

# small business

## Threesome looks for capital ideas

outside consultant

• Recapitalization of a business is one way for ownership to grow a firm or advance a succession plan.

By TODD NELSON  
Special to the Star Tribune

After years of building your company, you need an exit strategy or ownership succession plan.

Your company may be financially distressed. You may be looking for a way to expand the company or get cash for estate planning.

Selling the firm may be an option, but not the only one.

Some owners find a solution in a recapitalization of their firm, according to Gerald Clark, founder and manager of SealedBid, a boutique mergers and acquisitions company with offices in Edina and Fairmont, Minn.

In a recap, an owner exchanges equity for cash and stock in the newly capitalized entity. The owner may benefit from the new company's future growth when that entity sells, Clark said.

A recap can pave the way for a management buyout or a transfer to employees or family members, according to Clark. SealedBid, which focuses on companies with \$2 million to \$50 million in sales, has seen growing interest in recaps, among both buyers and sellers, and in accelerated sales of troubled companies.

Clark, who enjoyed regional success with the Fairmont-based rock band the Epicureans in the 1960s and also is a former president of the Minnesota Golf Association, founded SealedBid in 1993.

After college, Clark moved from performing to booking rock concerts and running a food and beverage business. Once he sold that company, he went on to sell other businesses, first for a Midwestern firm and later as a regional director of the Resolution Trust Corp., the government-owned company established to liquidate holdings from the nation's savings and loan crisis in the late 1980s and early 1990s.

"Recaps and/or management buyouts are a great tool in this economy," Clark said. "It enables some value to be taken. Maybe not the value expectations they would have gotten a year and a half ago, but they still retain a strong piece of ownership."

An accelerated sale takes place under a stepped-up timetable with a closing possible in four to six months, though Clark said the seller still controls the process.

"You're creating a sense of urgency within a limited time



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Joseph Kammermeier, left, director of business development of SealedBid; Gerald Clark, founder and manager; and Jane Neuharth, associate intermediary, look for ways to help owners of relatively small businesses recapitalize.

frame for prospective buyers," Clark said. "You're sending the message that this deal needs to get done."

Interest in recaps and accelerated sales has been strong enough to prompt Clark to expand his company by adding two associates. Clark expects SealedBid, which typically handles four to five transactions a year, will see that number grow in the coming years.

One of those associates — certified business intermediary Jane Neuharth — is a former SealedBid client and former regional vice president of Wisconsin's largest privately owned bank. Clark spent three years overseeing the sale of Neuharth's Wisconsin-based beer distributorship in a complicated series of transactions to five buyers.

The other is Joseph Kammermeier, director of business development at SealedBid and a former regional account manager at a Fortune 500 finance company.

"We think that now is a very good time to be doing what we're doing," Kammermeier said. "There are more and more troubled companies that need to do something quickly, largely due to the recession. Also, in the bigger picture, the baby boom generation is retiring."

### 'Textbook' example

While some owners step aside after a recap, others stay involved but want some help to grow or manage the business.

In one example, SealedBid

### SEALED BID

**Business:** Boutique mergers and acquisitions firm specializing in companies with \$2 million to \$50 million in sales.

**Founded:** 1993

**Headquarters:** Edina and Fairmont, Minn.

**Website:** www.sealedbid.com

**Employees:** Seven, including contractors

**Executives:** Gerald Clark, founder and managing officer; Joseph Kammermeier, director of business development; Jane Neuharth, associate business intermediary

**Transactions:** Typically handles four to five transactions a year

**Strategy:** Grow by concentrating on business development, through referrals and expanded capacity to handle transactions.

assisted Dan Charbonneau in a recap of CBT Nuggets, the Oregon-based software training company he founded in 1999. Charbonneau sold 60 percent of the company three years ago to an investment group in Texas.

"I'm absolutely the textbook success story for a recap," said Charbonneau, who six months ago bought back 20 percent of the company. "They weren't the highest bidders but they were the best match. Jerry found the right type of transaction for me."

The deal enabled Charbonneau to put some money in the bank, build a house and send his five children to private schools. The company has continued to grow, making the Inc. 5000 list of fastest-growing private companies the past two years.

"They're excellent in the areas I'm not — accounting, bookkeeping and keeping everything straight," Charbonneau said of the investment group. "And they let me totally run the business myself, which

is where my strength is."

SealedBid also helped negotiate a management buyout in 2007 of the Reiter & Schiller law firm in St. Paul, Thomas Reiter said.

"Jerry figured out that selling to a strategic partner was not the best for me or the firm," said Reiter, who works with the firm part time as part of a transition plan. "He realized we had created a business culture that we strongly desired to keep intact rather than sell to outsiders and change the way the company operates."

Reiter said he appreciated that Clark quickly assembled a transaction team of business attorneys, tax attorneys, accountants and other professionals to work on the deal. (Business owners, of course, should seek advice from such professionals before undertaking a recap or accelerated sale.)

Dave Senger, a business law and estate planning attorney with the Moss & Barnett law firm in Minneapolis who has been involved in SealedBid transactions, said Clark's

strengths include helping an owner prepare for sale.

"Jerry is knowledgeable about the market, he knows where the pricing is and he's familiar with what's typical on deals," Senger said. "Jerry also is very concerned about making sure the deal is a good deal for both sides. Because he knows if it's not a good deal for both sides, it's probably not a good deal for either side."

**The expert says:** Dileep Rao, who teaches new business development and financing at the University of Minnesota's Carlson School of Business, said business owners need to be aware of motivation for the transaction and make sure they get unbiased advice on the deal and the valuation.

"The owner is selling their primary asset, in most cases, so an unbiased party may be the best person to value the business," Rao said.

Owners selling a majority interest in a company also need to "make sure that they see eye to eye with the new controlling shareholders," said Rao, also a columnist at Forbes.com and author of the guidebook "Finance Any Business Intelligently" (www.infinancing.com).

If not, he said, they need "to have a way of resolving the issue without getting stuck with a minority interest in a firm with limited liquidity."

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**Q** I've run a small corporate graphic design company for the past five years. We want to grow the company, but are a bit overwhelmed by the prospect of building a proper sales force (so far all sales have been handled by the founders). What are some of the take-home lessons in hiring your first dedicated sales rep in a highly personalized service industry?

CHANIE PRITCHARD  
SAGE MEDIA DESIGN

**A** A critical time in the life of an entrepreneurial firm is when new members enter the business. The culture or "feel" of the firm may change overnight as people with different perspectives join the firm. This is particularly true for employees who deal directly with customers, such as sales. The founders face an immediate decision: hire individuals just like themselves in terms of skills, personality and experience to maintain consistency regarding customer treatment, or seek individuals with deep professional experience in a sales role in the industry. The former approach helps ensure that customers don't experience a significant change in the types of people dealing with them. Typically, several interactions with the new sales rep and the founders are all that's needed to convince a customer that "nothing has changed."

On the other hand, hiring an individual with deep professional experience in the industry may result in a significantly different approach to customer interaction. In this case, the founders must be prepared to listen attentively to the new employee about sales approaches successful in the industry but novel to the founders. Both the new rep and the founders must bring flexibility and a learning attitude to the relationship that builds on the experience of both parties. If either one displays an entrenched attitude, then early termination of the new rep is highly probable. At that point, it's not unusual for the founder to feel burned by the experience and confused regarding viable next steps.

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Answers are provided by the John M. Morrison Center for Entrepreneurship at the University of St. Thomas. E-mail questions to consultant@startribune.com.

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