ECONOMICS

One Size Does Not Fit All

Why your exit strategy can follow many paths

By Al Reijmer

It's Thursday at 6:30 p.m. Sam calls his wife of 36 years, Margaret, to give her a status update.

"I should be home within an hour. I have a few things to finish. I should be home by 8 p.m. at the latest."

Margaret hangs up, knowing from experience that 8 p.m. most likely means 9 or later.

Sam is a second-generation president and owner of (the fictional) Valley Graphic Media (VGM), which his father and uncle started as Valley Printing & Typesetting in 1955. In the late-'90s, VGM posted revenues of more than $10 million and employed 58, including Sam's older brother, Dave, and his cousin, Fred. Since then, Dave and Fred have retired and sold their interest in VGM to Sam.

Over the years, Sam and Margaret raised four children, two boys and two girls. Ranging in ages from 26 to 34, each has chosen diverse careers – dentist, nuclear engineer, lawyer and teacher/coach. While Sam would have preferred that a least one of them would have joined the family business, he was proud of the careers they chose. The economic reality of the commercial printing industry helped secure the family's potential succession plan.

Sam, in his early-'60s, has started to contemplate his exit strategy. His near 40-year career is defined by limited vacations and late nights. His retirement dream was for him and Margaret to travel the country in their motor home to visit the children and grandchildren.

Today, VGM has been impacted by the challenges inflicted on most commercial printing companies over the last decade. Nevertheless, Sam and his management team have made the necessary adjustments to remain marginally profitable in this "new print economy." While total sales were down as much as 35 percent from 2008 to 2010, VGM's sales have begun to slowly increase. In fact, it finished 2012 with revenues just above $8 million and a headcount of 48.

Following VGM's annual management meeting, the team concluded that, for VGM to further grow organically and remain viable, it would need to upgrade its analog offset and digital equipment platforms. Original plans called for upgrades in these areas in 2008 and 2009, but drastic revenue reductions prevented the move.

The dilemma VGM now faces flows in from multiple directions. In 2008 and 2009, the company retired some major debt with final payments on the 6/C 40-inch press purchased new in 2000, and the Digital Print Platform and finishing/mailing equipment purchased in 2004. Without improved cash flow from these debt retirements, VGM would have struggled even more severely, and may likely have needed to close its doors.

As we know, timing is everything.

After carefully evaluating its equipment updates, Sam and his team concluded that VGM would need a $40,000 to 50,000 per month equipment payment to take them to the next level, depending on the level of automation and speed deemed applicable and necessary for its future needs.

In the next issue of *CANVAS*, we'll review potential paths and/or exit strategies for VGM, and further explore the challenges and opportunities for a successful sale or acquisition.

And, of course, the banks and alternative lending sources now require more difficult terms – higher down payments, personal guarantees or a combination of both – than they did in 2000 and 2004. Back then, VGM could get 100 percent funding without any personal guarantees.

In 2000 and 2004, when Sam was in his 50s, making equipment investments with no money down and no personal guarantees was an easy decision. But today, the potential of a $400,000 to 600,000 down payment, a $40,000 to 50,000 monthly cash flow requirement increase and no guarantee that the investment will hit the calculated ROI has kept Sam up night.

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Not unlike many printing companies, VGM will have to make some tough decisions, and then execute on them with razor-sharp accuracy. Today's margins don't allow for anything less.

Sam dreams of a successful exit strategy that provides a secure retirement reward not only for his career efforts, but also for his employees. He has begun to evaluate the possibility of an employee stock ownership plan or outright acquisition.

Needless to say, Sam's exit strategy can follow many paths. One size does not fill all. There are many VGMs in today's printing services industry, each with its own variables and challenges. And there is no substitute for a sound exit strategy, good planning and great execution.

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