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WEST MICHIGAN'S TOP DEALMAKERS SHARE BEST PRACTICES FOR EFFECTIVE M&A TRANSACTIONS

By MARK SANCHEZ | MiBiz
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A successful acquisition comes down to much more than just making the numbers work.

While an acquisition surely must make financial and business sense, buyers and sellers need to make sure they put enough consideration into the cultural fit as well, according to winners and finalists in the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards.

Understanding the other side's culture, and the ability to measure it, is one of the top best practices for effective dealmaking recommended by Scott McLean, chief administrative officer at Livonia-based I.T. and computer training firm **New Horizons Great Lakes Holding Corp.**, which won the Deal of the Year Award in the under $25 million category.

"Every acquisition we have made, we have spent more time figuring out if these people — how they do business and their systems — are going to be a good fit for us, more than even what the numbers are. That almost becomes secondary," McLean said.

Likewise, **Chemical Financial Corp.** Chairman, President and CEO David Ramaker places a premium on a good cultural fit as well.

The Midland-based Chemical Financial has pursued an acquisition strategy to grow over the last few years, closing three deals alone since October 2014. The $187.4 million acquisition last May of Holland-based Lake Michigan Financial Corp. won the Deal of the Year Award in the more than $150 million category.

"If the cultural fit is not there, then we're spending a lot of integration time maybe looking for new people or just struggling with getting a better feel for what type of customer we're looking for," Ramaker said.

Finding a good cultural fit and getting to know the people behind the business you are acquiring can help to overcome obstacles and issues that may arise when negotiating a sales agreement or going through due diligence.

"The biggest best practice is knowing the individuals that you're going to have deals with, and that you have the basis of a solid relationship to begin with because there's always going to be tension in any negotiated transaction. Obviously, the seller wants to get the best opportunities for his shareholders, and the buyer wants to make sure that he's protecting his current shareholders and making sure that the combined shareholder base is to the benefit of the synergies," Ramaker said. "We're both dealing with this, to some extent, from different angles. Having that solid relationship allows you to get past that from an area of trust and understand that when things are said or promised that they are actually going to occur. Having that relationship up front helps tremendously in getting that accomplished."

In separate interviews with *MiBiz*, the winners and finalists in the M&A Deals and Dealmakers of the Year Awards offered an array of best practices to use in making an acquisition or selling a business.

M&A attorney Tracy Larsen, the managing partner of the Grand Rapids office of **Barnes & Thornburg LLP**, begins by having a "maniacal attention to detail."

"You need to really vet and understand issues early on to be able to control them in a sale process," said Larsen, this year's winner of the Dealmaker of the Year Award in the adviser category. "I spend a lot of time staying on top of the bid-ask range for virtually every issue that arises in a transaction. Without that knowledge, you're never going to deliver the best value for your client."

Jeff Ott, a partner and M&A attorney **Warner Norcross & Judd LLP**'s Grand Rapids office and a finalist in the adviser category, said the process of counseling a client needs to begin by making sure that he fully understands exactly what a client wants out of a transaction.

"I can't stress enough: Listen to your client. They are the businesspeople, not the lawyers. So it's important to listen to the client and understand their objectives," he said. "A long as you do that, it will go a long way."

Others suggested that whether you are a buyer or a seller, you need to assemble the right team of outsider advisers that you trust.

Developing a rapport with a good financial and legal adviser, as well as a business broker who's representing you in the market, is essential to getting a deal done, said Chuck Schipper, the former owner, president and CEO of **Oak Crest Communities** in Jenison. The company sold its four senior living campuses in West Michigan last year to American House Senior Living Communities in Bloomfield Hills.

"Build the right team between the attorney and the broker. You're going to be spending a lot of time together, so it had better be a team that you're comfortable with," Schipper said.

While there's a cost that goes with retaining outside advisers to help fashion a deal, **Founders Brewing Co.** CEO Mike Stevens believes that it is money well spent.

Stevens was a finalist as an executive dealmaker for Founders Brewing's deal last year to sell a 30-percent stake in the company to Mahou San Miguel, a Spanish family-owned company that operates seven brewing operations globally.

"When you think about hiring investment bankers and M&A firms and lawyers at $900 an hour, you go, 'Holy shit — I don't need to spend that much money to get a deal done.' I'm going to say the opposite: Build the most qualified team you can because there are a lot of moving parts to a deal," Stevens said. "It's not just about the money. It's about the contracts and operating agreements, the employment agreements and the future — whether there's options or puts and calls. It goes on and on.

"The real brilliance of a deal is what's created after the offer. The experts are the ones that really tie that together and bring that together. I'm very happy that we didn't look to save a few bucks on that end." MiBiz

Joe Boomgaard, Nick Manes and John Wiegand contributed to this report.

M+A DEALS & DEALMAKERS AWARDS

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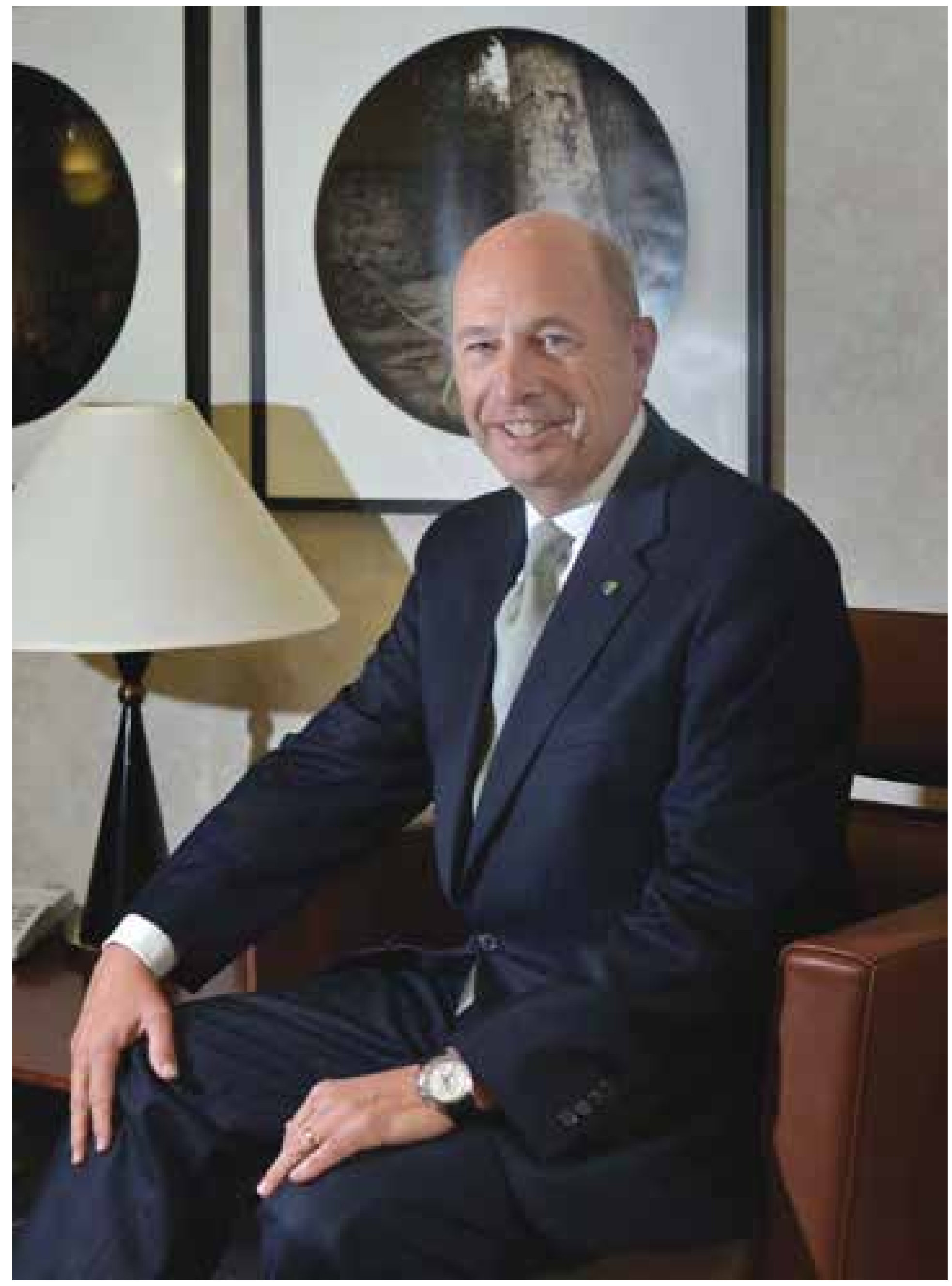
CHEMICAL FINANCIAL'S DEAL FOR LAKE MICHIGAN FINANCIAL TOOK 'VERY LITTLE SELLING'



David Ramaker, Chairman. President and CEO, Chemical Bank. PHOTO BY KATY BATDORFF

By MARK SANCHEZ | MiBiz
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David Ramaker always had great respect for **Lake Michigan Financial Corp.**

The Midland-based **Chemical Financial Corp.**, where Ramaker serves as chairman, president and CEO, even put money into the Holland-based Lake Michigan Financial through a 2007 debt offering.

The two corporations — and their executives — had come to know much about each other ever since.

"We had long admired how they run their institution," said Ramaker, who had always wanted a chance to acquire Lake Michigan Financial, the parent company of **The Bank of Holland** and **The Bank of Northern Michigan**.

"That particular bank was very high on our list of companies that we would love to have a conversation with and merge with and acquire," Ramaker said.

