackford Capital has acquired companies from a wide variety of industries, the private equity firm has sought to assemble an “all-star” board of directors that aims to bring well-tested governance processes and professionalization to the various companies. Blackford Capital stands as a leader among private equity firms seeking to master the field of corporate governance, Stein said. “There are reasons that executives get to those levels, and it’s because they hold themselves to a higher standard,” Stein said. “I was some of the people who serve on the boards of Blackford Capital’s portfolio companies. When they are then involved in the governance process of an organization, it similarly helps that organization do even better.”

To that end, Stein said he would likely be seeking out new directors in the coming months, as the firm currently has signed letters of intent for several companies and expects to announce between three and six more acquisitions in the next year. “This could be our even bigger year than last year,” Stein said.
After steering Spartan Motors Inc. through a series of changes that helped the manufacturer return to profitability, Daryl Adams knew the timing was right to take the next step in the company’s growth strategy. 

Surrounded by a new executive team, Adams set out to find a deal that would position the Charlotte-based manufacturer of chassis for the emergency response, fleet and recreational vehicle markets for further growth. 

The team found a solid contender when Nebraska-based Smeal Fire Apparatus Co. hit the market in mid 2016. However, while Smeal met a lot of the criteria the company outlined for a possible deal, Adams took a step back to ensure the fundamentals of the deal worked for Spartan Motors. 

“IT doesn’t make sense to make an acquisition if it’s not going to be actionable — one plus one has to equal three, if you will,” said Adams, the finalist in the MiBiz Dealmaker of the Year Awards in the executive category. “You have to be disci- plined in your approach. You have to be willing to walk away if it’s not the right deal for you. “That’s what I kept challenging the team with: Are we sure this is right, do the financials add up, are the products what we need? You continue to ask those questions. Because it was a new team, we needed to understand everybody and how they operated. It was an interesting process.” 

That sentiment captured Adams’ disciplined approach to dealmaking, spanning the full scope of the process from sourcing and due diligence to closure and integration. By the time Spartan closed the $36 million deal for Smeal in January 2017, Adams and his team remained confident they’d done everything possible to find an effective deal. 

In approaching prospective targets, Adams said a company needs to have the willingness and the discipline to walk away from a deal if it doesn’t match up to an organization’s needs. “If you’re not straightforward and disciplined, you can rational- ize and make a good business case on any deal if you lie to yourself and maybe talk yourself into it if you’re not disciplined,” he said. “Like Kenny Rogers said, ‘You have to know when to fold them.’” 

For Adams, that translated into Spartan Motors setting hard criteria for prospective acquisitions as it related to their size, management, price and lingering financial issues, as well as countless other considerations. 

“The discipline that Adams relied on through the dealmaking process carried over into Spartan’s work to integrate Smeal into its operations and dealer network. Adams set a goal of being fully integrated by the beginning of 2018, a target he says the company is positioned to meet. 

To integrate the companies, Adams focused primarily on culture and communication to all members of the team, both from Spartan Motors and the newly acquired Smeal. “As soon as the deal was announced, my team was dis- patched — including myself — to those locations to talk to these people about what’s going on,” Adams said. “We con- tinue to do that. We hold monthly and quarterly meetings at all of our locations to make sure that people are informed. We put them on our benefits as fast as possible so they feel like they’re part of the team.” 

APPETITE FOR DEALS 

In many ways, the Smeal deal served as a test case for Spartan Motors’ new executive team. Adams said, noting that the track record should lead the company’s board of directors to be open to more deals going forward. “I think the progress and the success we’ve had with the Smeal acquisition is not taken lightly from the board of direc- tors,” Adams said. “They were watching our entire team. It wasn’t a large deal, but it wasn’t a small deal either, and the Spartan team executed. The board is excited and we’re talk- ing about a number of future acquisitions with the same team moving forward.” 

