



## Partnering with a Financial Buyer

The potential benefits of selling your business to a strategic buyer may be apparent – economies of scale, knowledge of your business/industry, revenue and expense synergies, etc. – but what about selling to a financial buyer? Financial buyers aim to leverage their financial resources and experience to build and grow businesses to generate a financial return for themselves or investors. Here you will learn more about financial buyers and what to consider before selling your business to one.

Financial buyers (private equity firms, investment firms, search funds, and family offices) can provide valuable resources to enable a private company such as yours to become significantly more successful. Attributes include:

- **Capital resources** – Investment firms typically have access to capital to fund growth initiatives and can eliminate the need for personal guarantees.
- **Enhanced return** – If your management team rolls a portion of their equity back into the business after its been acquired, they can participate in the potential future upside when the business is sold again. Although not without risk, this can produce significantly higher returns than would have been realized on the original sale alone. This is rarely an option with strategic buyers.
- **Employee retention** – Financial buyers are unlikely to have back office and

administrative staff in place, making your entire team more valuable, whereas a strategic buyer may look to eliminate redundant positions.

- **Team development** – Financial buyers are experienced in identifying and hiring select key personnel to round out management teams, in addition to bringing in valuable board members to provide outside perspectives to your organization.
- **Industry expertise** – Either through previous career experience or through partnering with a former industry executive, financial buyers can bring additional industry expertise to your team.
- **Clear investment thesis** – Private business owners such as yourself may reach a point when the best path for future growth is unclear. Financial buyers bring a clear investment thesis to the table, assisting in achieving designated goals.

Characteristics differ between financial buyers. Consider the following when selecting a partner:

**LEVEL OF INVOLVEMENT.** Although all financial buyers will be active in the business, the extent of involvement can vary. Representation on the board and assisting with overall strategy may be enough for some, while others will desire to take a more active role in managing the operations.

**LEVERAGE UTILIZED.** How much leverage will the buyer apply to the business? Higher leverage can result in an increased valuation, but it can also handcuff the business if cash flows are insufficient to satisfy debt service and fund growth.

**HOLD PERIOD.** Some investors, such as family offices, will hold onto a company for a long or indefinite period while others, like private equity funds, will look to realize their investment sooner by selling in four to seven years.

**INDUSTRY EXPERTISE.** As mentioned earlier, some financial buyers will already have significant expertise in your industry while others may be making their first investment in this market. Is expertise needed, or is access to capital and other resources your primary objective?

**TRACK RECORD.** Understanding a buyer's track record with prior and current investments can help frame their ability to manage your company. We recommend visiting with several business owners that have partnered with the firm you are considering. Ideally you will find situations where performance of the business didn't go according to plan, where you can learn how easy (or not) your potential buyer was to work with when things didn't go as smoothly as expected.

To select the right financial buyer for your business, know what you hope to gain and understand that not all financial buyers are the same.

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## business lines



by Steve Jacobs

critical buyers know the company can operate smoothly once the owner has exited the business. The best way owners can communicate this is by having a strong team of key employees in place.

Depending on the size of the organization, the number of key employees a company has will vary and may even consist of only one individual. No matter the number of key employees, it is important they have a variety of skills to ensure the business can continue creating value after the owner's departure. Not only does having a strong team

A company's valuation is heavily influenced by many factors. When business owners consider a transition, they often overlook some of the most important attributes of their company, operational characteristics. It is easy to think that the financial aspects of a company, such as revenue and profit, are the only elements that matter in a valuation. Although they are extremely important, operational characteristics also significantly impact a company's cash flow, and it is

of key employees in place create additional value to a third party, it can also increase value internally. This group could have an interest in directly buying the owner out, providing an alternative exit strategy not possible without having a strong team in place.

Make sure to support your talent, as they are what drives your company's success. Buyers seek businesses with strong key employees and a quality workforce that includes experience, expertise, and depth of knowledge. Having a highly skilled team that wishes to remain with the business long term effectively communicates to buyers the success of the business is based on its people, not solely on the owner. This provides a reduction of risk when a new owner steps in, and a buyer can be more confident the business will carry on successfully, likely resulting in an increased purchase price.

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## Our Newest Acquisition



**Jennifer Vermillion**



Iowa  
Appraisal and Research  
CORPORATION

We are pleased to announce the addition of Jennifer Vermillion to the real estate appraisal team of our affiliate company, Iowa Appraisal and Research Corporation. Jen brings with her 13 years of professional appraisal experience in both metropolitan and rural areas, working with stakeholders throughout the state of Iowa on complex litigation matters. She is a graduate of Iowa State University and adds additional knowledge of crop and livestock production to our ag appraisal team, having grown up on a Central Iowa family farm.

**We'd like to hear from you!**

Is there a topic related to mergers and acquisitions you'd like to learn more about?

Send your request to us at [info@bccadvisers.com](mailto:info@bccadvisers.com) and we will do our best to address your question in a future issue!



# Locating the Right Match



For over 20 years, Midland GIS Solutions has been providing a complete suite of geographic information system (GIS) services to local and state governments, utilities, and private corporations. During this time, the company established itself as the largest full-service GIS firm in the Midwest with a reputation for high-quality work. With such a strong position in states such as Missouri, Kansas, and Iowa, its management knew the company would need to expand geographically in order to continue its growth path.

As Midland's shareholder base consisted of a mixture of employees and non-employees, it was determined that finding an external party to assist in expediting this growth was the ideal direction to explore. The owners engaged BCC Advisers to find a strategic partner and manage the confidential sale process. "We wanted to find a partner that understood our business, shared the same vision for growth, and would keep the employee base and client relationships intact. BCC took all of these factors into account as they identified and vetted potential buyers," stated Midland's President, Troy Hayes.

