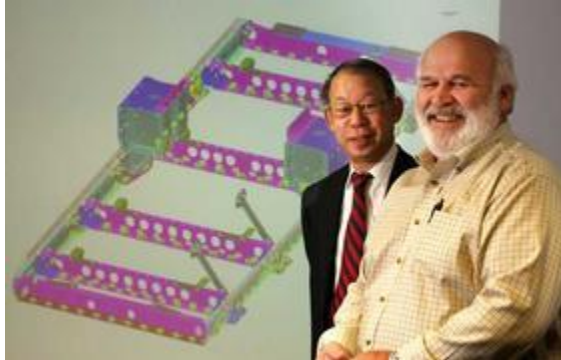


Selling to get cash out of firms

Surge in M&A expected to free cash for more investment

Premium content from Puget Sound Business Journal by Kelly Gilblom, Staff Writer

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Marcus R. Donner

Junji Oki (left) and Chuck Rhoden, co-founders of Global Aerosystems, of Everett, in front of an example of their airframe engineering work.

In 2010, Global Aerosystems, a small, private Everett aerospace firm owned by six equal shareholders, faced a quandary. The three younger shareholders wanted to keep working; the older three wanted to cash out their shares and retire.

Unfortunately, money to buy out the partners was hard to come by in the economic downturn. The younger shareholders didn't want to take on a bank loan to buy out their elders. Eventually they realized their best option was to sell.

The decision highlights a growing trend: minority shareholders pushing to sell private companies because they have lost access to other major sources of cash — bank loans and new private equity investors willing to take a minority position.

The downturn in those sources has sparked a boomlet in private sales. Seattle investment banking company **Exvere** said the percentage of its minority shareholder clients pushing for a sale because of the liquidity squeeze jumped to about 40 percent in the past two years, up from about 10 percent before the crisis.

The trend is good news on several fronts. It is generating more deals. The number of mergers and acquisitions (M&A) is expected to double or triple in 2011 from the 200 or so that occurred statewide in 2010, investment banking experts predict.

“M&A has picked up dramatically since Labor Day, meaning people are exiting investments they made, and more money is being put to work,” said **Michael Butler**, CEO of **Cascadia Capital**, a Seattle investment bank.

Each deal frees up cash that was locked in the companies, making it available for fresh investment. That may boost venture or other kinds of business spending, including startups. The trend also could result in more out-of-state firms buying local companies. While that could mean more jobs and income, it also could mean more companies would become remotely managed, losing some connection with the community.

Finally, the deals are addressing the pent-up demand for “liquidity events” sought by shareholders. As baby boomers reach retirement age and try to cash out of illiquid companies, they’re facing tension with other shareholders. Sales shake loose the cash from the otherwise immobile private shares, giving the retirees cash to spend on homes, travel, toys and other dreams they’ve spent their lives working toward.

“The liquidity availability stopped, but life didn’t,” said **Leif Johnson**, executive director of client strategies at Exvere.

Many private equity investors took minority positions in companies prior to 2008, expecting to help grow the companies and then pull out their investment in two to three years. But when the downturn hit, the normal sources of liquidity for those investors dried up. In fact, mergers plunged to 181 deals in 2009 from 252 in 2008 in Washington state, and recovered to about 200 in 2010.

The recession made it “difficult to just buy out the minority shareholders,” Butler said. “Those normal sources of liquidity were just frozen. The only option was for the company to be sold.”

While some have seen a positive change in that trend, second-tier and smaller companies have not. “If you’re not a market leader, you still really haven’t seen those opportunities. We haven’t seen that trend change, yet,” he said.

Global Aerosystems is a case in point. The small engineering firm was set up by its six owners in 2006, and focused on aerospace engineering design analysis, a niche it could dominate with its experienced founders.

Still, “no one wanted to invest a lot of money. So we created a company with equal share ownership,” said **Chuck Rhoden**, former CEO and chairman of Global.

Rhoden said the share structure protected the retirement accounts of the partners, who ranged in age from their early 40s to 80. But by early 2010, the oldest of the group wanted to cash out and retire. Rhoden, almost 65 at the time, wanted to leave the industry in a few years, but the younger members wanted to continue working.

But the three younger partners did not have the cash to buy out the older members. That left the unattractive option of borrowing the money. “Our youngsters didn’t want to saddle themselves with debt,” said Rhoden.

Further, the company had lost about half its revenue and half its employees due to the economic downturn, he said, and recovery was uncertain.

So a sale looked like the best option. Exvere helped the owners find several potential buyers. Last November, Connecticut-based manufacturing company **Kaman Corp.** bought Global for an undisclosed sum. Those who remained at Global received employment contracts, ensuring their future at the company.

“That’s pretty typical of what we’ve seen in terms of a sale,” said Exvere Managing Director **Michael Brustkern**. He said some sales are more hostile in nature, because there is disagreement between the minority and majority shareholders.

Cascadia Capital’s Butler said he sees those types of issues especially play out in cyclical industries such as commodities, energy and business services. Those will also be the first to feel recovery, he added. Indeed, there were seven aerospace firms that merged with other firms or were acquired in 2010 in the Puget Sound area, up from two the year before, according to Exvere.

Cascadia Capital predicted in 2011, mergers and acquisitions in the region will double or triple, with the region faring better than the rest of the country because of Washington’s economic conditions.

From the Puget Sound Business Journal:

<http://www.bizjournals.com/seattle/print-edition/2011/03/04/selling-to-get-cash-out-of-firms.html>