Businesses on the Block

Financial Buyers Offer Promising Alternative

By Tom Schuman

A great deal of emphasis is properly placed on creating employment opportunities in Indiana. Not to be overlooked is the critical importance of keeping existing companies and jobs within the state.

Transfers to other locations often take place when a business is sold. In the past, owners looking to sell nearly always received the best offers from strategic buyers – many times competitors who would combine the operations in some form, leading to job loss or a less significant presence for the sold company.

Recently, financial buyers have come to the forefront. Financial buyers purchase a business as an investment. The company continues to operate as close as possible to business as usual. Many times key local personnel have the opportunity to be part of the new management and/or ownership team. And the company is offered the possibility of increased growth – within Indiana.

Bob Shortle is managing director of Periculum Capital Company in Indianapolis. Asked whether the recent trend of financial purchases was likely to continue, his immediate, one-word answer was "Absolutely."

Sarbanes-Oxley and an increasing load of other federal regulations has made "being public today not nearly as attractive as it used to be," Shortle continues. "Before, when companies got big, they went public. You're going to see more and more owned by private firms. They'll buy them, run them five to 10 years, then sell because they have to get the money back to their investors."

The recent sale of a westside Indianapolis company offers a vivid example. Shortle, in fact, helped the former owner who completed the sale with his original purchase of the business in the mid-1990s.

Seminar Addresses Funding Prospects

New Capital for Acquisitions, Management Buyouts and Recapitalizations is the title of a September 29 program intended to help keep growing businesses in Indiana.

Equity funds, buyout groups and financial buyers have become new players as business sales take place. Middle market companies are seeing increased values. How Indiana companies can take advantage is the theme of the half-day program.

A panel of CEOs and CFOs who have gone through these types of transactions will be featured, along with professionals from Barnes & Thornburg LLP and Periculum Capital Company, LLC.

The September 29 event is from 1-5 p.m. at the Barnes & Thornburg office in Indianapolis. Contact Deb Hallberg (317-231-7356 or dhallberg@btlaw.com) for details and registration.

Standing apart

Separators Inc. specializes in sales, parts and service for centrifuges (an apparatus that uses centrifugal force to separate particles from a suspension, such as liquids from a solid) for food, drink and a growing number of other industries. The company started in 1985, primarily serving small dairy and cheese plants.

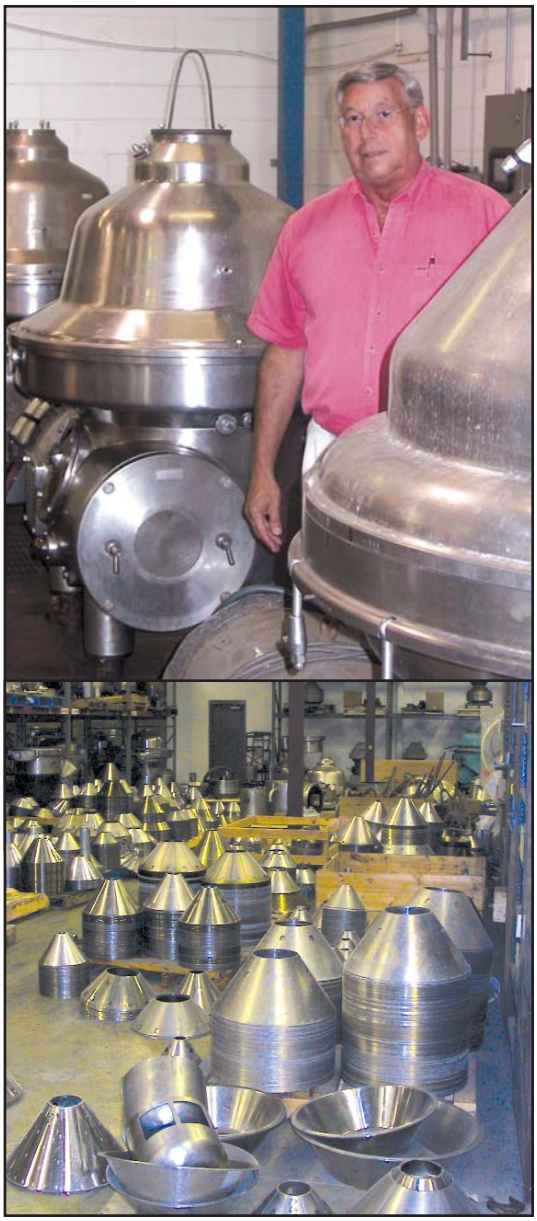
Ken Army is a self-described "New England guy" who came to Indiana in 1987. Learning that Separators founder Dick Lambert was in need of a general manager, he joined the company in December 1994 after an arduous interview process. The last sentence of a one-page agreement gave Army the right of first refusal if Lambert decided to sell the business.

