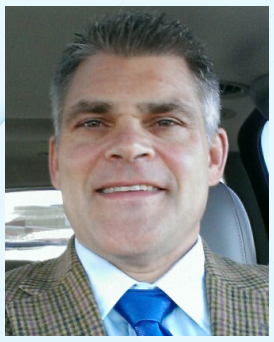
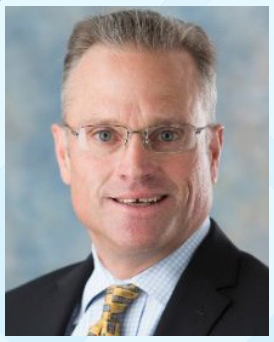
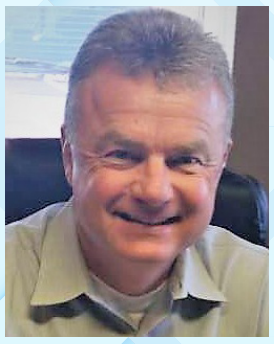


SCOTT REPPERT
SUPERIOR HEALTH LINENS
President & CEO



NED PURTELL
FOUNDERS 3
Principal



TERRANCE M. SCHNEIDER
GAMAY FOOD INGREDIENTS, LLC
President & CEO

DR. JEANNE SIMMONS
MARQUETTE UNIVERSITY
Associate Dean of the Graduate School of Management

PROFITING PRIVATELY

Understanding the challenges and opportunities facing privately-held firms

From the employment opportunities they offer to the products and services they sell, flourishing private companies are integral to a strong local economy. They face both special challenges and opportunities. The Milwaukee Business Journal convened a panel of leaders from Milwaukee-area private companies to discuss the challenges they face, including growth and employee recruitment. Following are highlights from that discussion.

JEANNE SIMMONS: IN TODAY'S ECONOMIC CLIMATE, ARE THERE ANY STRATEGIC ADVANTAGES PRIVATE COMPANIES HAVE OVER PUBLIC COMPANIES? WHAT CHALLENGES DO YOU FACE THAT PUBLIC COMPANIES DON'T?

TERRANCE SCHNEIDER: As a private company, I am not focused on Wall Street. I can make strategic decisions without worrying about what it does to my stock price. I can look at opportunities and grab them.

NED PURTELL: We are very nimble. We can react quickly to what our clients want us to do. A lot of our competitors are now part of a big corporation. If one of their clients comes in with a unique idea, they have to go upstream and get permission. We can just go ahead and implement it. That is a real advantage.

SCOTT REPPERT: It's all dependent on your financial structure. We rely on private equity, so keeping our private equity partners is critical. Our biggest challenge is making sure we are structured properly so that will allow us to grow. There are only seven of us at the senior level, which lets us make decisions very quickly.

SIMMONS: ONE OF THE CHALLENGES ALL COMPANIES FACE IS MANAGING GROWTH. WHAT DO YOU TAKE INTO CONSIDERATION WHEN DECIDING WHETHER OR NOT TO GROW ORGANICALLY OR THROUGH ACQUISITIONS?

REPPERT: Our preference is to grow organically because acquisitions are expensive, but we are in an acquisition mode because we want geographic growth.

SCHNEIDER: We have looked at acquisitions, but there are a couple of things you have to think about. If you expand where you are, you have the same management force onsite, which makes communication easier. When you acquire, you can lose focus because you spend so much time integrating that company into your company.

PURTELL: We were at a crossroads because a lot of the local companies in our industry were being bought out by the large nationals. Our choice was to stay independent. We literally grew from 25 employees to 200 employees this June by merging with two other entities that are complementary to our businesses: Commercial Property Associates and Siegel Gallagher Property Management. I wish I could say it was something that we thought about in-depth for a number of years, but it was more of a reaction to what was happening to our competitors and the fact that we all wanted to remain independent.

SIMMONS: HOW DID YOU GET THOSE CULTURES TOGETHER?

PURTELL: Predominantly we are a sales organization. And for a group of sales people, the easiest way to get to know each other is going to a Brewers game or other social events. We are also working to get ourselves under one roof so we can work side by side every day.

SIMMONS: SCOTT, HAVE YOU HAD CULTURE ISSUES AS YOU GREW?

REPPERT: Yes. Our Kentucky acquisitions were the most problematic just because they were pretty successful companies. They saw us as interlopers and not the good guys. We definitely have challenges given the miles between the facilities, but we continue to focus on best practices and working together.

