# THE M&A ADVISOR CASE STUDY

## A NOVEL SPLIT PAYS OFF

Few deals are a linear progression of choreographed decisions and results. Most involve unexpected turns in the road, moments of decision that can make or break a transaction. The recent sale of the two halves of Johnston Enterprises, Oklahoma's oldest and largest privately held, family-owned grain company is no exception. A confounding challenge, presented by an initial bid for the company resulted in an expression of perseverance and creativity culminating in a novel solution that can serve as a best practice template for other dealmakers confronted by a similar quandary. The M&A Advisor is pleased to present an account of this groundbreaking deal.

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# Contents

## EXECUTIVE SUMMARY

The split was a novel tactic whose time had come. The result: a feat of highly calculated improvisation that helped a seller find the right buyer at the right time at the right price. Johnston Enterprises, Inc. consisted of two parts: a grain elevator and trading business and an Arkansas River ports operation. The Meibergen family, which has operated Johnston Enterprises for five generations, desired to sell and align the entire business to a single buyer while maintaining the company name and management team. However, the first round of written offers revealed that some buyers valued the Johnson grain business more than they did the Johnston port operation, (due to the fit with their own operations) and vice versa. This disparity eventually resulted in a change of strategy: a novel two-part sale of Johnston Enterprises to different buyers, including the U.S. subsidiary of a Japanese agribusiness conglomerate. This approach preserved the businesses' customer bases, employees and management, and helped achieve the Meibergen family's value aspirations, as they hoped it would. The result: a feat of calculated improvisation that helped a seller find the right buyers at the right price and terms.

## CASE SUMMARY

Johnston Enterprises had been owned by the Meibergen family for five generations. Aiming for a traditional transaction, the family engaged Generational Capital Markets of Dallas to sell the entire company with pricing expectations in a specified range. In sorting through potential buyers, GCM learned that several valued the two Johnston businesses – grain elevators and ports operations – differently. The result was a valuation for the combined operations that failed to meet Johnston family ownership and GCM expectations. Noting the pricing disparity between the two Johnston operations it was agreed that the two ought to be sold separately in order to achieve the initial pricing targets of GCM and the Meibergen family that owned and operated Johnston Enterprises. Never having previously split a company for sale, GCM President and Supervising Principal Brenen Hofstadter set out on a course he had never yet traveled to arrive at a destination that had never been in his investment banking itinerary.

Hofstadter's journey led him to first sell the Johnston ports operations business, known as Johnston's Port 33 Inc. (JP33). His goal: to ensure that the Meibergen family sold the right pieces of their business to buyers with which those businesses would be the right fit. In the case of JP33, the right buyer was Bruce Oakley, Inc., a diversified bulk commodity sales and transportation company headquartered in North Little Rock, AR that was well-known to the Meibergen family. Oakley agreed to acquire JP33 on February 3, 2014. The sale of Port 33 confirmed to the Meibergen family and to GCM that a two-part sale was the correct approach. The agreement called for the Johnston's Port 33 management team to remain in place, while Lew Meibergen, who founded JP33 in 1988, will stay on as a consultant.

While in due diligence on JP33, the second step in the sale of Johnston Enterprises' two components quickly took shape. It soon became apparent that the sale of the Johnston grain elevator business, known at Johnston Grain, would include non-regional potential buyers, including at least one whose corporate roots were thousands of miles from Oklahoma, in Japan. Although Johnston is a regional leader, the Meibergen family was aware of global agribusiness trends that required competitors to possess more banking resources and global connections in order to succeed long-term. They were eager to explore non-U.S. sale opportunities that would provide those resources and connections. Negotiations with CGB Enterprises began and bore fruit. CGB owned 74 Midwest grain elevators, emphasized an entrepreneurial approach and had a global connection. The company is jointly owned by two Japanese agribusiness conglomerates, Zen-Noh and Itochu, which between them generate $200 billion in annual revenues. On February 10, 2014, Johnston Enterprises entered into a Letter of Intent to sell its grain company and related businesses to CGB. Johnston CEO Butch Meibergen and President Joey Meibergen continue to operate the grain business.

## THE CHALLENGE

### Finding a Buyer with Requisite Resources—at the Right Price

Global agribusiness trends reached into the U.S. heartland, convincing the family ownership of Oklahoma's oldest and largest privately held grain company, Johnston Enterprises of Enid, OK, that it was time to ally their 120-year-old company with a larger corporate entity that possessed the financial resources and global connections to compete in a fast-evolving global agribusiness marketplace. The challenge faced by the Meibergen family, which had owned and operated Johnston Enterprises for several generations, was two-fold: first, they wanted to sell at a price they regarded as satisfactory and under conditions that would facilitate their continuing management; second, they wanted to align their company with a strategic buyer possessing the resources, connections and efficiencies they needed to compete. Ultimately, Generational Capital Markets dealmaker and President Brenen Hofstadter would be confronted by a challenge he had never before faced despite his 23 years as an investment banker for privately held/family-owned middle market sellers: engineering a split sale. Meeting these challenges took the Meibergen family and its GCM investment banking team to a destination neither had anticipated but with which both were ultimately satisfied.

