The last hurrah

How a well-executed 'tuck-in' could enhance your exit strategy

Over the past several months, we have examined how Sam and Margaret, the owners of Valley Graphic Media (VGM), have examined several potential strategies to transition themselves toward a proper retirement solution (*To read the first two stories on their journey, visit www.thecanvasmag.com to see the April and June issues of* CANVAS).

Unfortunately, the two strategies they reviewed – Employee Stock Ownership and Merger of Equals – included their continual involvement in the company. Furthermore, Sam and Margaret concluded that selling VGM would not provide the net proceeds consistent with their eventual full retirement goals.

So now they're evaluating a totally "New Direction" to improve their eventual exit strategy.

Whichever exit strategy you employ, remember that each requires proper planning and execution for a successful implementation.

Sam and Margaret are in good physical health, and still are very enthusiastic, even after 40 years at VGM. They decided if they were going to consider a "near" exit strategy that would require their continued involvement, they should investigate a plan that could better maximize their final net proceeds of that final three- to five-year "last hurrah."

It's common knowledge that the vast majority of printing establishments – especially commercial plants – suffered a significant revenue reduction during the 2008-2010 timeframe. In most cases, it had little to do with anything the effected companies had done wrong.

Today, while many companies have regained or replaced much of their reductions over the past few years, few have come close to their previous "high water" levels. Severe excess plant capacity and the need to re-tool their facilities with new technology to remain cost competitive and/or enter new markets have forced many owners to reconsider their options. Tighter lending restrictions, shorter terms and more personal guarantees actually have created unique opportunities for companies willing to "stay in the game."

It's no secret that growing organically today has become increasingly difficult. Growth through a strategic acquisition, most often known as a "tuck-in," has become the strategy of choice for companies looking to replace lost revenue and fill the excess capacity that has taken a serious toll over the past half-decade.

In a well-planned and executed tuck-in, the "sum of the parts" often will exceed the base sum of the combined revenue and profits (buyer + seller) in short order.

A "tuck-in" is just like it sounds. The buyer primarily is acquiring the sales (book of business) of the seller and, in most cases doesn't require the facility or most of the seller's equipment. The seller's sales team, management, administrative and production personnel also are key components of a successful tuck-in transaction.

In a well-planned and executed tuck-in, the "sum of the parts" often will exceed the base sum of the combined revenue and profits (buyer + seller) in short order. For example, $10 million in sales revenue (buyer), plus $5 million in sales revenue (seller) equal $17 to $18 million, providing there are no serious overlaps of clients and accounts.

Furthermore, in due course, revenue and profits significantly can be enhanced post tuck-in through improved capacity utilization (of course), and also if any, or preferably many, of the following post tuck-in conditions exist.

- Complimentary services allowing sales teams from buyer and seller to increase/improve their offering to their respective customers.

- Maximizing competitiveness with more efficient production platforms (seller provided technology), i.e., short run offset versus digital, full-size versus half or quarter size offset, etc.

- Slowly weaning out the least profitable customers and replace with higher margin/ value-added when and where applicable.

- Improving the entire post tuck-in team by retaining the best employees from both the buyer and seller.

- Creating an effective financial incentive for the seller and the new combined sales team to maximize the "sum of the parts" opportunities.

In essence, there often is ample room and flexibility for deal creativity between buyer and seller in a well-planned, negotiated and executed tuck-in. The goal always should be to create a win-win scenario whenever possible or applicable.

Whichever exit strategy you employ, remember that each requires proper planning and execution for a successful implementation.

In the next chapter, we'll further explore additional strategies for Sam and Margaret to consider in their goal to establish the most effective transition for Valley Graphic Media.

Remember, when it comes to exit strategies, "One Size Does Not Fit All," which means yours could follow many paths. ■

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