That opportunity came last year, when Ramaker received a called from an investment banker who told him about a bank that operated in western and northwestern Michigan and was looking to sell. The question for him: Was Chemical Financial, which has been pursuing an acquisition strategy for years and had made two deals in recent months, interested in taking a look?

> "This was probably the first transaction that we'd done in quite some time where the quality of the balance sheet was as good if not even a little better than our balance sheet from a risk perspective."
>
> —DAVID RAMAKER
> *Chairman, President and CEO, Chemical Bank*

After the conversation, during which he learned that the bank in question was Lake Michigan Financial, Ramaker recalled how he hung up the phone and "jumped out of my chair and said, 'Yes.'"

"It was a surprise to me, and a great surprise," he said. "This was a transaction that was far too opportunistic for us and for our franchise to even consider passing up. There was very little selling that need to be done in relationship to should we look and should we go down the road."

Chemical Financial (Nasdaq: CHFC) closed May 31 on the $187.4 million cash-and-stock deal. The integration of the banks is targeted for completion in mid-November.

Representing the second-largest acquisition ever by the Midland-based Chemical Financial, the deal for Lake Michigan Financial was selected as the winner in the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards in the more than $150 million category.

Once the integration is complete, The Bank of Holland's offices in Holland, Grand Haven and downtown Grand Rapids will take on the Chemical Bank name. The Bank of Northern Michigan's offices in Traverse City and Petoskey will consolidate into nearby Chemical Bank branches. The two banks have operated since May as subsidiaries of Chemical Bank.

The deal, one of three the corporation executed in the last year, added $1.2 billion in assets, $1 billion in deposits and loans of $900 million to Chemical Financial's balance sheet.

Buying Lake Michigan Financial, a largely commercial bank that caters to a high-end clientele, "was the ultimate" and "kind of completes the Monopoly board" for Chemical, said John Donnelly, manager of financial institutions at investment bank **Donnelly Penman & Partners Inc.** in Grosse Pointe, Mich.

Lake Michigan Financial is a premier bank that's well-positioned in strong markets, Donnelly told *MiBiz* last spring.

"That's Park Place or Boardwalk," he said.

Lake Michigan Financial operates with an "entrepreneurial spirit" that has the bank always looking for new ways to generate revenue outside of traditional banking, Ramaker said. He cites as an example **InSite Capital**, a subsidiary of Lake Michigan Financial that arranges financing for real estate deals using tax credits.

The corporation even maintained growth and profitability throughout the recession.

"This was probably the first transaction that we'd done in quite some time where the quality of the balance sheet was as good if not even a little better than our balance sheet from a risk perspective," Ramaker said. "That in and of itself made this transaction much easier to analyze and take a look at."

The deal for Lake Michigan Financial came after Chemical Financial's $27.2 million acquisition of **Monarch Community Bancorp Inc.** in Marshall last April, and the October 2014 deal for **Northwestern Bancorp Inc.** in Traverse City for $121 million in cash.

All three deals combined added about $3 billion in assets to Chemical Financial, which now has 187 branches in 47 counties of the Lower Peninsula.

In each deal it makes, Chemical Financial seeks to maintain flexibility in bringing the acquired bank into the fold. The integration process aims to blend the best practices and processes of both corporations, Ramaker said.

"Our philosophy on this is that we don't have all of the answers. We don't walk into the institution and throw the book on the table and say, 'OK, this is the way it's going to be. This will be done this way, and this will be done that way,'" said Ramaker, describing acquisitions more as forging a partnership with the acquired bank that allows the two to learn from each other.

"That is probably the best way to define the thought process – a partnership," he said. "We want to continue to take advantage of the talent that's there, and that's the other side of that partnership. Those individuals bring certain talents to the table that, hopefully, as a combined entity, we can continue to leverage."

The acquisition of Lake Michigan Financial shores up Chemical Financial's market presence in western and northwestern Michigan and expands its ability to serve small and middle-market businesses. The larger and better diversified asset base also enabled the bank to raise its lending limits.

The bank now looks for lending relationships in the range of $30 million to $35 million per loan, up from $20 million to $25 million previously, Ramaker said.

One of the most important aspects of the deal, as well as any acquisition, was to assess the cultural fit. In this case, the two banks were a good match and share similar operating philosophies, Ramaker said.

Chemical Financial and Lake Michigan for years were "good competition for each other," Ramaker said. That gave Chemical Financial knowledge about the bank it was buying.

"We understood how they were underwriting credits based on the types of deals that they were competing with us on, and they understood how we write credits. So from a transitional perspective, there's very little change in that regard," he said. "If the cultural fit is not there, then we're spending a lot of integration time maybe looking for new people or just struggling with getting a better feel for what type of customer we're looking for.

"In this case, we didn't have to worry about any of that. We could, in large part, just go forward and continue to take advantage of our opportunities."

The deal did bring one challenge that Chemical Financial had not often faced in prior acquisitions. After the deal closed, a group of commercial lenders left The Bank of Holland to go to work elsewhere.

Ramaker calls the departures "probably the most difficult situation" the bank has dealt with during the ongoing integration process. While the departure of talent can occur in an acquisition, Ramaker said it has been unusual for Chemical Financial.

The deal was also different from past transactions in that Lake Michigan Financial has a strong concentration of clients that are small and mid-sized businesses. Past deals have been with banks that had large retail pieces, Ramaker said.

As the integration process for Lake Michigan Financial nears an end, Chemical Financial continues to pursue an acquisition strategy and to scout for its next deal. Having bought Lake Michigan Financial, however, allows the bank to "be a little more selective in what we're doing."

"We are still actively looking for opportunities and feel that we're capable of doing more and want to do more," Ramaker said. MiBiz

WINNER
DEAL: MORE THAN $150M

CHEMICAL FINANCIAL CORP.

- **Top executive:** David Ramaker, chairman, president and CEO
- **Net income:** $62.1 million for 2014
- **Full-time West Michigan employees:** More than 2,300 in Michigan
- **Brief business description:** Full-service bank with 187 offices in 47 counties in the Lower Peninsula
- **Advisers:** Warner Norcross & Judd LLP (legal), Keefe, Bruyette & Woods Inc. (financial)

Huizenga Group positions JR Automation for strong growth with sale

By JOHN WIEGAND | MiBiz
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Huizenga Group CEO Steve Klotz faced a dilemma with **JR Automation Technologies LLC**.

After more than quadrupling the revenue of the Holland-based manufacturer of custom automation equipment over the last five years, Huizenga Group knew it could continue to invest in the portfolio company and further grow the operation.

Or, given that valuations remained high and buyers were eager to purchase advanced manufacturing companies, the family investment group could take the rare step in selling JR Automation, which it had held for more than 20 years. Until last year, Huizenga Group had only ever sold one other portfolio company in its over 30-year history, Klotz said.

Ultimately, it chose to pursue a sale and intentionally looked for the right kind of buyer, one that could continue to fuel JR Automation's robust growth spurt, he said.

"We looked at it from a standpoint of being able to add value over the next 20 years like we have over the last 20 years," Klotz said.

> "It was important that the folks that create a lot of the value were going to enjoy working for the next ownership of the company."
>
> — STEVE KLOTZ
> *CEO, Huizenga Group*

Klotz

Crestview Partners, a New York City-based private equity firm, fit the criteria.

"Crestview had substantial growth plans for the organization," Klotz said. "We looked at that and asked, 'Are we in a position to do that? Probably not.' But it was going to create some wonderful opportunities for our employees, and we thought that this was the opportune time to (sell)."

The all-cash deal closed in March 2015 and also included Stevensville-based **Dane Systems Inc.**, a subsidiary of JR Automation. The transaction included $131.1 million in equity, according to a filing with federal securities regulators. Further terms of the deal were not disclosed.

At the time of the sale, JR Automation had annual revenues of approximately $200 million, up from $30 million in 2009. Crestview plans to grow JR Automation to over $500 million in annual revenue under its management.

Although the transition process lasted less than two months and was "pretty straightforward," the two parties focused the majority of their effort on ensuring that the existing management staffers — who remained with the organization — were satisfied with the terms of the deal and the direction of the company under the new ownership, Klotz said.

"It was important that the folks that create a lot of the value were going to enjoy working for the next ownership of the company," Klotz said. "They were certainly rewarded as a result of the transition, but more importantly, I think they viewed it as an opportunity once they realized that the parties interested in acquiring had such aggressive growth plans for the business."

The transaction marked just the second sale in Huizenga Group's history, Klotz said, noting the family investment office maintains much longer holding periods than other investors like private equity firms. Previously, the company sold **American Litho Inc.** to New York-based **Konica Minolta Graphic Imaging USA Inc.** in 2005.

Huizenga Group plans to deploy the cash from the JR Automation deal to purchase another portfolio company. However, the same valuations that made it an attractive time to sell JR Automation also make it challenging to find the right target company for the right price, Klotz said.

"You can't get much in the way of returns with cash that is just sitting there," Klotz said. "But at the same time, you'd hate to go into the market and pay an inflated multiple, and then two years from now … you have less value in the organization. It's one of those things where you have to be careful and cautious as you look for opportunities." MiBiz

FINALIST | DEAL: MORE THAN $150M

HUIZENGA GROUP INC. (SOLD PORTFOLIO COMPANY JR AUTOMATION)

- **Top executive:** Steve Klotz, CEO of Huizenga Group
- **Annual sales:** $330 million (JR Automation)
- **Full-time West Michigan employees:** 1,200 across Huizenga Group's portfolio companies
- **Brief business description:** Grand Rapids-based Huizenga Group serves as a family investment company focused on manufacturers specializing in the the automotive, pharmaceutical, medical device and other industries.
- **Best practices for effective deal-making:** "We focus on due diligence and a strong deal team," said Huizenga Group CEO Steve Klotz. "Our access to financial information and data is extremely strong. For example: We would close our month end and have our financial statements issued on the 5th or 6th of the month. It was because of the implementation systems that we had in place. One of the things that benefited us in this transaction was that when people requested data from us, we had the ability to look at data in many different ways for them.
- **Advisers:** Barnes & Thornburg LLP (legal), Harris Williams & Co. (investment bank), BDO USA LLP (financial)

XLERATE EXPANDS MIDWEST PRESENCE WITH DEAL FOR GREATER KALAMAZOO AUTO AUCTION

By JOHN WIEGAND | MiBiz
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To expand its portfolio of automotive auction companies in the Midwest, South Carolina-based **XLerate Group** set its sights on one of the most well-respected competitors in its industry.