Specifically, Adams plans to target acquisitions that will grow Spartan Motors’ other business lines, namely the fleet market, particularly as developments in e-commerce change the way consumers receive their products. 

While the Spartan Motors team has gained confidence through the Smeal deal, Adams said their success proves the need to adhere to a disciplined approach. The company has already backed away from a number of possible deals follow- ing the Smeal acquisition, he said. “We have a great shareholder base and shareholders are expecting us to take care of their money and continue to grow,” Adams said. “When we look at acquisitions, we look at them on a long-term basis, not a short-term one or two years and then spin it off. This is something that’s going to come into the Spartan family and stay with the Spartan family as we grow.”

Daryl Adams of Spartan Motors Inc.  |  COURTESY PHOTO

Daryl Adams

- Company: Spartan Motors Inc.
- Business description: Manufacturer of chassis for emergency response, fleet and recreational vehicles
- Revenue: $590.8 million in 2016
- Workforce: 560 full-time employees in West Michigan
- Best practices for effective dealmaking: 1) Be ready to walk away. 2) Don’t spark a bidding war and over-leverage your operation just to close a deal. 3) Do what you say and say it when communicating with the newly acquired company through the integration process.

By JOHN WIEGAND | MiBiz

Daryl Adams of Spartan Motors Inc. takes disciplined approach to dealmaking.

M&A AWARDS FINALIST | DEALMAKER: EXECUTIVE

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the active mergers and acquisitions market shows no signs of slowing down for the foreseeable future. According to local dealmakers and their advisers, the M&A market fundamentals remain solid for buyers to keep scouring the deal environment, the dealmaking process, and transaction advisers say they're bullish about the deal environment, the dealmaking process, and the deal flow. Here are some highlights of the discussion.

DEAL ENVIRONMENT
From a 30,000-foot-level, what's the outlook for M&A right now?

CHANDLER: You basically have too much money chasing too few goods. It's very, very simple economics. That's positive for sellers. When you talk about entrepreneurs, many sellers will sell when it's right for them, not necessarily when it's good to sell. If you look at private equity, there were guys who had very little in their portfolio because they sold everything. I call them unemotional sellers. They're going to trade for the benefit of their investors. The entrepreneur doesn't think that way, so we can sit there and say, 'This is the best market we've seen in the last X number of years,' which is true, but that may not impact them if they have other issues going on with their families, the business itself. People like me can talk until you're blue in the face saying, 'It's time to sell,' but if you're not ready, it's not going to happen.

JOHNSON: I think that's exactly right. We continue to see valuations at a pretty high level. What I guess interesting to us is that from a buyer standpoint, I think we've had to be a little bit more critical and selective in that there are a lot of businesses or properties that I think in other markets probably would not come to market. I think to a certain extent there are a lot of sellers that recognize that we're in a pretty overheated marketplace, and there's been a lot of activity. Some businesses that I think just from an evolution standpoint are still pretty immature and still need a lot of work and whatnot, I think if anything they're probably trying to come to market sooner than they otherwise should because they feel the market is there. While we're seeing just as many potential opportunities, ones that we're really excited about and we want to run really hard at, it's lower than in prior years.

DANIELS: Overall we still have a really strong market for sellers. I think that you can get into industries, and there's some that are stronger than others. Health care is really hot. Technology or companies that have a technology spin to it I think are really hot. Commodities in general — things there are not as bad as they were maybe six months ago, but businesses tied to commodities aren't doing as well. I think you see some options there, some distressed deals in that area. I think everyone knows auto deals are not an ideal time right now to be in, especially for private equity.

As advisers, are you working more on the buy side or the sell side these days?

CHANDLER: Most of what we do is sell side engagements; we do some buy side, and it's been a great market for all of us doing transactional work in the last seven or eight years. I don't think we'd want to see 2009 again, because in our world we work with two kinds of clients: people that want to do something and the people that have to do something. In 2009 I think we represented 13 companies and not one of them had positive EBITDA. Those aren't fun transactions. Those clients were very happy, because we got them (off) personal guarantees. That was a big deal to them at that time. These markets are a lot more fun, meeting the goals and objectives of clients who want to do something, and have worked hard to get there.