SIMMONS: HAS TECHNOLOGY MADE IT LESS IMPORTANT TO HAVE EVERYONE UNDER THE SAME ROOF?

REPPERT: We are really good with conference calls because our senior team is usually pretty spread out. For

example, my CFO is in Rochester today and my sales manager is in Kentucky. The best way to communicate is to get everyone on the phone.

SCHNEIDER: I think it is important to meet in person as much as you can. I am all for technology, but I prefer to be in the room. I can read people better and understand their minds a little better than by communicating over the phone or via email.

SIMMONS: WHEN STARTING A COMPANY, ARE THERE OWNERSHIP OR STRUCTURE ISSUES THAT PEOPLE SHOULD BE THINKING ABOUT IF THEIR GOAL IS TO GROW THROUGH ACQUISITION OR ORGANIC GROWTH?

REPPERT: A lot of it depends on your financial needs. Our goal has been to avoid being heavily leveraged. We want good performance so we can offload debt in order to make another acquisition.

PURTELL: We are not highly leveraged in the brokerage and management business. What we focus on is having like-minded partners. Our decisions are made by a group of partners and it is usually more of a consensus than a vote.

SIMMONS: WHAT IF YOU HAVE A PARTNER WHO IS NOT ROWING IN THE SAME DIRECTION AS EVERYONE ELSE? HOW DO YOU MANAGE THAT?

PURTELL: Fortunately, we have not had to cross that bridge yet, but we do have a mechanism in the event something like that happens.

SIMMONS: ANOTHER CRITICAL ISSUE FACING COMPANIES IS RECRUITING AND RETAINING QUALIFIED EMPLOYEES. THIS CHALLENGE IS INCREASING AS COMPANIES LIKE FOXCONN AND AMAZON EXPAND IN WISCONSIN. HOW BIG OF AN ISSUE IS THIS FOR YOU?

PURTELL: The good news is that we don't compete for employees with companies like Foxconn or Amazon. As a management and sales company, a lot of our employees come through word of mouth. We have a lot of interns working for the company and a lot of times we hire them. It will be an issue for the construction companies that are building the properties that we are trying to lease or sell.

SCHNEIDER: I was very happy with the Foxconn deal when it was announced, but I wish they would have located in Green Bay or Eau Claire because it is going to drive my labor costs higher. We cannot find skilled labor right now, so when you bring in 15,000 more jobs, where are the people going to come from? Employers are going to have to offer a much higher starting wage rate and pretty phenomenal benefits in order to stay attractive.

REPPERT: We have really struggled with unemployment being as low as it is. We spend a lot of time trying to figure out how to make the workplace fun. We break bread with our employees a lot. We have pizza parties once a week. It is those kinds of things that can keep people from jumping to another company for 50 cents more per hour.

SIMMONS: CAN YOU DO THINGS IN A PRIVATE ORGANIZATION THAT PUBLIC COMPANIES COULD NOT DO?

SCHNEIDER: I think we can. Employees have to feel they are part of a family. We engaged our R&D people in the development of our innovation kitchen. They took ownership of the project. We spend a lot of time with the people on the floors asking how we can make their jobs better. We want everyone to feel they have buy-in.

SIMMONS: IS THERE ANYTHING INHERENT IN A PRIVATE COMPANY THAT WOULD MAKE IT MORE ATTRACTIVE TO A MILLENNIAL?

REPPERT: Smaller companies can definitely bring more people into the decision-making process. But the vast majority of our employees work on the floor, and I don't know if it matters if you are a millennial there. You just have to be a hard worker, show up every day and have a decent attitude.

PURTELL: We are in a millennial-rich environment. I think we benefit because we are privately held and have a very flat organizational structure. You can walk up to anyone in an ownership position and ask if you can try something. I think we have created a work environment where they enjoy working, which to them is as important as pay.

SCHNEIDER: I have 17 food technologists at our company and most of them are millennials. I get them heavily involved in our sales efforts. We send them on sales calls. We send them to trade shows. We get them heavily involved at the plant level so they see the whole company. They are not just pigeon-holed in their own area.

SIMMONS: HOW WOULD YOU CHARACTERIZE THE ABILITY TO SECURE FINANCING IN TODAY'S ECONOMY?

REPPERT: We just had a pretty large acquisition and this was our best round of financing. We were able to find very low-cost debt. It is all about results. If you are performing well, you can find the money.