By acquiring the Schoolcraft-based **Greater Kalamazoo Auto Auction** (GKAA), XLerate could gain access to a well-managed business with a long-established customer base in a key geographic area that's positioned for growth.

The problem for Xlerate: GKAA wasn't for sale.

Undeterred, XLerate approached the owners in January 2014 and both parties began an in-depth discussion of what the deal would mean for GKAA's ownership as well as its employee base. After agreeing to the sale for succession and financial planning reasons, the DeVries family – which had owned and operated GKAA since 1976 – began a detailed due diligence period and transition process with XLerate and its owner **Huron Capital Group LLC**, a Detroit-based private equity firm. The deal closed in May 2015.

"For these guys that have owned these businesses for 40 years, it's a big enough decision to sell, but then the execution of the purchase is really important, and we don't want them to get spooked," said Cam Hitchcock, CEO of XLerate. "They're highly respected in our industry and they run very good business out of a nice physical plant in Southwest Michigan. Those are exactly the types of people we're looking to add to our group."

For the deal with GKAA, the Huron Capital-backed XLerate was selected as the winner of the 2015 MiBiz M&A Deals and Dealmaker of the Year Awards in the $25 million to $150 million category.

Immediately following the transaction, XLerate hired additional sales representatives to more aggressively grow the company. The firm also invested in technology such as new wireless and Internet security products to manage online bidding transactions. While XLerate aimed to grow the business through those improvements, it didn't want to do too much to change the natural workflow the company had established over its long history.

"We took care of having a reliable infrastructure within two weeks of owning the business," Hitchcock said. "It was just things like that where we could come in and support them in ways that didn't fundamentally alter what has been a successful business for almost 40 years in West Michigan. We're looking to make changes at the margins that will allow them to grow without destroying a strong track record of growth and success."

As part of the transaction, XLerate also retained the management team and employees at GKAA.

FAMILY BUSINESS INTEGRATION PROCESS

To finalize the deal, Huron Capital and XLerate focused on the transition and integration process during the deal process and after it closed.

Since GKAA was a family-owned business, XLerate and Huron Capital took great care to keep in constant communication with GKAA's management team, as well as to make themselves available to the company's employees to answer questions about the transaction, Hitchcock said.

"Doing transactions where you're transitioning from long-time family ownership to more corporate-type ownership is often an exercise you need to do carefully because there are different cultures that you need to bring together," said Peter Mogk, a senior partner at Huron Capital who worked with XLerate on the deal.

From the seller's perspective, the family ownership team sat down with the employees to explain the new corporate structure, why they decided to sell, and XLerate's plans for the company going forward.

Additionally, Huron Capital also took its time to understand the human capital at GKAA by employing an industry psychologist to better learn the corporate culture of the business.

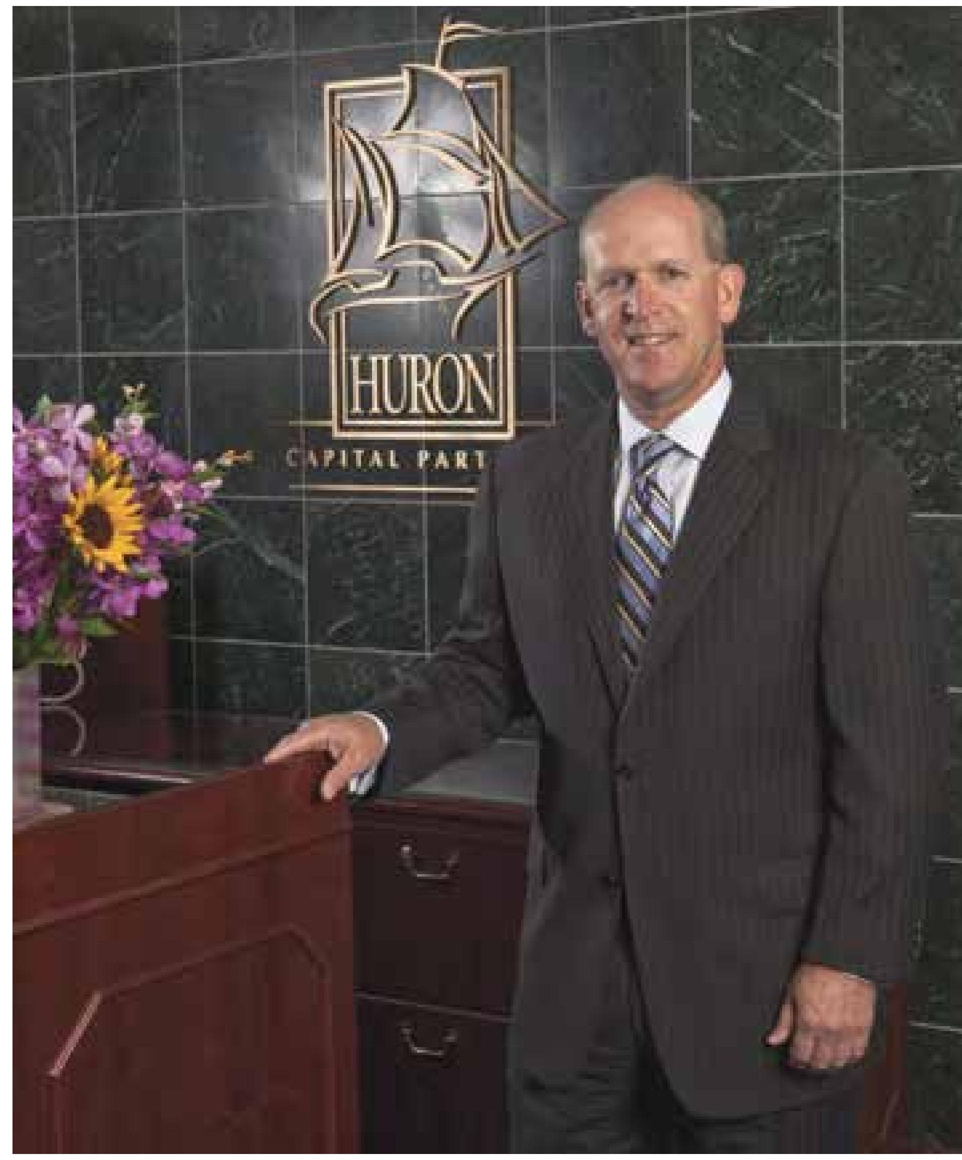
When completing transactions in general, Huron Capital ensures that all permits and licenses are properly transferred to the new ownership. The firm also conducts extensive work when it acquires property to make sure the facility and grounds are in compliance with environmental regulations.

Once those due diligence items were addressed with the GKAA deal, the rest of the deal and integration process progressed smoothly.

WINNER
DEAL: $25M to $150M

XLERATE GROUP (A HURON CAPITAL PORTFOLIO COMPANY)

- **Top executive:** Cam Hitchcock
- **Annual sales:** Between $50 million and $200 million
- **Full-time West Michigan employees:** 275 people
- **Brief business description:** South Carolina-based XLerate Group owns and operates a series of automotive auction companies focused primarily on the dealer-to-dealer market throughout South Carolina, California, Texas, Mississippi, Wisconsin, Florida and Michigan. The company is a portfolio company of Huron Capital Partners LLC, a Detroit-based private equity firm that invests in lower middle-market companies with between $20 million and $200 million in annual revenue.
- **Best practices for effective deal making:** "From a deal perspective, we're always very disciplined in everything we do — certainly in the assessment of the financial performance of any company that we're looking to acquire," said Peter Mogk, senior partner at Huron Capital. "For every aspect, we have a standard checklist of items that we're going to look at, everything from financial to legal to environmental to insurance to human capital that takes us from one part of the transaction to the next."
- **Advisers:** Honigman, Miller Schwartz and Cohn LLP (legal), Crowe Horwath LLP (financial)



Peter Mogk, Senior Partner at Huron Capital. PHOTO BY JOHN SOBCZAK

"When employees come up to you a couple months after a deal closes and say, 'Hey, we've been thinking that this is a way we think we could improve our business and service to our customers,' I think that's when you know that employees trust the new ownership," Hitchcock said. "We're starting to see that. It's really starting to gel right now."

The GKAA deal marks XLerate's first add-on acquisition since Hitchcock and Huron Capital acquired the company in 2014 from **Baird Capital Partners**, a Chicago-based private equity firm. Baird Capital originally formed what would become XLerate by acquiring six separate auction companies in California, Florida, Mississippi, Texas and Wisconsin.

In general, Huron Capital invests in lower middle-market companies with between $20 million and $200 million in annual revenue. The firm prefers to structure its deals with a 40-percent equity component comprised of a combination of direct investment from Huron Capital's management team and equity from its funds, Mogk said. The remaining 60 percent of the deal is structured with debt, divided between senior bank lending and mezzanine financing.

