Concerning Sale as a Going Concern, and Its Alternative

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Part of a sound plan for launching a printing business is thinking ahead to the day when the business will go forward under the control of someone other than the person who started it. Passing the company to family members is one way of accomplishing this. Nowadays, though, it's more common for the transition to take place in the sale of the company as a going concern or as a tuck-in that conveys some – but not necessarily all – of the business and its assets to a new owner.

Accepting the fact that one of these options will work better than the other may require an emotional adjustment as well as a strategic decision on the seller's part. Although sale as a going concern promises a new lease on life for the seller's company in its present form, the bar of eligibility for this kind of transaction is set fairly high. A tuck-in that doesn't preserve the business as a working enterprise may not be what the owner originally had in mind, but the truth is that tuck-ins are rich in advantages both for individual sellers and for the industry as a whole.

Let's first consider sale as a going concern. A company that's well managed and reasonably profitable with an EBITDA percentage greater than the 7% to 10% range is the type of business that will appeal to buyers seeking plants they can keep in independent operation.

The acquirer may want to establish a footprint in a new region or add capabilities that the buyer's plant doesn't have. The buyer could be a private equity investor looking to augment the platform of other printing businesses it has purchased. Thanks to the good economic health that the industry continues to enjoy, we're seeing more opportunities for going-concern transactions than we did when conditions weren't as favorable.

Although a plant acquired in this way stays largely as-is, the new owner likely will want to find ways to take costs out of the business structure. This usually is done by eliminating redundant administrative positions and any inessential indirect labor. Duplicative layers of management may be trimmed as well.

The production, sales, and CSR head counts, on the other hand, probably will not change. Only about 5% of positions, if that many, tend to be affected in a sale as a going concern. If the buyer is a private equity investor without much experience in running printing businesses, there may be no change in staffing at all.

There are some circumstances in which continuing to operate an acquired plant could be tricky: workflows may not align, or the two businesses may serve different ends of the market, as when a commercial printer acquires a packaging firm or a creative agency. But, when a sale as a going concern unites compatible entities on mutually beneficial terms, everyone wins.

Tuck-ins solve problems for owners whose companies may not be candidates for acquisition as going concerns. Of primary interest to the buyer in a tuck-in is the seller's book of active accounts, which represent most of the value of the company. The accounts must be "portable," meaning that they can be serviced from the buyer's plant with the capabilities the buyer already has.

It is important to note that not only distressed firms sell as tuck-ins. Firms rich in assets may find the tuck-in structure more advantageous than an in-place, going concern transaction. Firms with highly valued equipment and customer bases could actually see greater proceeds from a tuck-in.

Typically, a seller of a tuck-in see three flows of proceeds:

1. Proceeds equal to the difference between accounts receivable plus inventory and accounts payable.

2. Proceeds from sale of equipment purchased by the buyer or realized by the seller in auction.

3. Proceeds from the value replaced on the customer base, usually paid in the form of royalties on sales over time.

Based on the assessed value and profitability of the overall book of business, a good faith advance cash payment is frequently offered to the seller. This usually takes place in the first year of a three- or four-year royalty period.

Often, the selling owner will be expected to stay on for a period of time in a managerial or a sales role to assure a smooth transition.

What about plant, equipment, and personnel? The buyer either will want to retain some of these assets, or it will not. In a reverse tuck-in, where the seller's plant is larger and/or better equipped than the buyer's, the buyer may decide to shift production to the facility being acquired.

Reverse tuck-ins, however, are the exception. In most cases, the seller will dispose of the building and grounds (if owned), liquidate the equipment, and take the proceeds as part of his or her compensation. Sellers with long-term, unbreakable leases will have to settle with their landlords so that the obligation doesn't complicate closing the deal.

Because tuck-ins focus on sales rather than assets, human assets may be among those that don't come along in the acquisition. As in a going-concern transaction, the buyer will be looking to eliminate redundancies and overhead, so preservation of jobs is something that will have to be negotiated. Not all jobs can be saved, but experience suggests that anywhere from 20% to 80% of positions will survive a tuck-in. Larger companies may have a better chance of protecting jobs than smaller ones.

Sellers sometimes see tuck-ins as a less than ideal way to leave their ownership responsibilities behind and move on to the next stages of their lives. We think it's a mistake for them to let ego get in the way.

For one thing, compensation to a seller in a tuck-in often will be greater than what the seller can expect to receive in a sale as a going concern. To make the point to our clients, we'll estimate selling price both ways so that they can see how earn-out plus liquidation value may be more to their advantage than cash terms.

Tuck-ins aren't just good for individual sellers. They benefit the industry as a whole by taking fixed costs and excess capacity out of it. Key accounts continue to be serviced, and the companies that acquire them grow stronger. The industry owes a considerable part of its post-recession recovery to tuck-ins, which have left it in better financial shape than it otherwise would have been. The effect hasn't gone unnoticed by investors, who after many years of shunning the printing industry are now willing to put capital into it.

If you are the owner of a printing or a packaging company that ticks all the boxes for sale as a going concern, buyers are looking for you. Owners of companies that don't fit the profile often have more opportunities than they may realize in tuck-ins. Even in the toughest circumstances, never consider closing your doors before exploring this alternative.

Remember, too, that because value in a tuck-in is based upon the anticipated future performance of the accounts being acquired, the timing of the transaction matters. Executing a tuck-in when sales are strong gets a better deal for the seller than attempting to do it during a slump. Unfortunately, many printers learned this the hard way when the recession slashed their revenues and undercut their chances for a profitable transfer of ownership.

The M&A marketplace continues to be well stocked with opportunities for buyers and sellers alike. Sale as a going concern is always desirable, but if opportunity arises in the form of a tuck-in, don't hesitate. Understand your options, seize the moment, and reap the rewards.

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