Although many engineering and construction firms offer GIS services, Midland is unique in that it focuses exclusively on GIS, having perfected its service and technology offerings over many

years. This specific focus made Midland an attractive acquisition target for many. After evaluating numerous offers, the shareholders determined a partnership with Surveying And Mapping, LLC (SAM) provided the best opportunity for all stakeholders. Midland Directors Matt Sorensen and Kirk Larson are both excited for the future. They stated, "SAM's geographic reach and breadth of service offerings will allow us to serve current and future clients in a more complete way. In addition, we look forward to expanding upon and growing SAM's GIS offerings in a way that benefits everyone. We see this transaction as the start to a successful relationship as part of the SAM family."

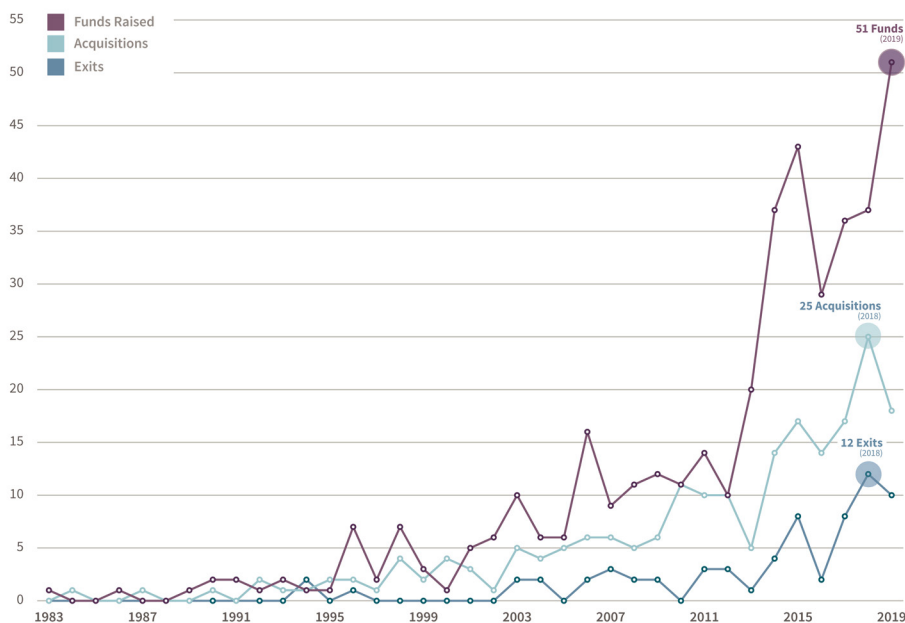
SAM's experience successfully implementing past acquisitions comforted Midland's leadership team. Being part of a company that has the resources to continue investing in technology and growth was an important consideration, and Midland feels they have found the right partner to continue on a successful path in the future.



## What is a Search Fund?

Business owners evaluating exit strategies seem to have an ever-expanding pool of buyers from which to choose. One of those possibilities is a search fund. Search funds are not entirely new, having been around since the mid-1980s. However, they have become more prominent in recent years as illustrated by Stanford University's survey data showing an increase in funds raised and acquisitions by search funds in the chart below.

FIGURE B | SEARCH FUND ACTIVITY BY YEAR



Source: Data from Stanford GSB search fund surveys.

A search fund consists of a captive pool of capital raised from investors to fund the acquisition of a business for, in many cases, one or two entrepreneurs to grow and manage. Unlike private equity firms, the search fund targets a single business which is identified after the search capital is raised. The entrepreneur(s) backed by the investors are involved in the day-to-day operations of the company with the goal to grow and eventually sell the business, realizing a return on their investment.

Search funds can solve a variety of issues facing business owners:

1. With an entrepreneur ready to step into the management of the business, search funds provide an attractive alternative for companies that don't have a deep management bench or in which the business owner would like to slow down slightly but remain active in the business.
2. Search funds many times do not have a mandated hold period. This allows the investors to be more patient and reduces concern among business owners that their company will be sold again in short order.
3. Smaller companies that may not generate interest among larger industry players or private equity firms could find a good fit with a search fund. According to data compiled by Stanford University, the median purchase price among search fund-acquired companies in the 2018 to 2019 period was \$10 million.

Despite the positives, there are potential downsides to search funds. First, capital is raised in tranches with the first tranche funding the search process. Once a business is

## on the dotted line

### Some Recent BCC Advisers Transactions:

Advised a full-service provider of geographic information systems on a sale to a provider of geospatial data solutions and construction phase services.

Advised a commercial and residential security solutions provider on a sale to a comprehensive security service provider.

Performed a fair market valuation to assist a material handling manufacturing company in analyzing offers.

Performed a fair market valuation of an equipment wholesaler for estate planning purposes.

Prepared a fair market valuation of a machine shop services company for purposes of annual ESOP plan administration.

## The Market Front

Some opportunities available through BCC Advisers:

**U.S.-based conveyor products company - is seeking a buyer.**

**U.S.-based specialty vehicle manufacturer - is seeking to divest of a product line.**

**European-based medical products manufacturer - is seeking to acquire U.S.-based surgical products companies.**

**U.S.-based software development company - is seeking acquisitions of the same.**

identified, further capital is raised to make the acquisition. However, the original investors in the search process are not obligated to provide capital for the acquisition, making the funding a bit more of a question mark relative to other possible buyers.

Second, due diligence requirements may be more rigorous to satisfy the requirements of the capital providers. Sellers should expect a detailed quality of earnings analysis, although that has become common for strategic and financial buyers alike.

Search funds may not be an appropriate alternative for all, but they should be considered and can provide an effective solution under the right circumstances.