DANIELS: Both buy side and sell side is probably like 50-50, maybe a little more buy side right now. In sell side engagements, we usually represent closely-held family-owned businesses who are exiting. We do a few corporate divestitures, but that's not the majority of what we do on the sell side. I think one thing that makes us unique is our buy side's pretty diversified. We represent large corporate companies, West Michigan-based, Michigan-based, even a few international, and we represent a fair number of private equity.

Is there anything in the current political environment and the resulting uncertainty that's shaping deal flow?

DANIELS: It doesn't seem like it. My sense is that people aren't paying a lot of attention to it right now. CHANDLER: I think probably after Trump got elected, there was discussion of do I close the deal in '16 or '17 for tax reasons. You saw that. Maybe there might have been some paralysis around that.
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How has the promise of corporate tax reform and going to a 15 percent corporate tax rate affected the M&A market?

**CHANDLER:** You can’t bank on that (to get enacted).

**DANIELS:** When that discussion has come up a number of times when we’re going through planning, I think the consensus was (that) we have to go solo. I don’t think anybody feels confident anything will get done.

**SOROTA:** We were looking at something where for it to happen it would have been much more desirable; it was a factor, but they ended up going with a different approach. They were modeling that as a potential component that could help them, but I think they also realized the probability of it happening in a meaningful amount of time was low. They were thinking about it, and they modeled it. I think maybe people model as an option, but I think people realize you can’t control the time with that.

Turning to something that has happened: The Fed raised interest rates twice this year, and there’s a potential for more coming up. Does that start to affect your deals at all?

**CHANDLER:** I think the biggest issue is availability of credit, not the cost of credit, within reason. One thing that I think shuts down M&A activity is if the banks aren’t lending.

**TERPSMA:** That’s always a factor of how much equity, how much senior (debt), and what do you bridge in between. We see mezzanine providers who are more flexible with rates today. There was a time when they needed their 14-15 percent, and I think they’re recognizing now that maybe they would take an 8 or 9 percent pay. I think the blend works out, and when you think about historic interest rates, they’re still very low. I don’t see that as having any negative impact on getting deals done.

**DANIELS:** There is a lot of available credit, not only from banks. Until that changes, I would agree.

What role is foreign capital playing in the current M&A market?

**CHANDLER:** The Chinese and Europe have been big buyers. We have a transaction right now with a Chinese buyer, and the U.K. has been aggressive as well.

**DANIELS:** From my experience, I haven’t seen foreign buyers dominate or disproportionately represent the buyers. It’s mostly been U.S.-based private equity, etc. The foreign buyers I have seen have been strategic. We work with a very active European strategic buyer. They’re a great buyer, they’re active, and they have cash. I haven’t seen any influx of money from any particular region that’s not somehow strategic.

**JOHNSON:** From our perspective as a private equity buyer, the strategic activity has been about as robust as it’s been in a long time. We’ve been the beneficiary of it if we’ve sold a couple of our businesses to strategics, but on the flip side trying to compete with them is a real challenge. They’ve been a lot more aggressive, active, and professional, and swift than we’ve seen in years past.

**DEALMAKING PROCESS**

How creative do you need to be these days to get deals to close?

**DANIELS:** I think when you see people try to get creative in the process to win, sometimes that means they just take more risk or maybe they have an advantage because they know the space well, or have another group partner, etc. You just see more risk I think.

**SOROTA:** I think the creativity is an interesting one on both sides. We’ve gone through (competitive bid) processes, and we’ve done things directly, and I think that folks are open to being more creative, to try to create as much value as possible. I think there’s a huge focus on growth, and trying to bring different assets together to try to create more growth. I think the traditional approach, there’s no such thing.