Johnston Enterprises' family ownership encompassed five generations. The pre-merger management included Lew Meibergen (Chairman), third generation of ownership; Butch Meibergen (CEO), fourth generation; Joey Meibergen (Grain President), fifth generation. The Meibergens engaged Generational Capital Markets (GCM) of Dallas, which specializes in the sale of privately held, family operated companies, to undertake the sale of their company in its entirety to a single buyer at a price the family members had agreed upon. The GCM investment banking team was headed by Brenen Hofstadter, President and Supervising Principal, GCM.

### Company History: from Oklahoma's 19th Century Cherokee Strip to Globalization

Even in the late 19th century, Oklahoma remained the notoriously rough-and-tumble and sometimes lawless Indian Territory that had been home to the former Eastern and Ohio River Native American nations relocated there by the federal government in that century's early decades. It was in this pre-statehood setting that a former schoolteacher, Willis Boyd Johnston, opened the doors to W.B. Johnston Grain Company in 1893 (14 years before Oklahoma achieved statehood). Johnston based his business on service, providing grain, seed, flour, coal, hay and livestock to settlers of Oklahoma's infamous Cherokee Strip, which had long served as a refuge for fugitive bank and train robbers from neighboring states and territories. By the 1890s, however, U.S. marshals had mostly cleared the strip of criminals, opening it for settlement by migrating families, farmers and ranchers, who became Johnston customers.

A participant in the Oklahoma Land Run that has been depicted in many movies and TV westerns, W.B. Johnston carved out a place for himself and his fledgling enterprise in the highly competitive agriculture-based economy of the American Southwest. Johnston made his mark early, when his company purchased the first load of wheat in Oklahoma's Garfield County. In 1920, he built a 40,000-bushel grain elevator, complete with corn shucking equipment, which served as the centerpiece of his business. More than 90 years later, Johnston Enterprises has evolved into two distinct segments, Johnston Grain and Johnston's Port 33. Johnston Grain operates 22 country elevators and two 50,000-bushels-per-hour shuttle rail terminals handling grain, corn and wheat and now frac sand. Johnston Grain receives other commodities by rail for shipping, handling and trading. Johnston's Port 33, acquired and built by Lew Meibergen, maintains five ports along the Arkansas River.  These ports, utilized by farmers from the South and West moving product to Tulsa, handle grain as well as fertilizers, frac sand, pig iron, chemicals and other commodities. Johnston Enterprises operations also include a major seed farm and an experimental research farm. In 1976, to keep the company in the family, Lew Meibergen purchased it from his uncle, W.B. Johnston's son, Dale Johnston, Butch Meibergen joined the company business in 1979 with Joey Meibergen extending the family lineage to a fifth generation a few years later. Through the years, the Johnston Enterprises family ownership group, beyond the three current Meibergen decision-makers, had grown. While Johnston Enterprises was a successful regional leader, the agriculture industry had become more competitive and increasingly global, requiring additional banking resources, including larger lines of credit. By 2013, the family ownership had arrived at the realization that in order to secure the business future for the next 50-100 years, it would be best to align the company with a multinational agribusiness enterprise. For the family, this strategy meant that all debts could be repaid, all chips could be removed from the table and the family future could be secured for multiple generations.

GCM's go-to-market strategy, which produced discussions with hundreds of qualified companies and private equity firms with agribusiness holdings, generated eight buyer visits and management meetings. Included in that group of buyers were North American and foreign corporate entities. Brenen Hofstadter's investment banking team, including V.P. Chris Heckert, aimed to exhaust the marketplace in order to find the right buyers among the strategic and private equity buyer candidates, foreign and domestic. His team and the Meibergens received several offers for the entire company but none that met all their stipulations. However, neither GCM nor the Meibergens were deterred. It was time for Plan B.

