When It's Time, It's Time

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If, as the owner of a printing company, you suddenly decided to stop showing up for work, could the business carry on without you?

It's a serious question, and the answer speaks volumes about how well prepared you will be for the decision that every owner eventually has to make: choosing the right moment to exit the business and leave its future in the hands of other people.

Good exit planning begins with understanding that in the sale of a business or its transfer to other family members, timing is everything.

Poor timing is easier to identify than good timing, because the factors that get in the way of selling are obvious: declining sales, high debt, weak cash flow, uncollectable receivables, undue account concentration, and other negatives that make a company unattractive to buyers. No owner, expecting reasonable offers from buyers or wishing not to disappoint successors, would want to depart the company until these downsides have been addressed.

Harder to get right is the set of circumstances in which the owner can see clearly that the most favorable moment to sell has arrived. Part of the difficulty is that the decision to sell often is bound up with the owner's decision to retire—a life event that isn't as closely linked to age as it used to be. Some owners intend to go on working for as long as they're able to, as their parents did before them. Others hope to move on while they're still relatively young. There are as many personal timetables as there are sellers.

The point is that every owner must commit to his or her own timetable and then manage the business with an orderly and a profitable exit as one of the main strategic goals. The time to get out is always when the getting is good: at the stage when the business can support your exit and be the stronger for it under new ownership and management.

How will you know that you have achieved this happy state of affairs? At New Direction Partners, we recognize a number of traits in our selling clients that tell us they have managed their businesses with exiting them profitably in mind:

• Efficient manufacturing processes are in place, with workflows that minimize waste and touch points.

• The company has experienced growing sales and EBITDA over the last two to four years.

• The management team consists of well-trained people still in their prime working years.

• You have "trained" your replacement…you can exit smoothly.

• The customer base is stable, well balanced, and relationships with vendors and lenders are solid.

• The plant is clean, and it can be expanded to accommodate new processes and equipment.

• Cash flow is strong.

• Financial statements have been audited.

• There are no lawsuits, environmental problems, or health and safety issues—or if there are, steps are being taken to settle them.

Another necessary preparatory step is to undergo valuation: the financial review that helps the owner form a realistic expectation about selling price. New Direction Partners specializes in performing valuations of printing and packaging companies, using current comparative industry data that provide sellers with a true picture of what their companies are worth on the market today.

Our advice to sellers is to make a distinction between what you want (your ideal selling price) and what the company is worth (the best price a buyer is willing to offer). Owners who have done the best job of managing for exit can narrow the gap that separates the two.

Although we don't see it as frequently nowadays as in the past, transfer of ownership through family succession remains an alternative to selling. The profit motive is still there, and rightfully so: an owner conveying a company to relatives shouldn't give up his or her right to a reward for having made the business what it is. The selling generation have to get their value out of the company for their future financial needs. Third-party advisement and mediation are key here and go a long way toward resolving the conflicts that can arise in this kind of exit from ownership.

In either scenario, building up to a clean and profitable break takes time—sometimes years, as outlined in a recent article on succession planning by NDP partners Jim Russell and Peter Schaefer. Give yourself that time, factoring in how long you will need to get the house in order and the amount of time that a new owner will probably need and expect you to put in during the transition period.

Here's a clue: if your business is healthy now, there probably never will be a better time to sell it. If this doesn't coincide with your personal exit plan, do everything you can to keep the business healthy so that it—and you—will be ready to move when the target date arrives. It is always best to get out at the top of your game!

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.