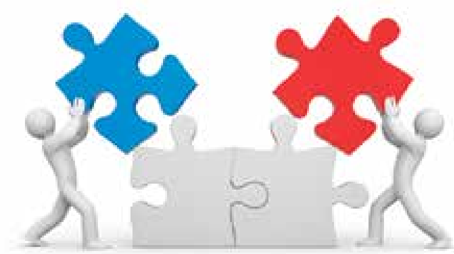
ECONOMICS

A merger of equals

Why this game plan may be your best exit strategy

By Al Reijmer

The great thing about history is that it provides a wealth of knowledge about plans that were executed well and not so well. Sam and Margaret understand this, as they continue to explore their various options to successfully transition Valley Graphic Media (VGM). They are determined not to repeat past mistakes.



When we last visited Sam and Margaret (*"Investing in the Future," April*), they were evaluating an Employee Stock Ownership Plan (ESOP) as a potential solution for their eventual exit strategy. But with VGM's current sales revenue of a little more than $8 million with 48 employees; the plan's increased administration costs; and the need for an even stronger management team, the ESOP was taken out of contention, at least for the time being.

Sam and Margaret also concluded that, if they were willing to consider the ESOP's "partial" exit strategy, perhaps they also should investigate possibilities that would allow them to remain involved in the business for several more years. This could help build additional value for an eventual "complete" exit from the business.

After closely evaluating their future personal and financial needs, Sam and Margaret determined that several issues needed to be explored further. First, they enjoy working and aren't sure they're ready to retire. Second, they're concerned the current net proceeds available from selling VGM may not meet their long-term needs and desires.

After discussions with their consultant, Sam and Margaret now are considering a "merger of equals" strategy that has the potential to solve many of the issues that brought them to their original decision to proactively research their options.

With proper planning and execution, a merger of equals – or "cashless merger" – can be an excellent solution for many companies today.

If you recall from the initial article in this series (*"One Size Does Not Fit All," February*), there were several major concerns Sam and Margaret had with their transition/exit strategy:

- The lack of a potential succession plan, since all of their children chose careers outside of VGM
- The amount of work hours required for them to keep VGM profitable and sustainable
- The impending technology investments that VGM determined would be required to meet their future needs.

With proper planning and execution, a merger of equals – or "cashless merger" – can be an excellent solution for many companies today. Much like VGM, countless organizations are facing similar challenges. In both acquisitions and mergers, the resulting intellectual/talent infusion or sharing can be extremely valuable. In the case of VGM, a potential merger candidate may have a viable succession plan already in place. Also, the additional management resources the merger would provide likely would lessen the hourly burden required by Sam and Margaret.

In addition, the merger candidate already may possess all or some of the technology updates that VGM currently lacks. If technology updates are lacking, a merger of equals likely will increase ROI through improved utilization, due to the increased sales revenue of the combined organizations.

In nearly all industries, a certain percentage of low-profit clients and employees are necessary to maintain a certain breakeven revenue threshold. A merger of equals also provides the combined companies the opportunity to maximize their operational effectiveness by retaining the best employees and most profitable clients.

A merger of equals can provide, numerous additional benefits, but such a merger also needs proper planning and execution to be implemented successfully. Since few companies have the internal resources to simultaneously run their current organizations and facilitate the merger, in most cases, a professional is hired temporarily to objectively plan and manage the transition.

In the next issue, we'll explore yet another potential solution for Sam and Margaret to consider in their goal to establish the most effective transition for Valley Graphic Media.

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