After six months the bottom line had improved to the point that Lambert was ready to explore a sale. Following 10 months of negotiations, Army was the new owner. It took bank financing, support from the Indiana Community Business Credit Corporation and some individual investors to make the financial deal possible. The purchase was highly leveraged, Shortle recalls, with Lambert "taking a lot of paper" in lieu of cash.

While he characterizes banks as being in an "aggressive lending environment" at the time and it being a "fairly good environment" for business deals, Shortle adds, "In terms of getting things done, it's a lot better now."

The company experienced strong growth, moving from approximately $4 million in annual sales when Army took over to $10 million by the time he was ready to sell. "All I did was learn from the people here and utilize the systems in place. We tried to keep our eyes and ears open to find the best people. We'd create a position if we needed to."

Still, Separators is a small, but flexible business. Employee numbers increased from 26 to 36, but were reduced back near the former number when the economy soured early this decade. Sales and service people, however, were placed in areas such as Chicago, Wisconsin, Iowa and California to be closer to customers and provide better service. While covering the entire country, the majority of the business comes from the Midwest and West Coast.



Ken Army stands among some of the equipment at Separators. He was able to purchase the business, grow the company and then sell to financial buyers who kept the operation and jobs in place.

Changing course

The now 64-year-old Army was ready to slow down by the end of 2004. Similar to the way he had come into the company and later purchased it, he hoped to sell the business to his controller, who had been empowered with a wide range of duties. That plan didn't work and it took a little longer than expected (the deal closed in June 2005), but Indianapolis-based Monument Advisors beat out a number of national buyout funds to become the new owner.

Shortle explains that some buyout funds will only make deals if the current management stays in place, while others prefer to bring in their own people. Monument utilizes both strategies, he says, with the key being a very comfortable relationship between the owners and management.

If strategic buyers involved in the same line of business aren't happy, they don't hesitate to bring in someone else. Financial buyers don't have that luxury. "It works out that the human side is a much bigger part of the deal," Shortle notes.

Monument partnered with John Campbell (the new president and CEO) and Joe Mansfield (chief operating officer and chief financial officer). Each brings extensive industry experience and both gained a share of ownership of the company. It's fairly constant, Shortle says, for such deals to result in increased ownership for management.

"The buyout fund's attitude is 'we want him to think like we do.' The management team may own as much as 20% of the company," he continues. "Sometimes it's a stock grant. They want to tie talented people to the business."

Partial involvement

Army's original perception was he would "sign the papers, walk out and get the money." The new owners, however, wanted to take advantage of his institutional knowledge and he agreed to serve as a consultant for a period of up to a year. While he says the time he spends in the office has been dwindling after the first month, it has been a good arrangement.

"It's not divorcing myself totally," Army states. "It's good for me, a slower withdrawal, and hopefully it's good for them." As he looks back, he says, "I made a few mistakes along the way. If I was younger, I'd still be here, but I have no mixed emotions about it.

"I look forward to taking things a little easier, but I don't know for how long. The good thing is that I've met a lot of great people. If I do get bored, I can pick up the phone and there are a lot of people I can chat with (about jobs)."

Shortle points out that the company and its employees may well experience increased growth. Army, he contends, worked under a lot of stress as an individual owner who spent a great deal of time paying down the debt. In this and other cases, such owners have to take at least somewhat of a conservative approach.

"These owners are eager to grow their company, but not too fast sometimes. This is their retirement, their security. They don't want to lose those jewels," Shortle emphasizes. "For Monument, their role is to get a big return for their investors. It can put more capital in the company than before and grow it faster."

INFORMATION LINK

Resources: Bob Shortle, Periculum Capital, at (317) 636-1800 or www.periculumcapital.com

Separators Inc. at www.sepinc.com