Mogk and Hitchcock declined to disclose specifics of the GKAA transaction.

XLerate is currently in "active dialogue with a number of (additional) potential deals," Hitchcock said.

AUCTION GROWTH

In addition to capitalizing on GKAA's reputation and customer base, the acquisition will also position XLerate in a centralized location for auctions across Michigan as well as enable it to capitalize on a growing auction market for used vehicles nationwide.

"There is no doubt that the auction industry as a whole is going to show nice increases in volume," said Tom Webb, chief economist for Georgia-based **Cox Automotive**, who tracks the wholesale automotive auction industry.

> "Doing transactions where you're transitioning from long-time family ownership to more corporate-type ownership is often an exercise you need to do carefully because there are different cultures that you need to bring together."
>
> **—PETER MOGK**
> *Senior Partner at Huron Capital*

In 2014, approximately 21 million vehicles were sold through dealer consignment at auction, direct dealer-to-dealer trades or in commercial fleet purchases, Webb said. Industry analysts expect auction volume to grow 5 percent annually in both 2015 and 2016.

Webb forecasts the majority of volume growth for the auction market to come from leased vehicles as customers' leases expire. Customers are expected to continue to lease vehicles, with lease penetration rates slated to peak in 2018.

In addition to vehicles coming off lease, XLerate will also benefit from an increase in new vehicle sales as consumers trade in their older cars and as dealers move some of those unwanted cars off of their lots, sources said.

"We look at how dealers are evaluating their inventory and what they want to sell because the BMW dealer doesn't want a 12-year-old Subaru on his lot," Hitchcock said. MiBiz

Oak Crest opted to sell family-owned company amid period of strong performance

By **MARK SANCHEZ | MiBiz**
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One of the top deals in West Michigan last year came about when Chuck Schipper decided to take a look at the potential sale of four **Oak Crest Communities of Michigan** senior living campuses after more than 35 years of family ownership.

Schipper, in his late 50s, was getting to an age where he "thought it was best to look at it while the business and myself are both healthy and doing well, rather than potentially someday down the road needing to sell."

"It really was just to the point where I had had some recent appraisals and it looked like the market was at a very good time for it," said Schipper, the former owner, president and CEO of Oak Crest Communities. "Oak Crest had been very successful and occupancy had never been stronger, so I thought if there was a time to look at it, at least now made sense to explore that possibility."

Schipper

> "Any time there's a family business, there's an emotional attachment to it, so we had to work through that and (ensure) it really did make sense long term for the organization as well as for me personally. It's still hard to make that decision to actually finally sell.
>
> —**CHUCK SCHIPPER**
> *President and CEO, Oak Crest Communities*

Working with his attorneys at Grand Rapids law firm **Miller, Johnson, Snell & Cummisky PLC**, Schipper connected with investment bank **Quarton Partners LLC** in Birmingham, which solicited offers from potential buyers for the Jenison-based Oak Crest Communities.

About 25 interested parties sought additional information about Oak Crest Communities, which later received six offers for its campuses in Spring Lake, Holland, Jenison and Kentwood that have a combined 532 living units. The sales process started in February 2014 and culminated the following July when Oak Crest Communities signed an agreement to sell to **American House Senior Living Communities** in Bloomfield Hills. The cash transaction closed in October 2014.

The sale was named a finalist in the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards in the $25 million to $150 million category.

The deciding factors in selecting American House as the buyer for Oak Crest Communities included the firm's similar culture, history and commitment to senior care. American House retained the Oak Crest management team and Schipper stayed with the company through the end of January.

"It just felt like it was a good fit with them being a Michigan-based company, and I thought that the values that we talked about during that process blended well with what I wanted to see going forward," Schipper said. "As much as anything else, it was just meeting with them and touring through our facilities with their senior leadership and owners. Just seeing that, I felt like the right cultural fit was there."

Schipper is now winding down his involvement in aspects of the business as well as his other real estate interests, and is exploring some nonprofit volunteer opportunities.

The deal made American House a top 25 owner of senior living communities in the U.S. Founded in 1979 and partly owned by Southfield-based real estate developer **Redico LLC**, American House today owns and manages more than 40 senior living communities in Michigan, Florida and Illinois that collectively have nearly 4,300 units.

One challenge to executing the deal was the sheer volume of information Schipper had to provide the then-potential buyer during both the pre-agreement phase and as part of due diligence after signing a sales agreement. That ranged from financial data and environmental assessments of properties to state licensing and inspection reports and floor plans of each senior community.

The information totaled about 5,000 pages sent electronically, Schipper said.

The other challenge: The emotional aspect of selling and exiting a business that had been in the family since 1978.

"Any time there's a family business, there's an emotional attachment to it, so we had to work through that and (ensure) it really did make sense long term for the organization as well as for me personally," Schipper said. "

"Once I signed the deal, I had reconciled myself with the fact that this is what made the most sense. The harder part was, up until we signed the deal, I was the only one involved in the process. I didn't get my staff involved until I knew that I had a deal that I could announce. So you're carrying that burden by yourself and trying to make the decision of what's best for the organization." MiBiz

FINALIST
DEAL: $25M to $150M

OAK CREST COMMUNITIES OF MICHIGAN

- **Top executive:** Chuck Schipper, former owner, president and CEO
- **Annual sales:** A little more than $26 million
- **Full-time West Michigan employees**: 475 at the time of the transaction
- **Brief business description:** Former owner and operator of senior living communities in Spring Lake, Holland, Jenison and Kentwood that included 532 independent and assisted living units and dementia care.
- **Advisers:** Miller, Johnson, Snell & Cummisky PLC (legal); Quarton Partners LLC (investment bank)

NEW HORIZONS GROWS THROUGH 'TRANSFORMATIONAL' ACQUISITION

By NICK MANES | MiBiz
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When **New Horizons Great Lakes Holding Corp.** acquired an under-performing I.T. and computer training franchise in a desirable market, the company made a bet that it could turn around the business and seize a transformational opportunity to grow.

Not only did the deal to buy out a financially troubled franchisee with 11 territories in the Northeastern United States make New Horizons Great Lakes the single-largest operator in the global franchise system, but it also helped the Michigan firm achieve new economies of scale.

The approximately $10 million acquisition, which included assuming $8 million in bank debt, allowed New Horizons Great Lakes to expand its operational footprint in major metro markets in New York, Massachusetts, Connecticut, Pennsylvania, New Jersey, New Hampshire and Rhode Island.

> "We knew there were economies of scale, we knew there were some things they weren't doing well that we knew we could do. Now we're a bigger organization and we can continue to make some of those investments."
>
> — SCOTT MCLEAN
> *Chief Administrative Officer, New Horizons Great Lakes Holding Corp.*

"We knew we could use our model of operating, bring it to the East Coast and transform a lot of things that were kind of easy," said Chief Administrative Officer Scott McLean. "We knew there were economies of scale, we knew there were some things they weren't doing well that we knew we could do. Now we're a bigger organization and we can continue to make some of those investments."

New Horizons Great Lakes turned around the operations from losing money to generating positive cash flow and growing at a double-digit rate in the year following the completion of the deal. The deal effectively doubled the business by adding another $21 million in annualized revenue.

"The reason it was so transformational is … we were able to lower our overhead, not only for the newly acquired company but also for ourselves," McLean said. "We were really able to leverage that infrastructure and it made a huge difference."

In recognition of the "transformational" acquisition, New Horizons Great Lakes was selected as a winner in the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards in the less than $25 million category.

"I think the most exciting thing for us about the whole thing is they had some really good managers that were starved from a financial perspective by the ownership — so much so that when we merged the two organizations together, there were as many executives from their side as there was from ours," McLean said. "In many ways, you could say it was more like a merger than an acquisition."

A PATH FORWARD

Founded in Livonia in 1992 with a single franchise operation and currently led by CEO Mark McManus, New Horizons Great Lakes splits its offerings between corporate training and consumer training, primarily for those looking for a career change or for returning veterans. The corporate training guides the consumer training because it shows New Horizons executives what employers are looking for in terms of technology skills, McLean said.

"This acquisition gave us the ammunition to put more resources and people toward developing a better career school type of business," McLean said, adding that the corporate training accounts for about 80 percent of the company's business. The remaining 20 percent stems from the consumer training side of the business.

McLean and his team already are executing on a plan to grow consumer-focused training at its East Coast locations, which could add an additional $10 million to $12 million in annualized revenues across those territories.

Overall, McLean described the acquisition process as fairly simple and straightforward. The major challenge, he said, came from getting the acquired company's bank debt restructured. Because New Horizons operates more as a service company with minimal hard assets, and given the underperforming nature of the company McLean and McManus were acquiring, the bank saw little value in the target and was hesitant to provide the necessary debt, meaning the acquirers needed to use their own balance sheet as collateral.

SEEKING ALIGNMENT

The even bigger challenge, McLean said, came from the integration process. Because the acquisition doubled the size of the New Horizons Great Lakes operation so rapidly, McLean and his partners spent the last year trying to institute best practices and procedures across the company's offices.

"Each office in each state kind of has its own culture. They have been very decentralized historically," McLean said. "Now we need to go market by market and understand what's working and what's not. Now we are coming up with a standard set of best practices — how you hire people, how you manage the culture, how you go to market. … That part of the integration takes some time.

"You have to break some old habits, you have to form new ones. But we are ahead of our schedule right now."

The deal also captured the attention of some professionals in the West Michigan investment banking and turnaround industry. According to Remos Lenio, a partner at Grand Rapids-based **Tillerman & Co. LLC**, New Horizon's strategic growth plan enabled by the acquisition will allow McLean and his partners to achieve long-term success.

