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one acquisition at a time,
it took the skills of an

M&A
M.D.

named Joe Nettemeyer



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BY LAURA GREEN | LGREEN@SBNONLINE.COM

It could be a deal. It could be a business strategy. It could even be a house. Whatever the project, Joe Nettemeyer is all about making it bigger, better and more successful.

"I had a boss tell me once that I was not a person that he would put into a business to sustain it," says Nettemeyer, CEO of Valin Corp. "He'd always put me into something that he wanted to build because I couldn't help but start trying to re-engineer anything I wanted to get my hands on. Building something is an ongoing challenge, but the results give you a huge amount of satisfaction."

A builder was exactly what Valin Corp. needed when Nettemeyer joined the industrial solutions business in 2001. Despite years of great success in the semiconductor capital equipment business, Valin has been a fast casualty of the computer-chip industry downturn. With a whopping 90 percent of its revenue coming from chip manufacturing, the company's revenue plummeted by two-thirds in six months.

"Everything crashed, equipment owners crashed, and we went from being a \$75 million business to a \$25 million business in about 120 days," Nettemeyer says. "We didn't lose market share; it's just



that the slides of the market opportunity dramatically contracted."

As Valin's new CEO, Nettemeyer realized the 38-year-old chip manufacturer had two options: Continue in the same direction and fall apart or rebuild as a much more diverse business. Here's how he transformed the floundering company into one of the nation's fastest-growing businesses.

Shake off complacency

With such a large percentage of Valin's income tied to shrinking revenue streams, Nettemeyer looked for ways to create new sources of income — and quickly. Acquisitions would allow the company to efficiently diversify its portfolio and grow new business lines.

"When I came in, I realized that we had such a great dependency on too few accounts," Nettemeyer says. "It was such a huge risk. We had to move into acquisitions. So right in the midst of that turmoil I went out and started borrowing money and buying businesses."

Not everyone was as excited as Nettemeyer about diversification.

"Experimentation brings rewards and risks that make people uncomfortable," Nettemeyer says.

"It was challenging for people because they were in a comfort zone. They'd done extraordinarily well for 20 years doing what they were doing, and we were pushing them outside of it."

In the past, Valin focused on small diameter process management, working with quarter-inch or half-inch tubing. Suddenly, the company was working with up to 60-inch pipe.

Recognizing that he was asking people to make some big changes, Nettemeyer made sure that he and the leadership team were transparent and thorough when they laid out the acquisition strategy to employees.

"I walked the management team through a plan, and we talked about how we could integrate these different technologies and provide solutions versus just selling parts and pieces," he says.

“We have to find new ways to do things because if you’re going to stand pat, you’re going to get slowly sliced up in the marketplace.”

—JOE NETTEMEYER, CEO, VALIN CORP.

“There was a lot of communication. I selected all the individuals that I felt were key leaders and we had monthly leadership meetings. We reviewed where we were at, and we had an open book approach to financials. We were measuring the initiatives that we were undertaking. Through that 24-month real crucial period, we were giving monthly feedback.”

Employees appreciated the fact that Nettemeyer didn’t sugarcoat the changes.

“I wasn’t going to pretend that this would all pass,” he says. “There was a core group that really came together and embraced what we had to do.”

At that point, employees who still wanted to take a “wait and see” approach to the market — including two members of Nettemeyer’s leadership team — were asked to go their separate ways.

“I think it’s my responsibility to the company to leave it a better company than it was when I came here,” he says. “That means we’ve got to get out in front. That gives you some heartache and pain. It gives you sleepless nights and scary moments. You have to celebrate the successes, but you also have to say, ‘That was really a dumb idea — let’s stop it.’”

“I had to replace some of the management team because they wanted to sit and wait. They thought that the semiconductor industry was going to continue what it always did — it was only in a short-term contraction. Well, that contraction lasted for three years.”

Systemize integration

Soon after making Valin’s first acquisition in October 2001, Nettemeyer began buying businesses and product streams that were within the company’s technical bandwidth and that could provide it a competitive advantage. Some acquisitions were a natural expansion of things that the company already did, such as safety devices. Others helped flesh out Valin’s expertise to transform it from a parts provider into a resource for customers.

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pat, you’re going to get slowly sliced up in the marketplace,” Nettemeyer says.

“The biggest struggle we face is the fight against the complacency you get with maintaining the status quo.

“Every year in our planning process, we say, ‘Is this the way that people are going

to want to do business with us 10 years from now?’ When you ask that question, everybody says no, and then the next question is, ‘Well, what should we be doing about it?’”

Valin has completed 28 acquisitions since Nettemeyer joined the company 12 years ago, building on technology, and moving more aggressively into light manufacturing, medical devices and service lines. Instead of chip



THE NETTEMEYER FILE

NAME: JOE NETTEMEYER

TITLE: CEO

COMPANY: VALIN CORP.

Born: St. Louis

Education: St. Louis University

What is one part of your daily routine that you wouldn’t change?

