

SBM Case Study: RIE Coatings, Inc.



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A recapitalization, or recap, is the partial sale of a company, and as such, it can accomplish more than one goal. In a recap, the owner of a company usually agrees to sell a majority interest to the buyer, but still retains some ownership. The recap provides the seller liquidity, while allowing him/her to remain involved in the company's future. It also gives the reorganized company an infusion of capital that it can use to meet an important goal, such as an expansion.

A recap has lots of moving parts when the deal is only between one buyer and one seller. And if the company for sale has four owners – all with different goals – a recap becomes that much more complicated.

That was the situation with Minnesota-based RIE Coatings ("RIE"). RIE is a promising small company that applies protective coatings to equipment parts used in the wind energy, solar, agricultural and heavy equipment sectors.

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RIE had built a reputation for versatile processing capacity, service and the use of environmentally-responsible industrial coatings, distinctions that made it attractive to an increasing number of clients. RIE had enjoyed strong growth in recent years, making it a potential acquisition candidate for investors. Still, its four owners had differing plans for the future of the company, and they chose SealedBid Marketing, Inc. (“SealedBid”) to help them find a solution and maximize value. SealedBid helped them find a compromise that would be acceptable to everyone – in the form of a recap sale of the company.

RIE co-owner Brent Engelbrekt explained the situation. “We had partners who wanted to go in different directions,” he said, “and that was the reason for the sale...two of them got out and two of them stayed in, including myself.” Randy Hanson, founder and RIE co-owner, added: “We...agreed that the only way we were going to (resolve) this, is by selling the company. (SealedBid’s Founding Officer Jerry Clark) was able to facilitate that. He was like a bridge between the two sides.”

Engelbrekt further explained that the proposed recap needed to be about more than just money: RIE needed to find the right partner to help it meet its future expansion goals. “It was important that we had the right group, someone who could invest more dollars in the future, based on some growth plans we had. (Someone) who had sufficient capital to do that. Just their management expertise and what they could potentially bring to the table. It wasn’t 100 percent about dollars,” he said.

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SealedBid went to work to find the right investment partner for RIE, collecting information, creating marketing materials and researching potential buyers.

“(SealedBid) did a lot of research,” Hanson said. “They did a lot of behind-the-scenes work. They went out and looked for potential buyers that wanted a smaller company that had good potential for growth, and that made a difference.” Engelbrekt added: “They explained to us how the process was going to work. They did a nice job of keeping us informed helping us to understand what was taking place.”

After an extensive and successful marketing campaign, SealedBid found many potential financial



“point of contact”

partners for RIE, giving the owners the option to choose the partner that they felt was the best fit. One stood out – the Minnesota-based private investment firm, Brass Ring Capital (“Brass Ring”). Brass Ring specializes in the purchase of small business services and manufacturing companies in the Midwest.

Brass Ring’s Co-Founder Steven Peterson explained, “We look for businesses that are well positioned in the market segment they service and have good customer relationships. (RIE) fit what we like from a business model standpoint. It had a good financial profile, the margins we look for, the balance sheet. (And) we were a good fit for (RIE’s) situation...we could bring the right resources that allow them to capitalize on opportunities that they have.”

William Grindell, Vice President of Brass Ring, added, “(RIE) was within the generic scope of what we target...their services are valued by their customers.” As mutually beneficial as the deal may have been in prospect, there were still significant challenges.

Attorney Dean Willer (Winthrop & Weinstine), worked as corporate legal counsel for RIE. Willer explained, “The two non-continuing shareholders were represented by an attorney, and the two continuing shareholders were also represented by a different attorney. It was a three-attorney triangle. So, not only did you need the (owners) to get on board, you needed their attorneys to get on board as well.” Peterson recalls that “Jerry acted as the point of contact for the sellers. It was one of the things we identified early

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on, is we needed someone to talk on behalf of the group, and that ended up being Jerry. (Jerry) had this challenge of trying to make sure that everyone was on board.”

“This was a difficult situation,” Peterson added. “There’s a pretty good chance, in most deals like this, that it doesn’t go through. It took a lot of back and forth, and in our business, some people look at a deal like that and say they’re not going to pursue it, because there’s a pretty good chance...that you’ve spent all this time and money, and it blows up. Jerry is highly experienced with this. Jerry knows how to get these smaller transactions done in a very pragmatic way.” Grindell added, “(Jerry) did a very good job of

“identifying and addressing” working with the dynamics on the seller side while doing what he said he would

do with us...It's important to have that trust relationship with the intermediary, and Jerry comes through with what he says he's going to do. My sense is that he did a magical job.”

At the end of the day, the measure of success for any sale is that the principals are satisfied with the outcome. In this instance, the SealedBid team helped RIE's owners to reach a compromise that satisfied everyone; Brass Ring acquired a promising company that fit its preferred investment profile; and RIE received an infusion of capital that will help it expand into new locations. RIE Co-owners Hanson and Engelbrekt gave the result their approval. Hanson concludes, “Our goals were met. I would...recommend SealedBid (to anyone) looking to sell their business and get maximum value.” Engelbrekt concurs, “We were satisfied. I think (SealedBid) did a great job.”

Grindell adds, “We have a long term strategy (for RIE), and so far it's done well. We're happy with the outcome.” Grindell concludes, “The SealedBid team did a very good job in a situation that was fairly challenging – there were lots of hurdles that could have derailed the transaction, and they did a really good job of identifying and addressing those things before they became potential issues.

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SealedBid is...good people,” he concludes. “Everyone wants to work with people they enjoy. Everybody wants to work with good people.”

SealedBid is an M&A firm focused on lower mid-market companies with revenues ranging from \$2 million to over \$50 million

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