SCHNEIDER: The money is out there. We went through a significant transaction about a year ago and our two incumbent banks both backed away so we opened it up to a wide variety of banks. It was amazing the different offers we got back. So my advice would be – don't hesitate to explore different banks. Competition is good.

PURTELL: We are not in a position to go out and look for debt for growth, but our developer clients are and they say it is a very flush environment for money.

SIMMONS: HAVE YOU HAD TO MANAGE THE FIVE- TO SEVEN-YEAR PRIVATE EQUITY TIME HORIZON?

REPPERT: We were with our first private equity partner for 10 years. They would have stayed with us longer, but they could not accommodate our expansionary plans. We closed the deal with our current equity partner 13 months ago, and we were already looking for our exit strategy six months ago. I have already started to court our next private equity partner.

SIMMONS: HOW IMPORTANT IS IT FOR A PRIVATE COMPANY TO HAVE EXTERNAL ADVICE – EITHER THROUGH AN OUTSIDE ADVISORY BOARD OR A FORMALLY ESTABLISHED BOARD WITH SOME OUTSIDE DIRECTORS? WHAT TYPES OF OUTSIDE ADVISORS SHOULD A PRIVATE COMPANY SEEK?

SCHNEIDER: A board can be a very valuable resource. I recommend that you have your attorney and a finance person on the board. And I think you should have people from different

ALIGNING STRUCTURE WITH STRATEGY

Drew Slocum
Bank of America Merrill Lynch

Often times, a change in strategy requires a change in a company's capital structure. Having a banking partner with expertise in multiple financing markets can help companies to evaluate and implement the best capital structure for their new strategic direction.

Bank of America Merrill Lynch helped a local, privately held company work through significant changes in its strategic direction. The company was in an industry that had seen considerable disruption. The owner sought to diversify the business by expanding geographically and by adding new technological product capabilities in an adjacent industry segment.

Bank of America leveraged its databases of industry information, including peer financials, to affirm the owner's belief that the most effective way to diversify was through acquisition. Within a year of its first acquisition, however, it became clear the company's new strategic plan did not align with its capital structure. Because the company had built a strong balance sheet, Bank of America believed an asset-based credit facility would provide a better capital structure than the cash-flow credit approach they had been using. Bank of America also proposed a bond issuance to attract longer-term capital.

Bank of America provided expertise across three different financing markets to help the company expand. The new capital structure eliminated the company's need to manage to financial covenants on an ongoing basis, which gave it the flexibility it needed to better manage its long-term strategy.

Bank of America Merrill Lynch

industries to provide totally outside suggestions or observations.

REPPERT: On our board we have both voting members and advisors. The voting members include two of our private equity partners, myself, my CFO, and then a senior manager from a different industry who is familiar with our business. The advisors are important. We have a marketing specialist and a lawyer, and we occasionally bring in people for a quarter or two to help us work through a project.

PURTELL: We do not have a board, but we talked about creating an advisory board at our last partner's meeting. We would probably select a developer, lawyer, banker and somebody from a different, but related, industry.

SIMMONS: HAVE YOU ESTABLISHED A SUCCESSION PLANNING PROCESS WITHIN YOUR COMPANY? IF SO, WHAT DOES IT LOOK LIKE?

SCHNEIDER: We are thinking about it. It is very important that you create a bench because you have to have the right people in middle management to take the reins when you are not there or when you want to move on.

PURTELL: We just completed Phase 1 of our succession plan, which was merging the three companies to create a larger platform. Phase 2 of the succession plan is identifying the younger brokers and managers who want to be partners.

REPPERT: We have looked to build bench strength. There were just three of us in leadership roles in 2006; now there are nine. We have vice presidents assigned to each discipline within our industry and we have created stock opportunities for people to demonstrate their commitment and give them some opportunity.

SIMMONS: WHAT ARE SOME OF THE POSITIVES AND THE NEGATIVES OF THE PATH YOU CHOSE?

PURTELL: The positive is remaining an independent company. The three partners came to the conclusion that we would rather look in the mirror and blame ourselves for failing than blame a boss.

REPPERT: I suffer from OCD a little and owning your own business magnifies that trait. Everything becomes really important and you spend a lot of time trading emails at 2 a.m.

SCHNEIDER: We wrote our first agreement on a napkin in 1997 and we lived by that for 20 years. The basic principle was fairness and it worked phenomenally well for us. The positive is being able to trust the people you are in business with. The biggest negative is that we should have put our group together a lot earlier because we would have expanded faster.

