

What Lenders THINK OF PRINT

Despite the downturn, some lenders *are* making loans, critical to adoption of next-generation print systems.

Once reliable business lenders are suffering the same economic pressures as printers and their clients.

Apprehensive banks, tough times in printing and the Great Recession make conditions rough for firms seeking loans. "Right now the finance market stinks," says Eugene Fox III, managing director of Cardinal Capital Management, Greenwich, CT. The downturn affected two top printing financiers: CIT Group filed Chapter 11 bankruptcy in November, while GE Capital found itself focusing on printing business restructure loans and taking possession of equipment it had financed. Widely reported lending freezes—SBA loans last year slowed to a trickle—moved the White House to browbeat banks to jump-start lending and reignite hiring and economic growth. Goldman Sachs responded in November with \$500 million for 10,000 small businesses—making all but a dozen

printing firms eligible. Specialist lenders *are* extending financing to printing firms, but expect to submit more documents and receive less favorable terms. Some lenders shy from printers in particular. Financial analyst Sageworks Inc. studied 673 printers and found the average firm has seen sales drop 12% between 2008 and September 2009, with accounts payable arriving five days later than in 2008, on average. Cardinal Capital's Fox says banks see commercial printing as a competitive business in which many companies are



closing or being swallowed by larger firms. No bank wants to lend money to a printer that might not exist for much longer, he says.

Printing industry lenders are choosier and looking closer at borrowers. "You might have bent the rules a year, a year and a half ago, to make the deal," but not now, says Jeff Shaner, exec VP at Great Atlantic Capital, an equipment financier in Hackensack, NJ.

GE Capital Restructuring Finance specializes in lending to firms in transition. Last year it loaned World Color \$800 million to spin off from Quebecor; in 2008 it helped Vertis Inc. with a \$580 million package. "Financing is available for good companies with bad balance sheets," says Rob McMahan, managing director of the GE finance unit. "Our in-depth knowledge of the bankruptcy code and restructuring finance allows us to quickly respond," McMahan says, critical to more companies "since the current pace of business bankruptcy filings will likely continue well into next year."

Mick Urquhart, senior VP, People's Capital and Leasing, Waterbury, CT, wants prospective borrowers to take extra effort to present the case for loans to their companies, and why, in particular, they want financing for a specific piece of equipment.

"I take a lot more comfort in working with a printer who's sat down with their accounting firm, their management team, and done a feasibility study from the bottom up," Urquhart says. People's Capital finances sheetfed and web presses and, lately, digital printing equipment—a newer area for the People's Bank unit.

Lenders are asking for financial analyses and documentation of the return on investment a loan would bring, says John Hyde, VP and senior consultant for NAPL.

Paul Reilly, partner with mergers and acquisitions firm New Direction Partners, says more lenders are hiring independent auditors to review companies before extending financing. And while companies could once borrow against their cash flow or their assets, now they must use both as collateral.

Bob Rose, who manages print financing at American Equipment Finance, says printers can generally secure financing if they have decent credit. But they are more likely to be asked to personally

guarantee the loan. "We have to make sure that we're going to be repaid," Rose says. "That's the bottom line." Rose says he is working with printers who have everything in place to buy equipment, but are waiting because of financial uncertainty.

Many printers are focusing now on survival. "Printers are chasing after each other to lower prices in an attempt to stay in business," says James Cohen, exec. VP of mergers and acquisitions at Houston-based Consolidated Graphics. The firm's CEO Joe Davis says Consolidated Graphics has a \$150 million line of unused credit it can use to buy smaller printers. In October his firm bought St. Louis's Kohler Print Group, a deal estimated at \$5 million.

Acquisitions heat up

There's still interest in buying printers, says Domenic Rinaldi, managing partner of business brokerage Chicagoland Sunbelt. "When we list printing operations for sale, you would not believe the inquiries that we get," he says. Rinaldi says he received 27 inquiries about an unnamed printer for sale: 21 reviewed it, and two made offers before another printing company purchased it.

At The Open Approach, an investment banking and mergers and acquisitions firm working exclusively in the printing industry, partner Thomas Playford says, "New growth, new business opportunities and additional investments in plant and equipment are not currently on a lot of printers' radar." Most available machinery is used, and most printers are buying equipment used, though some are trading in for new. Closures and mergers have also led to abundant used equipment auctions. "When two companies become one, or three become one, that equipment has to go out on the market," says Great Atlantic Capital president John Wallace. PressAccess, which auctions used equipment, said 166 qualified firms placed bids at its PRINT 09 booth, buying 150 units of equipment.

New Direction's Partners Reilly estimates printers' equipment has lost as much as half its value in the last 18 months, decreasing firms' power to borrow against assets. But Cohen predicts the glut of used equipment will dissipate as the economy picks up. ■

BECAUSE that's where the money is

Peter Mogk, partner at equity firm Huron Capital Partners, says Huron has invested in more attractive printing niches, financing four acquisitions since 2007 for TouchPoint Print Solutions, Oak Brook, IL, which owns three companies. TouchPoint CEO Tom Simunek says the company's lenders and equity partners are still interested in working with them. For that he credits TouchPoint's focus on niches like digital fulfillment and print on-demand. Traditional offset printers are seen as less competitive, Simunek says.

A wide variety of lenders support printers, some specializing in the printing market, like People's United Bank, others working with particular printing industry clients, like Chicago-based Amalgamated Bank or European lender HypoVereinsbank. Amalgamated recently extended into

2011 a credit line for premedia firm Merisel. Europe's HypoVereinsbank last year funded \$125 million to support Transcontinental equipment buys. Bank of America works with a number of printers. It amended a credit facility with Ennis Inc. for up to \$150 million.

Smaller printers may get short-term loans from suppliers to buy equipment, then transfer the balance to a bank.

Cardinal Color, a 34-employee Chicago sheetfed printer, received a six-figure loan when it switched, after 50 years, from a large bank to smaller local Signature Bank. The company is using the money now for working capital, says Art LeBeau, president, "but they've encouraged us that if we need money for new equipment or anything else, they're more than happy to lend it to us."