How to Tell When It's Time to Sell

By By Randolph W. Camp and Albert J. Reijmer

There are positive indicators for the timing of a sale as well as hints that come from the opposite direction. Acting on them promptly protects business value and strengthens the seller's position.

When printers sell the things they produce, they seldom have much control over the timing. It's a reality of the industry. The need to sell is continuous, and when customers buy, they buy what they want on their schedules – not the printer's.

Where print business owners can make timing work to their advantage is in the biggest sale that most of them will ever undertake: the transfer of the business to a new owner in a well-planned and executed M&A transaction. Knowing when to act and how to proceed on that timetable is the key to maximizing the value of the deal for the seller.

We're fortunate to be in a moment that favors sellers who are prepared to move forward with their plans. The general economy remains strong, and the industry has rebounded impressively from its recent difficulties. With its fragmented base of small to medium-sized businesses, printing is prone to consolidation and rife with the M&A opportunities that the trend creates.

All of this spells better potential deals for selling owners, including owners of small firms – a big change in the character of M&A marketplace from just a few years ago.

Money Magnetism

Banks and other lenders are far more open to funding acquisitions of printing companies than they used to be. Printing businesses of all sizes are attracting attention both from strategic buyers (typically, other printers) and from financial buyers (money managers in search of reliable returns). "Boutique" private-equity investors and "family offices" representing wealthy individuals are in the mix as well, seeking the kinds of profits they now believe they can generate by putting their cash behind printing firms.

Owners whose businesses have performed well over the last few years are nicely positioned to thrive as sellers in this healthy climate, particularly if their service offerings include desirable specialties such as wide-format output and Web-to-print e-commerce. Another advantage is being a plant with equipment that is still fairly new. If a press is no more than five or six years old and in good condition, the buyer can make it part of the deal or let the seller liquidate it – producing income for the seller either way.

These are positive indicators for the timing of a sale. Some firms, however, get the message from the opposite direction. Their revenue is declining; they struggle to break even; their equipment is old, and they aren't able to reinvest. Personally, the owners may have run out of enthusiasm for the business. Or, they find themselves unable to escape the mindset of doing things the way they have always done them. These are warning signs.

The Good Book

Despite everything, however, firms in tough straits often have respectable books of loyal accounts that they have serviced for many years. The advice about timing for owners of such businesses is clear: sell now, while the asset represented by the customer base remains solid. This becomes all the more urgent for owners who lack family successors or who have no retirement resources other than the value of the business itself.

How the sale is structured will have a great deal to do with the timing of its execution. These days, it's difficult to arrange the swift acquisition of a printing business as a going concern – one that continues to operate in place after the sale is closed – unless the purchaser has a special reason to keep it going. More likely, and especially in cases where the seller's book of business is the main attraction, the process will unfold over a period of months (or years) with a series of payments to the seller taking place over that time frame.

The payments are based on percentages of retained sales and may include other forms of compensation as well. While sometimes referred to as a one-sided merger or bolt-on acquisition, this type of sale is most commonly called a tuck-in, and it's often the most profitable route for sellers to follow.

Initially, some sellers dismiss tuck-ins as unworthy recompense for the years of effort they've put into building their businesses. The numbers soon convince them otherwise. Nearly every printing company has sellable assets in the form of active accounts. When a tuck-in connects a seller with a buyer that can produce the work more cost efficiently, the arrangement yields rewards for everyone concerned.

At New Direction Partners, it's our practice to estimate the value of the business for our selling clients utilizing both the EBITDA Method as well as the Asset Market Value Method. Asset-rich firms with lower EBITDA will often attain a higher overall value when the Asset Market Value Method is applied. This is the most commonly used method when a tuck-in acquisition is found to be the best strategy.

Incremental, not Instant
But, no matter how a sale is structured, it won't be a case of, "they flip you the cash, you flip them the keys." In a tuck-in, anticipate an earn-out period of two to four years, with three years as the most common. During this period the selling owner will probably be expected to stay on in some capacity (usually, to ensure retention of the acquired accounts). A smooth transition is what the buyer is paying for, after all.

In our experience, the full process of transferring ownership can take anywhere from nine months to as long as five years after the selling owner's decision to move ahead. Rarely does it happen overnight. Fortunately, the timeline can be compressed by eliminating negative business factors that get in the way of closing deals.

The number one obstacle is account concentration. A company doing a few million dollars in annual sales with 30% or more of the volume coming from one customer raises red flags for buyers. If the big account goes elsewhere post-sale, much of the value of the acquisition goes away with it. Firms in this situation must expand and diversify their account lists to reduce their exposure to the risk.

Another issue sellers may have to address is the competitiveness of their workforces – admittedly, a challenge for the industry as a whole. Today, buyers are as eager to acquire intellectual capital (employees) as they are to secure account lists and other assets. This means that sellers should expect the skills of their personnel to be an influential factor in the acquisition. Selling firms that have done a good job of staff recruitment, training and retention will have a major advantage here.

How Far is Far Enough?
Preparing a company for sale takes time: a commodity that people managing printing companies never have enough of. Adding to the pressure is the fact that the economic outlook, while still fairly upbeat, can and certainly will change. The next downturn, when it comes, will erase some of the present value of printing companies – value that could take owners much longer to recover than to lose.

What it all means is that knowing when to sell isn't complicated. If a printing business has come as far as its owner always dreamed it would go – or only as far as the owner now realizes it can be pushed – the moment has arrived. Prudent sellers who proceed with the help of qualified M&A advisers needn't fear leaving money on the table because their timing was faulty. PI

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.