DON'T CLOSE YOUR DOOR

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NEW DIRECTION PARTNERS

For over thirty years, I have heard printers say, "The value of my business is in its customers."

THIS STATEMENT HAS NEVER BEEN MORE CORRECT!

Today, great technology is available to all. In fact, today's technology makes it increasingly difficult to differentiate with our employees because much of today's technology is fail-safe. It therefore follows that the value of many firms are within their customer base.

So if "The value of my business is in its customers" why are so many financially struggling printers closing their doors and walking away? These owners are MAKING A BIG MISTAKE!

Printers are closing by the hundreds. Some industry economists are predicting that between 5,000 and 10,000 printers will close during this industry's downturn.

However, many printers are not closing their doors and walking away. They are selling their book of business to a local competitor.

This type of transaction has become so popular; these transactions have their own label — *Tuck-In*.

Tuck-Ins come in many forms but generally they have the following characteristics:

- The buyer pays a commission for sales that are transferred from the seller, usually over a three year period. The percent commission varies but generally is higher for higher margin sales.
- The buyer purchases, at fair market value, the equipment necessary to serve the new business and the seller is responsible for disposing the equipment not required.
- The buyer assumes the responsibility for collecting the receivables and transfers collections to the seller. Both the buyer and the seller benefit when the buyer assumes the responsibility for collections. The percent of accounts transferred and the percent of accounts collected increases when the buyer collects receivables.
- Employees essential to service transferred sales are hired by buyer – usually customer service and certain sales execs.
- The seller is responsible for extinguishing remaining accounts payable and other debts.

BENEFITS TO SELLERS

- Maximizes Value of Business
- Potential Employment
- Preserves some employment
- Preserves customer relationships

We see two variations with *Tuck-Ins*. The first involves when the buyer purchases receivables at closing and the seller warrants collection. The second involves when the seller is hired by the buyer to service transferred accounts.

Tuck-Ins are so popular with sellers because they increase the proceeds to the seller as compared to closing the door and liquidating assets. Table 1 demonstrates a typical financial benefit to executing a *Tuck-In* for a $1 million in sales printer.

	LIQUIDATING ASSETS	TUCK-IN	BENEFIT
$170,000 RECEIVABLE COLLECTION (80%/95%)	$136,000	$161,500	$25,500
TRANSFERRED SALES @ 7% COMMISSION			
Year 1 (95% Transferred)	$0	$66,500	$66,500
Year 2 (90% Transferred)	$0	$63,000	$63,000
Year 3 (80% Transferred)	$0	$56,000	$56,000
SALE OF EQUIPMENT	$100,000	$1,000,000	$0
AVAILABLE TO EXTINGUISH DEBTS	**$236,000**	**$447,000**	**$211,000**

In addition the seller can realize benefits from saving the jobs for certain employees and continuity of service for long-term and loyal customers as well as possible ongoing employment.

BENEFITS TO BUYERS

Tuck-Ins are so popular with buyers because they are virtually risk free and represent the most efficient path for sales growth. In fact, profitable sales growth is more easily achieved through a *Tuck-In* as compared to slugging out it the market.

- Virtually Risk Free
- Profitable Growth
- Drives Efficiency
- Expands Customer Base

Interviews with financially struggling printers who closed their doors and walked away uncovered that they either did not know a *Tuck-In* was possible or were concerned about talking to local competitors.

If you would like to learn more about this type of solution, contact Paul Reilly with New Direction Partners at (303) 520-7803 or via email at preilly@newdirectionpartners.com.

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.