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“There’s always a factor of how much equity, how much senior (debt), and what do you bridge in between. We see mezzanine providers who are more flexible with rates today. There was a time when they needed their 14-15 percent, and I think they’re recognizing now that maybe they would take an 8 or 9 percent pay. … I think the blend works out, and when you think about historic interest rates, they’re still very low. … I don’t see that as having any negative impact on getting deals done.”

— DAN TERPSMA, EVP AT CHEMICAL FINANCIAL CORP.
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不断提升团队合作的重要性，往往比单纯的价格和估值更重要。我们已经成功完成了几笔交易，我们知道自己不是最高的出价者，但从根本上来说，我们觉得在文化上有良好的对齐，并且我们对他们的员工队伍有承诺，这比你能想象的对创业者来说更重要。只要你能达到这种程度的对齐，并且真的说服他们一起成长，给他们一个明显的第二次机会，这是一个非常有效的策略。

哪些是常见的挑战，导致交易推迟至最终完成？

JOHNSON: 我不知道有没有一个共同的领域。我认为这是非常具体的。每家公司都有自己的路径和问题。有时我们会看到与房地产和环境有关的领域，可能没有被仔细审查。你必须记住，很多这些企业家，他们一生都在努力建立业务。他们对交易并不熟悉，他们不审查质量的收益，就像私人股权买家一样。很多时候是无意的——就像他们试图隐藏一些东西或把它藏起来一样。他们只是在经历一个全新的过程。

CHANDLER: 很多是关于财务的。你说，‘我有500万美元的EBITDA’，然后买家进来进行质量的收益审查。他们说，‘你说你有500万美元，你能确定真的有500万美元吗？’他们不会告诉你你有600万美元，但他们会让你知道你有少于500万美元。问题是如果你有400万美元，那会让你陷入困境。然后生活变得有趣。

DANIELS: 每个交易都有独特的挑战。我看到最大的问题是净营运资本类型的争议，以及围绕这个的对话。此外，另一个问题是他们在债务中的独特负债——什么是债务效用？如果你想在交易之后处理争议，我可以说至少有三个我现在正在参与的。

CHANDLER: 是的，客户会说，‘工作资本有什么大不了的？它就是它是什么’。这似乎是每笔交易中的狗斗。

DANIELS: 是的，我会说买家和卖家要小心，那些不熟悉经历的，陷阱和如何运作的，你可能会迷失方向。

Do family-owned businesses come with any unique considerations for buyers?

JOHNSON: 一个大挑战是这些业务本身通常没有真正意义上的 CFO。通常是一个家庭成员在计算支票，虽然他们非常善良并且想做正确的事情，但他们没有设置适当的储备或会计政策的智慧。通常这是在你完成交易后才意识到的。然后你就开始处理净营运资本调整，你意识到有很多会计政策是未设定的。这是一个对话，你需要走一遍。

M&A AWARDS ROUNDTABLE

Continued from page 32

Rounding up the partners working together, more often than not always trumps price and valuation. We have successfully completed a handful of transactions where we know we have not been the high bidder, but fundamentally we felt as though there was a good alignment in terms of culture and that we had a commitment to their employee base, which is more important than you can ever imagine for entrepreneurs as they think about their legacy. To the extent that you can meet that type of alignment, and really convince them that you’re going to grow the equity together, and give them a significant second bite of the apple, it’s a highly effective strategy.

What are some of the common challenges that pop up and delay deals from getting to a close?

JOHNSON: I don’t know if there’s any one common area. I think it is really deal specific. Every company has its own path and its own set of issues. From time to time, we’ll see areas having to do with real estate and environmental that maybe aren’t scrubbed as carefully as others. You have to remember a lot of these entrepreneurs, they’ve spent their life and blood and sweat growing a business. They’re new to the transaction business, and they don’t scrutinize quality of earnings like a private equity buyer. A lot of it is not intentional — like they’re trying to hide something or sweep something under the carpet — it’s just that they’re going through (a new) process to begin with.