"This is really a roll-up play," Lenio told *MiBiz*. "They get economies of scale in their training programs and they get some purchasing power. This (acquisition) is a solid triple based on the things (they) can do now."

Scott McLean, Chief Administrative Officer, New Horizons Great Lakes Holding Corp.
PHOTO BY KATY BATDORFF

GROWTH PLANS

Long-term growth remains important for the management of New Horizons Great Lakes, McLean said, noting the partners see opportunity through both organic growth and future acquisitions.

Since completing the 11-territory acquisition in August 2014, the company completed two smaller transactions for New England-area computer training firms earlier this year using existing cash flow. However, McLean said the company may turn to other financing options in the future.

"We have a high desire to grow. That can certainly be organic. That's why we are working so hard on getting our sales systems aligned and getting our consumer licensing work done," he said.

"That organic growth is important, but we're certainly recognizing that more acquisitions are going to be important to us for our future goals. All our add-on acquisitions so far have been done out of cash flow. The ones we do in the future, I think they'll be sizable enough that private equity or some other form of equity certainly will be on the table." MiBiz

WINNER
DEAL: LESS THAN $25M

NEW HORIZONS GREAT LAKES HOLDINGS CORP.

- **Top executives:** CEO Mark McManus and Chief Administrative Officer Scott McLean
- **Annual sales:** Approximately $50 million
- **Full-time West Michigan employees:** 30 (350 across the company)
- **Brief business description:** New Horizons Great Lakes is a franchise-operated supplier of technology and business-related education tools geared for both individuals and companies.
- **Advisers:** Bodman LLP (legal), Huntington Bank (financial)

Tesla adds much needed tooling capacity with Riviera Tool acquisition

By **JOHN WIEGAND** | **MiBiz**
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When news broke in March that Palo Alto, Calif.-based **Tesla Motors Inc.** had acquired the assets of **Riviera Tool Co.** in Grand Rapids, it caught industry insiders and other automotive suppliers in West Michigan by surprise.

But the fledgling electric vehicle manufacturer's acquisition, the first in its history, positions the OEM to better carve out market share alongside more mature companies in the industry.

On one hand, acquiring Riviera gave Tesla access to a captive tooling operation, allowing it to develop proprietary tooling without relying on outside suppliers. The deal also secured much needed tooling capabilities for Tesla at a time when tool and die shops continue running at full capacity.


Zwack

"Riviera fit perfectly for their needs," said Matt Zwack, a partner at Birmingham-based **Angle Advisors LLC**, who advised Riviera on the deal. "Riviera had extra capabilities and the engineering talent that (Tesla) wanted to have and they had a nice facility that was more of a modern layout than what you see in tool and die shops. A lot of these tool and die guys started with a small shop then expanded onto it – so it's a hodgepodge of equipment and buildings."

> "Riviera fit perfectly for their needs. Riviera had extra capabilities and the engineering talent that (Tesla) wanted to have and they had a nice facility that was more of a modern layout than what you see in tool and die shops."
>
> —MATT ZWACK
> *Partner, Angle Advisors LLC*

Tesla's acquisition of Riviera Tool was the finalist in the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards in the less than $25 million category.

Riviera's 175,000-square-foot facility was built to accommodate large-scale tool and die production. Its facility houses its own trial presses to validate its tools before sending them out to customers.

The company's previous owner, an undisclosed New York-based hedge fund, discretely put Riviera on the market after acquiring it through an Article 9 sale when the tooling firm fell on hard times in the recession. While the hedge fund restructured the organization throughout the recession, it had no intention of holding onto Riviera for the long-term, Zwack said.

Currently, Riviera is in the process of completing its outstanding orders before moving to dedicated production for Tesla. The automaker also retained the 100 Riviera employees in the deal.

While the deal proceeded without any major sticking points, Angle Advisors, Riviera and Tesla all spent a significant amount of time discussing Riviera's balance sheet to eliminate any discrepancies over the company's listed assets as the parties got deeper into the deal.

As a tool and die company with projects on long time horizons, Riviera employed percentage completion accounting to estimate how much of a tool had been completed, the cost to complete the tool, and other line items. Since those estimates are listed as assets, the resulting balance sheet could appear over-inflated, Zwack said.

"It can be a big sticking point when people perform due diligence because of the assumptions that go into it," Zwack said. "We spent a lot of time with Riviera on how they book the jobs and ensured that both parties agreed on what that number should be so there were no troubles on the back end with due diligence."

Riviera originally began supplying Tesla under its previous ownership. After being quietly put on the market by Angle Advisors, Tesla rose to the top of the list of potential buyers, Zwack said.

During the marketing and dealmaking process, Angle Advisors took care to keep Riviera's identity confidential to avoid any potential negative impacts to the company's business or its employees.

"We were very concerned that could impact the employees if they found out that we were marketing the business, so we did a very narrow, targeted approach so there were no rumors out in the street that the business was for sale," Zwack said.

Former Riviera executives who now work for Tesla declined to comment for this report. MiBiz

FINALIST | DEAL: LESS THAN $25M

TESLA MOTORS INC.

- **Company:** Tesla Motors
- **Top executive:** Elon Musk
- **Annual sales:** $3.2 billion in 2014
- **Full-time West Michigan employees:** Approximately 100 at the time of acquisition
- **Brief business description:** Palo Alto, Calif.-based Tesla Motors Inc. manufactures specialty electric vehicles. Riviera Tool Co. manufactures large-scale custom stamping and die equipment in Grand Rapids.
- **Best practices for effective dealmaking:** "We have a very focused and targeted approach to ensure a confidential process and avoid any sort of market chatter or lapses in people disclosing that the opportunity might be for sale," said Matt Zwack, partner at Angle Advisors, who served as a consultant on the deal. "We (also) go through a vigorous process of prequalifying buyers to make sure that this is the business they would be interested in acquiring before we ever tell them who it is or what it is. (Finally), make certain to spend a lot of time working through all of the different data points in a letter of intent before signing and be sure that both parties have very clear expectations and an understanding of all the terms of the deal before moving forward."
- **Advisers:** Cole Schotz P.C. represented Riviera on the deal (legal), Angle Advisors LLC (investment bank)

WILLIAMS LEADS ACRISURE THROUGH FRENETIC PACE OF M&A

By MARK SANCHEZ | MiBiz
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Acrisure has been one of the most prolific acquirers in West Michigan over the last few years, pursuing an aggressive acquisition strategy that in 2015 has it on pace to close an average of one deal per week.

The sheer volume of the Caledonia-based company's deals this year for insurance agencies across the nation impressed Joel Brandt, a senior commercial lender at **Macatawa Bank Corp.** who co-chaired the judging panel for the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards.

"If you're doing that many deals in a year, that's really, really impressive in just the pace and the ability to pull it off," Brandt said.

The panel of judges for the awards agreed, naming Acrisure founder and CEO Greg Williams as the Dealmaker of the Year in the executive category.

Even more impressive to Brandt is how Williams and Acrisure structure their deals: They retain the management team, staff and the brand name of the acquired insurance agencies. That differs from many corporate M&A strategies that often see the buyers of a business install their own management teams and reduce staff to cut costs and drive margins higher, Brandt said.

> **"What we look to do is find great companies with great people and great leadership and partner with them to help grow. We're truly aligned. They're going to maintain some level of skin in the game and (have a) say. That combination has worked extremely well for us."**
>
> **—GREG WILLIAMS**
> *Co-founder and CEO, Acrisure*

"A lot of deals require expense reductions and layoffs. To make the deal make sense in the long run, they found M&A requires that," he said. "(At Acrisure), it's a strategy that's found a way to avoid business disruption. It fits nicely with the West Michigan culture."

Co-founded by Williams in 2005, Acrisure grew steadily for years to $38 million in revenue as of 2012, largely through acquiring insurance agencies in Michigan, Indiana and Illinois.

By 2013, Acrisure began to build a national presence by significantly elevating the acquisition strategy with the backing of San Francisco-based private equity firm **Genstar Capital LLC**.

Acrisure now pursues deals across the country. The firm has since become a top 15 insurance broker in the nation with offices in 24 states.

Acrisure targets independent insurance agencies with a successful track record, a healthy profit margin, and whose ownership wants to grow the business and will stay on to manage the local agency. Most of the deals have been for agencies with annual revenues of $7 million to $20 million, with an average size of $10 million to $12 million.

After closing 25 deals in 2014, Williams expects to close about 55 deals in 2015, pushing Acrisure's annual revenues "north of" a projected $425 million, which is more than double 2014 and includes organic growth of more than 5 percent.

"It's been an incredible pace and intensity level to the entire year," Williams said.

Altogether, Acrisure this year alone will invest more than $500 million in acquisitions via cash, debt, and equity through stock paid to sellers. The company has invested about $900 million in acquisitions over the past decade.

Acrisure stock accounts for about 15 percent of that transaction value. Using stock follows the idea of making an acquisition a partnership with the previous ownership to grow the business, which is in contrast to much of the M&A activity in the industry that's essentially focused on a buyout and exit by the previous owner.

"What we look to do is find great companies with great people and great leadership and partner with them to help grow," Williams said. "We're truly aligned. They're going to maintain some level of skin in the game and (have a) say. That combination has worked extremely well for us.

"It's a very entrepreneurial model in that someone who cares about the business and cares about their people, as most entrepreneurs do, they're attracted to this model. Our whole thing is we're not going to change who they are because it is a point of differentiation for us."

Not changing the acquired business and working to "resist the temptation to change what they do and what they do well" and "not fix something what's not broken" is a key part of each deal, Williams said. That practice, in fact, now helps to bring new acquisition opportunities to Acrisure through direct referrals.

