

OFF THE BALANCE SHEET

Footnotes for Financial Success

AUTUMN 2004

Entrepreneur Finds Many Advantages In Gregory Financial's Services

Frank Happ found many advantages in using the services of the merger and acquisition specialists affiliated with his CPA firm when he decided it was time to find a buyer for his business.

In 1986, Happ had founded Happ Controls, now a leading manufacturer and distributor of coin-operated amusement, gaming, vending and industrial parts and accessories. Success came quickly, as the company's sales passed \$1 million after six months of operation and reached \$68 million in the 2004 fiscal year.

Frank Happ faced a problem common to many successful entrepreneurs: Low liquidity, as nearly all of his assets were invested in the business. Having completed six acquisitions in seven years for Happ Controls, he had a clear idea of what he wanted in a business intermediary and consultant to represent his company as a seller.

"We needed someone with tax knowledge, a good understanding of this business and solid experience with the process followed in mergers and acquisitions. We wanted someone who could recommend a good merger and acquisition lawyer and who could hold my hand and keep me steady during the due diligence. From experience, I knew that selling a company can be agonizing," Happ says.

At first, Happ was inclined to seek the services of one of the large merger and acquisition consulting organizations. Then, he met Gregory Lafin, who heads Gregory Financial Group, LLC, an affiliate of Happ's accounting firm, Nykiel Carlin & Co., Schaumburg.

"The people at Nykiel Carlin had been serving us well. They had close knowledge of our tax situation and knew virtually every detail of the financial side of our business operation. We could see immediately some decided advantages in asking Gregory Financial to represent us," Happ says.

In January, Happ started working with Gregory Financial. Lafin started with extensive market research, in part looking for competing companies who might have an interest in acquiring Happ Controls. He found very few larger competitors who might qualify as buyers, except for giant

conglomerates who would likely swallow the company, leaving little of the unique culture that made it successful.

Frank Happ wanted to leave something behind. He was looking for a buyer who could help move the company to the next level. He was concerned that the buyers be people who know what they're doing who would continue the company's remarkable growth record.

FOCUS ON PRIVATE EQUITY MARKET

With these client concerns in mind, Lafin focused most of his attention on the private equity market, approaching hundreds of prospective buyers. In late March, Pfingsten Partners, LLC, a Deerfield-based private equity firm specializing in middle market manufacturing, distribution and specialty publishing companies, signed a letter of intent to acquire Happ Controls. The deal closed June 14.

"We found the opportunity interesting right away," says Pfingsten Partners Vice President Scott Finegan. "It fit our profile as a Midwest-based company involved in manufacturing and distribution. We thought we could add value through our operating capability and capital resources."

Lafin had introduced Happ to Ray Horn, an experienced lawyer specializing in mergers and acquisitions with the Schaumburg firm Meltzer, Purtil & Stelle. Complex as a transaction tailored to meet Happ's exacting requirements might be, Horn assured him that it could be structured to the satisfaction of both seller and buyer.

"Toward the end, we ran into some difficult tax questions, and it really helped that Greg was so closely aligned with [Nykiel Carlin Tax Partner] John Sjöholm. We were able to get questions answered quickly," says Horn.

"In most merger and acquisition situations, the broker-consultant has no relationship to the accounting firm. From the beginning, it helped on this deal that Happ Controls was a

respected client of Nykiel Carlin," Horn says.

TEAMWORK CRITICAL

Teamwork involving principals and attorneys for both parties was critical to success in concluding the deal, according to Horn. "Greg is tenacious and did a fine job of protecting value. We had buyers who wanted to be sure they were getting a good company. The key is making sure you remove surprises for the buyer. If there were issues, they were disclosed and discussed," Horn says.

Among many sticky legal issues were property leases, debt service, protecting the family, and writing employment agreements for Frank Happ and his son, Tom, who became company President as part of the transaction. Frank remains with the company as Vice Chairman and a significant minority shareholder.

"Gregory Financial's most important role once we had the letter of intent was helping us tackle the obstacles you encounter in every transaction," says Finegan. "Greg allowed everyone to focus on what is most important—namely, closing the transaction."

An acquisition announcement said Pfingsten will build on Happ Controls' solid foundation and support future success through a combination of continued organic growth and strategic acquisitions. "The continued growth of the business requires additional capital to support future expansion, both internally and through additional acquisitions. I am excited about our future. It has never been brighter," Frank Happ says.



Gregory Lafin



Happ Controls distribution facility, Elk Grove Village, IL

Pfingsten Partners' "capital and operationally focused, team-based approach coupled with the strengths of the existing Happ Controls team will help us grow both within our current markets and internationally," added Tom Happ.

Happ Controls' "growth has been driven by product development and customer service. We intend to capitalize on these strengths to continue the company's history of success," says Jim Norton, Managing Director of Pfingsten Partners. 