CHANDLER: A lot of it’s financial. You said, ‘Hey, I’ve got $5 million of EBITDA’ as a seller. And then the buyer comes in and does a quality of earnings review. They say, ‘You said you have $5 million, do you really have $5 million?’ They won’t tell you if you got $6 million, but they’ll tell you if you have less than $5 million. The issue is if you have $4 million, then you have a conversation. That sometimes comes in within the 30 days before closing. Then life gets interesting.

DANIELS: Every transaction has unique issues. The biggest one I see is net working capital type disputes, and just conversations around that. In addition to that, another area is unique liabilities within their debt — what are debt-like items? If you want to look at post-closing disputes, I would say some of those revolve around that. I’m involved in three of them right now.

CHANDLER: Yeah, clients will say, ‘What’s the big deal about working capital? It just is what it is.’ It seems to be a dogfight in every deal.

DANIELS: Yeah, and I would say buyer and seller beware, so people who aren’t familiar with going through that, the traps and how it all works, you can really get sideways on those.

Do family-owned businesses come with any unique considerations for buyers?

JOHNSON: One of the big challenges there is fundamentally a lot of these businesses don’t have what I would call a professional CFO. Oftentimes, it’s a family member who’s counting the checks, and while they’re very good spirited and want to do the right thing, they just don’t have the sophistication around setting the right reserves, setting the right accounting policies. Oftentimes that doesn’t happen until you close the transaction. Then as you set up the net working capital adjustment, you realize that there’s a lot of accounting policies that have not been (set up). It’s a discussion, and kind of a walk which you go through.
BEST PRACTICES
Have there been any significant changes to how you handle M&A transactions in recent years?

CHANDLER: There’s been more procedures or processes that are now taken on by sellers that they never would have considered five years ago. What more and more sellers are doing — which they’ve been doing in Europe for decades — is sell-side quality of earnings. Before you even launch a process, companies will pay to have an accounting firm look at their numbers, and yet as they were how buyers would see them. Then you can mitigate those surprises, and quite frankly, buyers like that because there’s nothing worse for a buyer to go all the way through, spend all that money with attorneys and what have you, to have the deal blow up because of emotion. If you can convince someone to spend some money up front, to vet those numbers in advance, that’s big.

JOHNSON: That’s a big change in the industry over the last few years. Virtually all the accounting firms are doing it now. To a certain extent, I think it’s money very, very well spent, because not only do you kind of avoid any of the pitfalls learning about it after the fact, but it speeds up your process tremendously. Because it’s a very laborious task to go through and understand these. But I think you can do that up front in advance of a process — that’s not to say that the buyer won’t hire their own firm to do that, but having two accounting firms speak the same language and going through that similar exercise will literally save you weeks upon end in terms of the process.

That sounds like a best practice that’s emerging. What else do you recommend from a best practices standpoint for companies thinking about buying or selling?

CHANDLER: The other one that’s been instituted a lot in the last 24 months is reps and warranty insurance. You see it on the bigger deals, but statistically you’ll see where the indemnification caps have come down dramatically because of that. Also they did a study between the companies that had reps and warranty insurance and those that didn’t, and (the companies with it) traded about a half turn higher.

DANIELS: I’d say almost all my deals that are over $50 million are reps and warranty insured. It just makes transactions easier between financial buyer and seller.

CHANDLER: You can afford it, the premiums are worth it. A lot of sellers who were grousing about that initially — about the cost and everything — but afterward they’re really happy because they just have more money and less risk, and it’s psychological. The resistance to the seller is always cost, but I think between ourselves in our industry and the better lawyers who understand the products, they’re able to convince the client that it’s a good tool.

How about from the company side: What do you recommend as best practices?