A year ago, 64 percent of the company's deals originated through third parties, either bankers or business brokers. Today, nearly two-thirds of the deals come through referrals from existing partners.

"They're going out and saying, 'This is what I did, who I did it with and here's the things they afforded me in terms of help and growing the business. And at the same time I haven't lost autonomy, etc.' They'll tell that story to their friends or friendly competitors," Williams said. "It's kind of self-perpetuating."

That trend should drive M&A activity for the company for the foreseeable future, Williams said.

Acrisure continues to have a robust appetite for acquisitions, although Williams does not have a specific target for the number of deals or how large he wants Acrisure to get. The focus right now is to take advantage of market opportunities. He avoids "doing deals for the sake of doing deals."

"We're not changing our appetite. We're not changing our model. We're just going to keep doing what we've done and, hopefully, we get the same kind of results," he said. "I'm just going to keep doing good deals and not worry about what size we become and let that take care of itself as we focus on doing the right things.

"I do think we'll continue growing at a fairly rapid pace, but I'm not going to let some kind of number mandate or dictate our pace or the kind of decisions we make."

That rapid growth, however, brings challenges. For one, the mere pace of the company's M&A strategy has stretched its staff.

To handle the heavy deal flow, Acrisure divided its staff into prospecting teams and teams who are responsible for executing deals and handling issues such as I.T. integration and administrative orientation. He'll personally meet with prospects, negotiate the deal, sign a letter of intent, and then turn it over to an execution team.

"They'll execute on that while I'm going off and meeting with the next prospect," Williams said. "We've done a good job of dividing areas of responsibility and focus and that's allowed us to keep at a very high pace."

Greg Williams, Co-founder and CEO, Acrisure. COURTESY PHOTO

The company has adopted a "very distributed, empowering" decision-making strategy among its staff, said Williams, who takes pride in the "tremendous professional growth" he's seen within the company during the M&A frenzy.

Management infrastructure also has been a challenge. As the company closed so many deals this year and last year and expanded its geographic footprint, Acrisure added four regional operations executives to support agencies in their territories.

In California, for instance, Acrisure in the last year has gone from no presence at all to pushing $80 million in revenue with a half-dozen offices.

"We constantly had people here in the Midwest flying to California literally every week. It just stretches you to the point where you can't be effective," Williams said. "So (now) when an office in California needs help on a cross-sell opportunity, and doesn't really know where to go in the organization, the operational person in California is there to help them connect the dots and make sure we're taking advantage of the strengths we have across the country.

"We've been very effective at leveraging the strengths of the organization, whether it's in Florida, California, New York, Texas or Michigan — wherever it's at."

Despite the rapid growth of Acrisure and high deal volume, Williams works to maintain an entrepreneurial focus for himself and his staff. He notes that Acrisure still lacks a presence in 26 states and there remains plenty of opportunity for the firm to pursue.

"I really do think of us as a $400 million startup," he said. "Success is a lousy teacher. People get comfortable. They get complacent (instead of) having the focus on continuing to grow the business and continuing to have a pace and intensity that is sustainable and active (while) at the same time communicating to people that, in my view, we really have just begun." MiBiz

WINNER DEALMAKER: EXECUTIVE

GREG WILLIAMS

- **Company:** Acrisure LLC
- **Annual Sales:** $207 million in 2014; projected to reach $425 million in 2015
- **Full-time West Michigan employees:** About 175 in West Michigan; 1,700 in 24 states
- **Brief business description:** Insurance, benefits and HR agency
- **Best practices for effective dealmaking:** "We've done a very good job of focusing on strengths and splitting up and having a division of responsibilities," said Greg Williams. "Once you establish the deal flow and once you have the deals coming in, it's really who's the right party to go out and be prospecting versus who is the execution team and really having people focused on what they do best."
- **Personal information:** Resident of East Lansing. Married to Dawn. Two adult children (a daughter and a son)
- **Education:** Attended Northwood University to study finance
- **Community involvement:** Involved in the Lansing Arts Institute, Sparrow Foundation and the Boys & Girls Club
- **Advisers:** Varnum (legal)

Stevens guided Founders in sale to Mahou with focus on legacy, synergy, liquidity

By JOE BOOMGAARD | MiBiz
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Stevens

Given tremendous growth in the $19.6 billion craft beer industry, Mike Stevens knew there would be an outpouring of interest from strategic and financial buyers in **Founders Brewing Co.**, the Grand Rapids-based brewery he and Dave Engbers founded in 1997.

Just as importantly: He realized the pool of potential investors that could position Founders for the future and give it the resources it needed to compete globally — on the craft brewery's terms — was very small and diminishing in number.

"The buying pool that was out there, though small, was very hungry," Stevens said. "If I didn't jump through that window now, as short as two years from now, that buyer could have bought and be gone. … Some of those have already bought. Three years from now, they're not buying."

Stevens and Founders' executive team realized they needed to start planning to secure the long-term future of the company's brand and launched a search for a partner that understood its values and could help the company scale up to reach the global market.

"I knew if we timed it right and played it right, we would be in charge of designing our brand's future, whereas if we waited and those opportunities were gone, we could have still done a deal, but we wouldn't have been in charge of designing it," he said.

Their priorities were:

- Legacy, or protecting the brand so that Founders could become a multigenerational brewery.
- Synergy in partnering with someone who could help the company with beer production and international sales and marketing (i.e., distribution).
- Liquidity for the group of 32 investors, including Stevens and Engbers, who had fueled the company's growth to that point.

"We were OK with opening it up and speaking to all kinds of potential buyers, from family offices to private equity to investigating ESOPs to strategics … from the largest of breweries all the way down," Stevens said.

As part of a process that took the better part of a year, Stevens said he quickly eliminated private equity firms from the list of potential investors because they couldn't address the company's primary legacy concerns. Likewise, family offices "cared more about legacy, but they didn't have the synergy," he said.

According to Stevens, the process of elimination led the company to another realization: "We need to speak to breweries."

"Whether you like the beer that brewery X makes or not, the bottom line is they wake up every f***ing day and they do what we do," he said. "They put their boots on and they go and make beer and sell beer. So there was a comfort there for us in speaking to like-minded people."

After conversations with the likes of global juggernauts **Anheuser-Busch InBev** and **SABMiller** similarly failed to address Founders' legacy concern, the 125-year-old, family-owned **Mahou-San Miguel Group** of Spain "entered the equation," Stevens said.

"Their leading questions were more about the longevity and the protection of Founders as a brand than about anything on (the financial or production side)," he said. "We clicked with those guys right away."

For his leadership in the process in which Founders sold a 30-percent equity stake to Mahou San Miguel, Stevens was recognized as a finalist in the 2015 MiBiz Dealmaker of the Year Award in the executive category.

Importantly for Founders, partnering with the Spanish company allows it to tap into expertise in international beer distribution at a time when global tastes are shifting in favor of American craft styles. Meanwhile, Mahou San Miguel gains access to "an educational funnel about American craft beer," which the company sees as the next wave to hit the global market and which it had no prior expertise in, Stevens said.

While the current wave of M&A in the craft brewing industry remains mainly focused on filling out the domestic market, Founders' sale and a small number of other deals — in particular, Petaluma, Calif.-based **Lagunitas Brewing Co.**'s 50-50 partnership with the Dutch **Heineken N.V.** — focus on taking craft beer to the global market.

"We're in the very early days of U.S. brewers moving overseas," said Bart Watson, chief economist of the **Brewers Association**, a Boulder, Colo.-based craft brewery trade group. "To get out ahead of that curve is a tremendous opportunity."

To that end, Stevens said Founders could "some day" look to leverage Mahou San Miguel's seven global breweries to produce its beer overseas for sale in international markets.

"Our main concern is to make sure you the consumer, no matter where you live in the world, has the freshest of beers that we can make," he said.

While liquidity was third on the list of priorities, Mahou's undisclosed investment also allowed Stevens, Engbers and the remaining investors to realize some returns from the business.

"It felt good to know that we crossed over some type of finish line and it was OK to take some money off the table and say thanks to all the investors and especially to our families," Stevens said. "Quite frankly, it's a pretty fun phone call when you can call somebody up who's in retirement age and say, 'Remember that five grand you gave me? Well, I'm cutting you a check for X.' And believe me, that X was multiples and multiples times larger." MiBiz

FINALIST
DEALMAKER: EXECUTIVE

MIKE STEVENS

- **Company:** CEO and co-founder of Founders Brewing Co., Grand Rapids
- **Annual sales:** Does not disclose. Between $50 million and $100 million
- **Full-time West Michigan employees:** 360
- **Brief business description:** Founders Brewing Co. brews a portfolio of craft beer brands that it distributes in 37 states and 12 countries. One of the fastest-growing craft brewers in the nation, Founders projects it will produce 273,000 barrels of beer this year. The company is in the midst of a $40 million expansion in which it will take up an entire city block in Grand Rapids. The expansion – in process before the Mahou deal – will raise brewing capacity to nearly 1 million barrels, which Stevens expects the company to reach by 2019, if not sooner.
- **Personal information:** Married to Cathy Stevens; Three daughters
- **Academic:** Studied at Hope College
- **Community involvement:** Serves on the board of directors for Grand Rapids Whitewater Inc., a nonprofit promoting the restoration of the rapids in the Grand River.
- **Advisers:** Greenberg Traurig (legal), R.W. Baird (financial)

TRACY LARSEN, BT LAW

AFTER CLOSING $2 BILLION IN TRANSACTIONS LAST YEAR, LARSEN SAYS MARKET REMAINS 'FROTHY'

By NICK MANES | MiBiz
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Tracy Larsen has a front-row seat to the current red-hot global mergers and acquisition market.