## THE SOLUTION

### Plan B: the Oklahoma Two-Step Takes Shape

For Hofstadter, there was a pivotal moment and a moment of epiphany as the first stage of the sale of the entirety of Johnston Enterprises played out, launching stage two. The pivotal deal moment arrived when the offers for the combined companies were less than the GCM valuation and failed to achieve the Meibergen family's goals. His personal pivotal moment, Hofstadter says, occurred over the ensuing two weeks during post-mortem conversations with the first-stage buyers and especially with CFO of CGB Enterprises. The CGB financial executive, says Hofstadter, was a 35-year CGB veteran who had engineered nearly all CGB acquisitions over three decades. He explained that the culture and business fit for Johnston Grain was stronger for CGB than for Johnston's Port 33. Although CGB wanted the Johnston ports operation they mutually determined that in order to find a path that would achieve the Meibergen's goals, Hofstadter would circle back with the buyers to determine which buyer had the best fit and highest level of interest for Johnston's Port 33 as a stand-alone purchase. For the GCM team and the Meibergens, the moment of epiphany occurred during a meeting with the Meibergen attorney in Oklahoma City, Mr. Steve Davis, a partner of Hartzog Conger Cason & Neville, a well known expert in Mergers and Acquisitions. It was there and then, as offers for the separate businesses were reviewed, that the eyes of the Johnston team were opened to the positive potential of a two-step strategy. The combination of the CGB offer for Johnston Grain with the Oakley offer for JP33, achieved the family's goals and supplied the revelation that opened the way for a split sale.

CGB, Hofstadter recalls, offered the unique combination of providing both a strong U.S. presence based in Louisiana backed by Japanese parent companies with global reach and deep resources. Each company was familiar with the other following years of friendly competition and trading. The Meibergens were also familiar with the two Japanese conglomerates that owned CGB. The value CGB and its parents placed on Johnston Grain, plus their reach and resources, including combined revenues of more than $200 billion, fulfilled the Meibergen's aspirations. In Bruce Oakley, the Meibergens saw a company with which they were also familiar, a company that shared their culture and that agreed to retain the Port 33 name, management team and employees. As with Johnston Grain and CGB, Oakley and JP33 were a natural fit.

### The Buyers: Two Very Different Matches Are Made

The buyers for the two parts of Johnston Enterprises could not be more dissimilar. One is the U.S. subsidiary of two Japanese trading and agribusiness global conglomerates. The other is a highly-regarded family-owned regional player in the American Southwest. What they share, however, are strategic acquisitions of parts of Johnston Enterprises that were the right fit for each.

CGB (http://www.agriculture-xprt.com/companies/cgb-enterprises-inc-65437) has been a leader in the grain and transportation industries since its 1970 founding in St. Louis. By 2013, CGB was operating a global enterprise in more than 95 locations with 1,500 employees overseeing a diverse family of businesses. For grain farmers the company provides financing and risk management services as well as facilities for storing, selling and shipping farmers' crops. CGB is among the largest grain shippers on the U.S. inland waterway system. Proud of its entrepreneurial approach, CGB in recent years has extended its franchise to include soybean processing and fertilizer products. Moving these products from farmer to market has created a growing demand for safe and efficient transportation and logistics operations throughout the national inland river system. The company met the need for that infrastructure by creating Consolidated Terminals and Logistics Company (CTLC), a free-standing company that provides overall logistics, transportation and bulk commodity services. CGB is jointly held by Zen-Noh, one of the world's largest cooperative organizations and Itochu (http://www.itochu.com/general/AboutUS), one of the largest trading companies in the world. Zen-Noh and Itochu are headquartered in Japan. Itochu maintains 153 offices in 74 countries. Ranked in the Fortune 500, Itochu generates about $50 billion in annual revenue.

Bruce Oakley, Inc.( http://www.bruceoakley.com/about.html), headquartered in North Little Rock, AR, is a diverse, vertically integrated, privately held and family-operated commodity trading, distribution and transportation company with a worldwide customer and supplier base. Oakley was founded in 1964 by Bruce Oakley and is run by Bruce's son, Dennis. From the deal's timing, through the Letter of Intent (LOI), due diligence and the close, there was a clear management and culture fit between these two organizations, Hofstadter says.

## LESSON LEARNED: BEST PRACTICE TAKEAWAYS

### Two Salient Takeaways from a Novel Transaction

According to Brenen Hofstadter, his team emerged from his first-ever business split with two salient takeaways that can be applied to future deals involving the sale of privately-held, family-operated middle market companies for which a multi-part sale might be advantageous.

First, a split strategy, with the right seller and buyer combination, can be beneficial for both. "Adhere to your deal process and client goals, but always be open to what the buyers are telling you as the transaction unfolds," Hofstadter declares. **Within reason, listen to the buyer market.** "We had to achieve the expected value targets and certain deal structures, but if, as happened in this instance, the buyer market was telling us: split the deal in two, at least take the time, expend the energy and be flexible with your clients in analyzing and exploring a strategy that the buyer market prefers. In this instance, fortunately, the Meibergens knew that the two-pronged approach was the best strategy to achieve the result they desired. It is now evident that that approach was the right one."