I get up at 6 every morning and read for about an hour and a half, usually something that pertains to work. I have a responsibility to the organization as CEO to stay current with contemporary business. Most of the material I read is focused on economics, insights on how to make better decisions and improve the business or how to sustain our business for the long term.

What do you do to regroup on a tough day?

After a tough day, I like to go home and have dinner with wife of 36 years, talk about our family — four children and three grandchildren — because they are the cornerstone of my life.

What is the toughest business decision you have made recently?

I’m making tough business decisions every day, whether it’s the decision to make an acquisition or walk away from an opportunity. These decisions are the challenge of a healthy struggle. If you think it’s easy, you are missing something.

What do you like most about your job?

We’re pushing the envelope. Organizationally, we’ve committed ourselves to being students of our industry. ... I find that intellectual stimulation to be really gratifying.

How do you find good people?

I remember Ross Perot when he wrote his book, he said, ‘Eagles don’t flock together. You have to go find them one at a time.’ You have to find the people, and you’ve got to have people that have passion and commitment and want to accomplish bigger things. They want to be part of something that they have major accomplishments. ... You have to be looking all the time for people with that profile.

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—JOE NETTEMEYER, CEO, VALIN CORP.

manufacturing, Valin’s biggest markets are now energy, oil and gas. The diversification strategy has allowed the San Jose, Calif.-based company to more than double its size and value over the last five years.

One of the reasons that Valin has been able to integrate so many new businesses so effectively is by having a clearly defined integration process that provides ongoing support.

“The smallest business we’ve bought had \$500,000 in revenue,” Nettemeyer says. “The largest we’ve bought had \$25 million in revenue. I’d say we spend most of our time buying businesses in the \$3 million to \$20 million range. We just have to make sure that we take them on at a pace that’s digestible.”

Valin’s integration process goes like this: After purchasing a business, the company converts the business’s IT systems in one weekend. Next, Nettemeyer brings in a team for one week to teach employees how to navigate and enter information into its ERP system. After the tech teams leave, an expert is assigned to stay and work with the business over the following months.

“You teach people, but they forget how to do that and how to make connections,” Nettemeyer says. “We have an embedded expert there for 60 days because we find that’s about how long it takes to get people comfortable with it.

“Then after that we have a call desk that they can call at any time, and they continue to have technical support. It’s getting them integrated into our system quickly that gives us good control over our assets, inventory receivables and cash flow. We’re excellent at doing that.”

Invest in education

While contracting revenue forced Valin to shrink its employee base to 45

employees in 2001, acquisitions enabled it to transition into a variety of new markets. By 2011, chip manufacturing — previously the company’s bread and butter — accounted for just 25 percent of the company’s \$150 million revenue. This growth also meant Nettemeyer could begin hiring again, adding employees to expand the company’s businesses across the country.

However, there were some challenges stemming from Valin’s diverse and growing footprint.

On one hand, Nettemeyer and his team — like many manufacturing companies in the U.S. — have had to deal with a dwindling talent pool, specifically, the lack of highly qualified engineering talent in the market. Taking advantage of new business opportunities requires a well-trained work force with the sophisticated skills.

To attract and retain talented people, Nettemeyer has worked to create fellowships with IBM, Texas A&M School of Engineering and The Ohio State University to open opportunities for employees at Valin. Each year, for example, the company sends two promising managers to participate in the Texas A&M School of Engineering master’s program in industrial distribution so that they can learn critical skills to drive the business forward.

“Part of our educational effort is we’re monetizing education and teaching engineers how they can run their facilities more efficiently and prevent downtimes — a huge expense,” Nettemeyer says. “They are more likely to be thought leaders, and you get thought leadership through education.”

Investing in education, both formal and informal, also helps you provide a framework that enables employees to come together and be successful. Having employees aligned behind common goals and a common vision

has been critical in a culture that gives Valin a competitive advantage.

“If I have five presenters going around trying to teach something, they are all going to teach it differently,” Nettemeyer says. “We wanted to get uniformity in the message. We wanted to make sure that we’re highlighting the things that we think are important.

“If you don’t do that, people on their own will spend their time managing their own basket and not managing to the goals and objectives that we have to achieve.”

Today, Nettemeyer and his leadership team spend much more time visiting with managers to talk about their priorities and responsibilities as owners. Being a 100 percent ESOP business, it’s important for Valin to have a consistent message about what ownership is and the responsibilities owner have to suppliers, shareholders and customers. Three years ago, the company also hired a doctorate in education employee to develop online training modules that give Valin’s 240 employees in nine states and 15 locations a common process and common approach to management and establishing priorities.

“The education component is critically important for us,” Nettemeyer says. “You buy different companies, and they all have their different approach. Everybody thinks that their way is better. What we have to strive for is being consistent. Being consistent means that people have to have a repeatable positive experience when they interact with our company, and we see training as a huge part of that.” ●

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