The Grand Rapids-based managing partner at the Michigan office of **Barnes & Thornburg LLP** advised clients on 32 potential transactions in the last year, of which approximately 20 resulted in a completed deal.

The combined enterprise value of his portfolio of deals reached $2 billion dollars.

Larsen's a firm believer that the "frothy" deal climate in West Michigan and beyond will remain that way for at least the short term. In fact, he said the situation likely won't get any better than it currently is.

"I don't see anything that can happen that would improve the deal market in West Michigan," Larsen said. "Any company that has serious thoughts about a sale in the next two to four years has to be looking at the market right now."

The volume of Larsen's work, his reputation for efficiency and his ability to think more like a businessman than an attorney led to his selection as the winner of the 2015 MiBiz Dealmaker of the Year Award in the adviser category — an honor he was also presented in 2013.

WORKING GLOBALLY

Despite being based in downtown Grand Rapids, Larsen's body of transaction work spans the U.S. and global markets. However, many of the recent deals he's advised on have occurred right in his own backyard.

One of those deals involved Grand Rapids-based **Service Express Inc.** (SEI), an I.T. hardware maintenance firm.

About two years ago, SEI's executives realized the timing was right for them to buyout the company's founders, who were largely uninvolved in the day-to-day operations of the firm. SEI President and CEO Ron Alvesteffer said the management engaged Larsen and worked with an investment banker to find a partner for the management buyout, which turned out to be Charlotte, N.C.-based private equity firm **Pamlico Capital**.

What set Larsen apart from other attorneys and advisers, Alvesteffer said, was his ability to think and act more like a business person than an attorney in working on the deal. In fact, that's a best practice Larsen said he's learned over the years for effective dealmaking.

"He didn't muck up the deal by wanting to fight on every point," Alvesteffer said. "He got engaged with us as a company and what our culture was like [and] who was the right fit for management going forward. He also gave his opinions on the offer they made and how easy or hard they would be able to negotiate a deal with and where their starting points were."

Larsen agreed with the CEO's assessment.

"You don't need to win every argument or disagreement," he said. "What you need to do is prevail on the overall risk allocation. I believe we do that better than any firm in the country. You don't need to win every argument and it's inefficient to negotiate trying to. You need to figure out where the money is at."

FOCUSED ON EFFICIENCY

Larsen's ability to engage directly with his clients and his skill at working toward their most favored solution meant that when the process was complete, SEI's executives regarded him as more than just their attorney in the deal, Alvesteffer said.

"When we went out and celebrated closing the deal, we invited Tracy. Tracy is a part of our team," he said.

Alvesteffer declined to disclose Pamlico's total investment in SEI, but said that "the deal was at the top end in our industry."

The acquisition of SEI by Pamlico Capital stands as just one of a list of recent local deals Larsen advised on in the nomination period.

• Larsen worked with Walker-based **Meijer Inc.** in its acquisition of **Aureus Health Services**, a Pennsylvania-based specialty pharmaceutical company.

• He advised Grand Rapids-based **Burke E. Porter Machinery Co.** in its $90 million sale to Beijing- and Hong Kong-based **China Everbright Ltd.**

• Larsen represented **The Huizenga Group** in its sale of **JR Automation Technologies LLC** to **Crestview Partners**, a deal that is a finalist in the 2015 MiBiz M&A Deals and Dealmakers Awards in the more than $150 million category.

• **Quincy Street Meats** hired Larsen to represent the Holland-based meat products company in its sale to **Indiana Packers Corp.**, a subsidiary of **Mitsubishi**.

• Larsen also represented Traverse City-based wildlife control franchisor **Critter Control Inc.** in its sale to **Rollins Inc.** (NYSE: ROL) of Atlanta, the parent company of **Orkin LLC**.

Advising on massive corporate deals is also nothing new for Larsen, who previously won the MiBiz Dealmaker of the Year Award after advising **Wolverine World Wide Inc.** on its blockbuster $1.24 billion deal to acquire several footwear brands from **Collective Brands Inc.**

Tracy Larsen, managing partner, Barnes & Thornburg, Michigan office. MIBIZ FILE PHOTO

To have such an active deal practice, Larsen said that working within Barnes & Thornburg's large support system remains critical for getting transactions completed efficiently.

"On average, 190 people will touch my transactions in total, but I work with very discrete teams, most often with the same team members so that we have great efficiency," Larsen said. "I think that's one of the reasons we're looked to in the market. We can get a deal done more efficiently than firms that don't have the same volumes of transactions that we do. With volume of transactions necessarily comes efficiency."

A 'COMPETITIVE' MARKET

Having worked on hundreds of transactions in his career, mostly in the corporate and middle-market range, Larsen said the last year stood out for not only the sheer volume and overall interest in dealmaking, but also for having some of the highest valuations he can recall.

"One thing that stands out is the valuations we achieved in the process," Larsen said. "Every sell-side deal that we did, save one, was run as a competitive auction process. So that certainly stands out to me — the amount of money driving up deal value."

The interest in companies comes not only from strategic buyers, but also from financial buyers like private equity firms, who lined up in recent years to invest in a number of different West Michigan companies, he said.

"The deal market has been very, very frothy," Larsen said of the past year. "There's been lots of deals in the market, frankly, for the last two to three years — and that's not just in the U.S. That's really internationally."

The drivers of that activity, according to Larsen: "Some great companies coming to market, maybe anticipating a slowdown in the future and wanting to get out before that happens; favorable tax rates from a seller's perspective; and very cheap and available financing."

The activity isn't slowing down either. Larsen said by the end of the year, he expects his firm will still close another $2 billion in deals.

"It was a frothy year and this will be another one," he said.

DEALS HIT A HIGH-WATER MARK

Aside from the oil-and-gas industry, which has experienced a glut of supply and falling prices, all sectors of the economy remain ripe for M&A, according to Larsen, who singled out technology, finance, health care, manufacturing and services for their significant dealmaking activity.

And while it continues to be a seller's market, that doesn't mean buyers should be sitting on the sidelines, he said.

"People will hear about valuations, but they don't really appreciate that the valuations are really company- and industry-specific," Larsen said. "Valuations drive not only off industry but also from the growth of the business and anticipated future growth of the business. That's the principal driver. So companies in the same industry can play differently in a valuation."

While the West Michigan area or the Midwest may not experience the same level of valuations as the coasts, Larsen thinks the region is poised for the highest transaction volume he's ever seen.

His advice to companies looking to sell: Think twice about holding out for a better deal.

"There is always a risk involved with holding on. I think that has driven many companies to market because they are performing so well," Larsen said. "All the issues of the recession are past them. … I don't see anything that could improve the time for sellers to be in market." MiBiz

WINNER DEALMAKER: ADVISER

TRACY LARSEN

- **Company:** Barnes & Thornburg LLP
- **Annual sales**: About $350 million
- **Full-time West Michigan employees:** About 50
- **Brief business description:** Barnes & Thornburg LLP is a full-service business law firm with 13 offices around the country. Larsen is chair of the firm's Michigan practice and is based in Grand Rapids.
- **Personal information:** Married to Karen; Five daughters: Kristen, Paige, Alivia, Vanessa and Becka
- **Community involvement:** Larsen is involved in the Ruffed Grouse Society, which focuses on conservation and getting young people involved in outdoor activities such as hunting and fishing.

WNJ's Ott helps bank clients navigate flurry of complex M&A

By MARK SANCHEZ | MiBiz
msanchez@mibiz.com

As **Chemical Financial Corp.** pursued an acquisition strategy in 2014 and 2015, attorney Jeff Ott led the bank's legal team that put together each deal.

A partner and M&A attorney with the Grand Rapids office of **Warner Norcross & Judd LLP,** Ott served as the Midland-based Chemical Financial's legal counsel for three deals. They included the $121 million cash acquisition of **Northwestern Bancorp Inc.** in Traverse City in October 2014, the $27.2 stock deal for **Monarch Community Bank** in Coldwater in April 2015, and the $187.4 million purchase of **Lake Michigan Financial Corp.** in May of this year.

The three deals that Ott worked on for Chemical Financial were among six transactions he helped to close during the year that had a collective value of more than $350 million. His work over the last year earned Ott recognition as a finalist in the 2015 MiBiz M&A Deals and Dealmakers of the Year Awards in the adviser category.


Ott

While the last year or so kept his team busy handling transactions given the present environment for bank M&A in particular — one six-week period included three deals — clients have adopted a "wait-and-see attitude" amid concerns over the economy and stock market.

"That's the real issue. The market and the economy are kind of the hurdles I'm looking at right now," Ott said. "I'm hoping that the volatility that we've seen in the past three months or so stabilizes so that people can move on."

Ott specializes in bank mergers but handles transactions for clients across industry sectors. He has been listed for six years in the banking area of the publication *Best Lawyers in America.*

In each transaction, regardless of what industry the client is in, Ott said his work begins by "listening to the client and figuring out what is most important to the client."

"There isn't a cookie cutter for every transaction. Different clients are going to have different objectives and it's important to understand what those are from the get-go," he said.

In addition to the three acquisitions by Chemical Financial, Ott handled the legal work on **TPG Power Holdings LLC**'s sale of a power plant and a copper refinery in White Pine, Mich. in the Upper Peninsula to Saskatoon, Saskatchewan-based **Prairie Plant Systems Inc.** for an undisclosed sum, plus **Sturgis Bancorp Inc.**'s $3.3 million cash deal in April for the single-office **West Michigan Savings Bank** in Bangor.