JOHNSON: One recommendation we always give family business owners or entrepreneurs is to hire a good adviser and a market-based lawyer, because more often than not we see that families tend to kind of rely on counsel that has been working with them on their family issues, as opposed to transaction-based counsel. While it sounds somewhat counterintuitive that we would prefer the other side to be stronger in terms of their representation, for us it just makes the process go so much smoother. “One recommendation we always give family business owners or entrepreneurs is to hire a good adviser and a market-based lawyer, because more often than not we see that families tend to kind of rely on counsel that has been working with them on their family issues, as opposed to transaction-based counsel. While it sounds somewhat counterintuitive that we would prefer the other side to be stronger in terms of their representation, for us it just makes the process go so much smoother.” — Jeff Johnson, Managing Director at Blackford Capital

Is anyone really concerned about where things are headed for the economy right now given the length of the recovery we’re in?

DANIELS: I don’t think so. I’m a believer that sometimes the harder the downturn, the longer the recovery. We had a pretty severe downturn, and we’ve been in it for a long time. It feels like we’ve been in the seventh inning for years. I think people always stress test their models, but if you’re in private equity and you’re going to have that mindset, then you might as well get out of it for a while, and then get back in it when it does happen.

JOHNSON: There’s been a huge private equity funding cycle over the last 24 months, and because of that the availability of excess capital has never been stronger. Until that weaknesses, I think that will continue to push the deal market forward.

CHANDLER: One thing that I always kind of look at is what are businesses doing with capex. How do they feel about the growth? Are they willing to build a new plant … or are we somewhat cautious about that?

TERPSMA: We do see companies when they fund their capex that much of it is from internal cash flow because they’re doing so well. We’re seeing many people, because they’ve got their own balance sheets in good shape, they’re self-funding.

Given the demographics of this country currently, the wave of boomer retirements is not going to stop any time soon. However, as they hold on to their companies and avoid taking the next step, does that pose any unique challenges?

CHANDLER: The number of times you say ‘what’, ‘what’s this guy waiting for at 75 years old?’ — you wouldn’t have seen that a number of years ago. Maybe retirement isn’t all that it’s cracked up to be. They like working.

TERPSMA: We see these guys sell, but maybe not all. They want to sell 75 percent, and then part of the negotiation is, ‘What’s left for me to do?’ Ideally, I like to do these three things, but not these 12 (that) have to do with compliance and administrative things. If this PE firm or a family office can say, ‘We’ll take that off your plate. You do the three things you want to do, and we’ll give you 10 weeks vacation,’ and we’ll let you work 25 hours a week, but we value the expertise.’ I think that can turn a deal.

CHANDLER: I’m right up there with you — I’m a big fan of private equity. It gets a bad rap because everybody wants to focus on the negative. Have there been some blips? Sure, but it’s not like strategics have been some clean bill of health either. You’ve got to do your homework and spend your time. We’re big on that because then the client will make better decisions. I think private equity has helped drive better values, but it gives sellers more options.

DANIELS: If it wasn’t for private equity, these baby boomers wouldn’t have as many options for exits. I look at the baby boomers and the older business owners, and I think every situation is unique with how the owners feel about the growth. We see these guys sell, but maybe not all. They want to sell 75 percent, and then part of the negotiation is, ‘What’s left for me to do?’ Ideally, I like to do these three things, but not these 12 (that) have to do with compliance and administrative things. If this PE firm or a family office can say, ‘We’ll take that off your plate. You do the three things you want to do, and we’ll give you 10 weeks vacation,’ and we’ll let you work 25 hours a week, but we value the expertise.’ I think that can turn a deal. I’m right up there with you — I’m a big fan of private equity. It gets a bad rap because everybody wants to focus on the negative. Have there been some blips? Sure, but it’s not like strategics have been some clean bill of health either. You’ve got to do your homework and spend your time. We’re big on that because then the client will make better decisions. I think private equity has helped drive better values, but it gives sellers more options.

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