SIMMONS: CAN YOU DISCONNECT FROM WORK AFTER HOURS?

PURTELL: No.

REPPERT: No.

SCHNEIDER: No. After I get home and have dinner, I open up my laptop and have 15 emails. You can't get away from it.

SIMMONS: WHAT KIND OF ADVICE WOULD YOU GIVE TO PEOPLE WHO HAVE JUST STARTED OR THINKING ABOUT STARTING A PRIVATE COMPANY?

REPPERT: You have to be an optimist. Stick with what you know and don't expand too fast. I think those are the key things.

SCHNEIDER: You have to be passionate about what you want to do and the products you have. And never lose sight of the most important thing, which is distribution. I have seen a lot of good products that never hit the market because they did not have distribution.

PURTELL: Having a passion and understanding your industry is important. It is also important that you vet your partners well. You are not always going to agree with your partners but it is important to have partners that have the same core values as you and who you enjoy being around.

CASE STUDY

OPTIMIZING AN ALTERNATE PATH TO SUCCESS

James Bedore
Reinhart Boerner Van Deuren s.c.

Licensing can provide a good entry opportunity for entrepreneurs. It's typically less expensive than developing a product on your own and allows you to leverage someone else's research and development, engineering and knowledge. When a Fortune 500 company passed on a licensing opportunity it had been offered, a senior manager at the company decided it was too good a deal to pass up. He quit his job and with Reinhart's assistance, set up a limited liability corporation (LLC), which provides flexibility in terms of governance.

Because it was a brand-new company, Reinhart helped it explore financing alternatives, including venture capital financing and angel financing. Reinhart ultimately recommended a private placement to multiple individuals because it provided the best opportunity for the founder to keep control of the business and retain a more significant portion of the equity.

The company was very successful and grew rapidly. When the time came to move on, the founder's children were not interested in taking over the company so he decided to sell, hiring an investment banker to do an auction with strategic and financial buyers. The company was sold to a large public company. As with many entrepreneurs, the owner did not retire well. He ended up buying another company and is back at it again.

Reinhart
Boerner Van Deuren s.c. Attorneys at Law

Bank of America Merrill Lynch

The power to manage your succession strategy

Start planning your transition now

"Creating an ownership-transition plan is essential to business success. Yet many Milwaukee business owners overlook this critical step.

Whether you're nearing retirement or just getting your company started, now is the time to plan."

Wendy Lawler
Market Manager
Bank of America Merrill Lynch
wendy.lawler@baml.com

Drew Slocum
Senior Relationship Manager
Bank of America Merrill Lynch
andrew.t.slocum@baml.com

Key questions:

1. Who will inherit the business?
2. How will I protect family/employees?
3. Who will manage operations?
4. How will I prepare for a sale?

79% Business owners who want the family to keep the business[1]

30% Family businesses that successfully pass to the next generation[2]

1 in 3

Less than 1 in 3 Baby Boomer business owners has an exit strategy.[3]

ASSEMBLE THE RIGHT TEAM

Begin by consulting with a diverse group of advisors offering specialized expertise. Include attorneys, company counsel and an estate lawyer. Designating your personal financial advisor as the point person can help coordinate the team's efforts, while clarifying the overlap between business finances and family wealth.

EVALUATE EXIT STRATEGIES

Next, sit down with family and staff to gauge their future interest, and ensure that interested family members have the right leadership skills and business acumen. If you decide to sell outside the family, explore ways to maximize the value of your business and engage a wide range of potential strategic buyers.

PLAN FOR FUTURE VARIABLES

Ask your team to explore ways to create enough liquidity that can enable your successors to pay estate taxes and other expenses. Gifting wealth, buying life insurance, refinancing business loans or moving liquid assets to new accounts can greatly simplify things for your successors, but optimizing these strategies requires in-depth planning.[4]

[1] Michael D. Allen, *Motivating the Business Owner to Act*, SFA2 A.L.I.-A.B.A. 1, at 7 (2001). [2] Charles D. Fox IV, *Keeping it in the Family: Business Succession Planning*, SS039 A.L.I.-A.B.A.2009, 2013 (2011). [3] 2016 U.S. Trust Insights on Wealth and Worth® Survey. [4] Profile: Creating liquidity to meet estate tax liabilities without selling a business, U.S. Trust, 2014.