Ott credits his colleagues at Warner Norcross & Judd for ensuring that each transaction went smoothly and stayed on track. Although some sectors such as banking have more regulatory issues to address, the process for any transaction tends to go the same way, he said.

"A lot of times in these transactions, there's lots of moving parts that are all moving at the same time, and so you need a good team of people who can keep all of the balls in the air," Ott said.

Driving deals in the banking sector have been the increased regulatory compliance costs and the improved financial performance of many banks following the recession, which also makes it easier to fashion a transaction. As bank M&A activity heated up in 2014, some of the early transactions featured high multiples that matched or exceeded pre-recession highs, spurring directors at other banks to pursue deals.

At the same time, active buyers in the market, such as Chemical Financial, were out scouting for good deals to drive growth.

When helping clients fashion transactions, Ott advises buyers and sellers that "over-disclosure is what should happen," noting that it's good policy to err on the side of sharing information rather than withholding it.

"You don't want to hide anything because that will just result in trouble," he said. "If there is ever a question as to whether something is material or could be material to a buyer, what you should do is lean in favor of disclosing it. That avoids a lot of trouble down the line."

For buyers, Ott cautions not to get "really hot for a transaction" to the point that they overlook a potential red flag during due diligence.

"I tell them to make sure they pay attention to what is disclosed and factor that in, and don't let doing the deal become more important (than) doing a good deal," he said. "Inevitably, the seller's going to disclose something that the buyer wasn't expecting, and it's just a question of how do we address it without letting it derail the whole process." MiBiz

> "You don't want to hide anything because that will just result in trouble. If there is ever a question as to whether something is material or could be material to a buyer, what you should do is lean in favor of disclosing it. That avoids a lot of trouble down the line."
>
> —JEFF OTT
> *Partner and M&A attorney, Warner Norcross & Judd LLP*

FINALIST DEALMAKER: ADVISER

JEFF OTT

- **Company:** Partner and M&A attorney at Warner Norcross & Judd LLP; member of the firm's business law and financial services practice groups
- **Full-time West Michigan employees:** 230 attorneys at eight offices in Michigan, plus 190 support staff
- **Personal information:** Married to Mary Ann Sabo
- **Academic degrees:** Undergraduate degree from Albion College in economics, business management and German, 1986; Juris Doctor, University of Michigan, 1989.
- **Community involvement:** Served on the board of directors for 20 years at the Equest Center for Therapeutic Riding in Rockford, including president for six years; board member for Habitat for Humanity of Kent County; Albion College board of trustees


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MODUSTRI'S CAPITAL RAISE LEADS TO PARTNERSHIP WITH CATERPILLAR

By JOHN WIEGAND | MiBiz
jwiegand@mibiz.com

Like many startups, Grand Rapids-based **Modustri LLC** began as an idea on the back of a napkin.

Modustri, which officially spun out of Agent X in 2014, saw a market for digital diagnostic tools that would efficiently track the integrity of high-wear components and minimize downtime by providing real-time data to heavy equipment operators.

However, as the company grew in size through a series of small-scale equity raises, CEO Brian Steketee knew that it would need additional capital to fully commercialize its product and attract a strategic partner to grow the business to the next level.

"As time progressed, we invested more in the product and recognized that we didn't have the capital internally to truly fund the development and the sales and marketing cycle necessary to put a transaction together," Steketee said.

To grow the company, Steketee opted to recapitalize the company with a mezzanine raise and take Modustri from the startup phase to fully commercializing its software and digital tools. Ultimately, the recapitalization made possible a partnership with global heavy equipment supplier **Caterpillar Inc.** (NYSE: CAT).

The company's strategy to find capital to invest in its growth and secure the partnership earned it the inaugural ACG Growth Capital Award, a part of the 2015 M&A Deals and Dealmakers Awards from MiBiz.

The new partnership with Caterpillar gives the company a direct line to the industry leader's customer and distribution network. In addition, Modustri can leverage the much larger organization's expertise in intellectual property protection, international tax laws and other areas to which a startup would not typically have access.

The new round of funding also allowed Modustri to significantly increase its workforce and recruit experienced talent from other industries to further grow its business.

"The deal structure enabled us to take what started as a four-person team that grew to an eight-person team when we recapitalized, and (then) gave us the firepower to really invest heavily into building out our group here in West Michigan and bringing in top-tier talent," Steketee said.

Modustri recently hired a COO who had previously worked at **GE Aviation**. The company currently employs 24 full-time workers in West Michigan, plus a number of contractors. It plans to double its staff in the next year as it continues to build out its technology and as the partnership with Caterpillar progresses.

DEAL STRUCTURE

Modustri opted to pursue mezzanine financing to keep its initial shareholders involved in the business while still adding more capital, Steketee said.

"Going the mezzanine route was a good approach for us to allow our original shareholders to retain their equity, but (we) also understood the need to bring in capital at a higher rate in order to get us to that next phase," Steketee said. "We really looked at it as a bridge."

Instead of turning to a bank, Modustri raised the mezzanine funds from a series of business owners in West Michigan, allowing it to tap those local investors for business knowledge and expertise as it progressed with its fundraising and entered the partnership with Caterpillar, said Dan Fuller, a tax partner with **BDO USA LLP**.

Fuller advised Modustri on its partnership with Caterpillar.

"The mezzanine debt didn't come from some bank — it came from a business owner or relationship. It's the community supporting the community," Fuller said. "All of them brought intellectual capital as well to the table."

Modustri declined to disclose the total dollar amount of its mezzanine financing. Previously, the company closed on an equity raise valued at $145,000 in 2013 when it was still part of Agent X, according to a previous *MiBiz* report.

As part of the mezzanine financing round, Steketee exited Agent X LLC, a Grand Rapids-based firm he co-founded that developed the technology behind Modustri, so he could focus more time and effort on growing Modustri.

"When we got to the mezzanine round of funding, that's when we made a pivotal change in the company," Steketee said. "It was a scary, yet exciting (change)."

DECISION MAKING

While Modustri knew about the possibility of partnering with Caterpillar prior to its round of mezzanine financing, the company had also initially entertained courting investors from the venture capital community.

Steketee said the company would have had more options by going with venture capital funding versus weeding through a much smaller pool of strategic partners who fit Modustri's criteria.

However, as the company explored its options with venture capital and strategic partners, Steketee and the rest of the Modustri team quickly realized a strategic partner was more aligned with its long-term vision.

Since Modustri had validated its technology with **MacAllister Machinery**, a Caterpillar dealer based in Indiana that also owns Saginaw-based **Michigan Cat**, the company had already formed a close relationship with the heavy equipment manufacturer, Steketee said.

"We looked at Caterpillar, the global footprint they had, their commercialization capability and the resources they could bring to bear," he said. "As we got to know them better, it just seemed like an absolute no-brainer to partner with the number-one player in the space."

Steketee advises other entrepreneurs always to choose a partner that aligns with their company and brings more to the table than just capital.

"(You want) someone that understands the space and can see the value but also participate in creating that value quicker," he said.

RECIPE FOR SUCCESS

To ensure a successful round of financing as it looked to scale up the business, Modustri relied on a handful of best practices, primarily focused on the product it was offering.

In the beginning, the company went to great lengths to ensure that it had a working product that had demonstrated a return on investment for its initial investors. They also needed to prove there was interest from the marketplace before reaching out to raise capital.

That way, when it came time to launch its mezzanine round of financing, Modustri could make a strong case to investors, Steketee said.

"If you can hit that in five slides and show there's an interest in demand, but also be able to come in with a product that you already have a customer champion who can speak on behalf of it and the value it's created, then … that's going to really make a difference," he said.

On the industry partnership side, Steketee advises other entrepreneurs to identify those potential alliances and communicate with the those companies early in the process.

"If you are looking for synergetic partners, you want to start courting them early and let them see the benefit of what you're doing," he said.

Going forward, Modustri plans to remain focused on its strategic alliance with Caterpillar. Depending on how that relationship, Modustri's technology, and the overall equipment market develops, the company may expand its products into the larger fleet market.

Likewise, the company is also keeping its options open for additional capital raises, Steketee said.

"As we look at adjacent markets in the future, there's an appetite (for capital) — whether we'll be able to self-fund or whether we'll see the opportunity that requires additional financing," he said. "Those are still questions that are down the road for us. We're always going to be considering, though." MiBiz

Brian Steketee, CEO, Modustri. PHOTO BY KATY BATDORFF

"We looked at Caterpillar, the global footprint they had, their commercialization capability and the resources they could bring to bear. As we got to know them better, it just seemed like an absolute no-brainer to partner with the number-one player in the space."

— **BRIAN STEKETEE**
CEO, Modustri

WINNER | ACG GROWTH CAPITAL AWARD

MODUSTRI

- **Company:** Modustri LLC
- **Top executive:** Brian Steketee, CEO
- **Annual sales:** Declined to disclose
- **Full-time West Michigan employees:** 24
- **Brief business description:** Developer of digital and web-based platforms that provide measurement and diagnostic information on high-wear components for heavy equipment such as backhoes, bulldozers and excavators. The company partnered with Caterpillar Inc. in June 2015 to develop its technology.
- **Best practices for an effective capital campaign:** "You need a product, you need a customer problem that's validated and where the ROI can be understood. You need to have a champion in the space," said Brian Steketee, CEO of Modustri LLC. "If you don't have those pieces together, you don't really have anything. You never want to be a technology looking for a problem to solve. You want to understand what the problem is and have the technology to solve it. If you prove that's happening, (then) finance becomes a lot easier."
- **Advisers:** Warner Norcross & Judd LLP (legal), BDO USA LLP (financial); Jandernoa Entrepreneurial Mentoring Program (mentoring)