The second takeaway applies specifically to agribusiness transactions in which the buyer is a company from a nation in which food is perhaps the most precious commodity. Explains Hofstadter, "I expected that CGB, Zen-Noh and Itochu looked at traditional valuation methods and metrics like EBITDA, book value and real estate values. More interestingly, **we learned that the importance of securing additional food sourcing and food distribution channels is on par with national defense in Japan.** Why? Because Japan is heavily populated and domestic farming is relatively limited. Japanese agribusinesses have invested enormous resources in securing relationships with farmers on a global scale. Therefore, acquiring Johnston Grain was part of their 50-year plan that they continue to execute worldwide to secure direct food sourcing."

### A need for Parallel Strategic Objectives: Achieving the Right Valuation and Cultural Fit

The Johnston Enterprises split sale highlighted the need for parallel strategic objectives when bringing a family-owned business to market: valuation is a significant motivation, of course, but so is a cultural fit with the buyer. That latter aspect of the Johnston Enterprises split sale was underlined in the acquisition of Johnston's Port 33 by Oakley, Hofstadter points out. "Johnston Enterprises had been working hand in hand with Oakley for many years on the Arkansas River. The companies had been trading partners. Some employees had crossed over between the two companies through the decades. The relationship between the two companies was very tight." He attended the event when the Oakley acquisition was announced to JP33 employees. "When I spoke to JP33 managers during that presentation and during those meetings they said, 'Brenen, we are so happy that Oakley is the buyer, because if we had to make a short list of the companies we'd like the Meibergens to sell to, Oakley would be number one on that list.'" In fact, Hofstadter adds, in the sale of JP33 to Oakley, cultural fit was the top priority.

### A Lesson in Cross-Cultural Finance

In comparison to the more traditional flavor of Oakley's acquisition of Johnston's Port 33, the sale of Johnston Grain to CGB, Hofstadter explains, was a lesson in cross-cultural finance. Coached by CGB managers and CGB's Japanese parent ownerships, the GCM team and the Meibergens traversed the territory of global M&A. Hofstadter remembers that one of the arduous passages in that journey was the necessity for CGB to translate all documents into Japanese, and always being concerned that the translation was absolutely correct. Expert translators are critical to this phase of the process, he remarks.

He added, "The boards of the two Japanese conglomerates were very stringent and very involved in every phase of the sale. Multiple questions came to us from the boards during the final review to which we needed to provide real-time responses regarding financial, operational and legal information that had to be provided by us and translated into Japanese in order to bring the transaction to close."

### Integration: The Final Frontier

The split sale's epilogue justifies the care dedicated to achieving the right cultural for both parts of Johnston Enterprises. Integration, a stumbling block for so many M&A deals of all sizes, appears to be proceeding smoothly, according to Hofstadter. "I spoke with Butch Meibergen recently. Butch said that Johnston Grain hasn't lost any clients or customers due to the sale. The transition of the port operations business is also progressing well. The interactions between employees and managers have been smooth."

Butch Meibergen stated in a press release "We are looking forward to being a part of the CGB team. WBJ prides itself in providing producers with services they need, and we look forward to offering even more resources in the future through CGB's global network." WBJ's President Joey Meibergen said "This exciting combination brings together the forward thinking regional leadership and 120 year history of WBJ with the entrepreneurial CGB expertise and infrastructure, thereby strengthening the position of the company and ultimately resulting in greater efficiencies and a higher level of service for the WBJ customer base. He added, "Butch and I look forward to joining the CGB team, and achieving our growth goals together." CGB's President & CEO Kevin Adams added "We are excited about the WBJ group of businesses and employees joining the CGB team. The Meibergen family has successfully grown and nurtured the WBJ business over its long history and we believe they complement our growing CGB group of businesses. Our staff plans to work closely with WBJ's customers, suppliers, and employees to make the integration process as seamless as possible."

### An Agriculture and Asia Future?

Not surprisingly, considering the success of the Johnston Enterprises deal Hofstadter hopes to work with CGB and Oakley again in the future and to garner more opportunities for GCM to work with Asia-based buyers on M&A transactions. "Our clients have given us some referrals. We're reaching out to U.S. and Canadian agribusiness companies because we were able to generate so much interest for Johnston Enterprises. Since we represent seller clients in North America, we will always market to U.S. and Canadian buyers. But certainly I would expect that the agribusiness acquisition appetite in Japan and China to steadily increase over the next 10 years."

To view the one-on-one interview by The M&A Advisor with Brenen Hofstadter, President and Supervising Principal of Generational Capital Markets click the link below


**Brenen Hofstadter**
President
Supervising Principal
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