



# **What If You Can Buy a Small Company?**

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# Graphicast History

- Started in 1978
  - Zinc alloy castings using proprietary casting process. Value added machining capability developed in early 1980s.
- ESOP started in 1996
  - Employees own 35%
- I bought controlling interest from the founder in 2001
  - Stock purchase, not asset purchase, due to ESOP
- Sales dropped 35% in my first year due to the recession and 9/11
- Working our way out of the recession, we established a dynamic culture with the existing employees
  - Inc 5000 in 2007
  - Managing Automation Media – Progressive Manufacturing Top 100 Award in 2009
  - Among the 10 Best Small Companies to Work For in NH – 2006 through 2011

# Why Buy?

- Can Lower Risk
  - Established business with markets, products, customers, working capital and cash flow, banking relationships, credit rating, facilities and equipment, management systems, and employees
- Can Accelerate Growth
  - Leverage growth in new and/or current markets from an existing business platform using internal cash flow, outside investments, and/or loans

# How Do You Finance a Buy?

- Existing owners commonly provide a loan, reducing your up front investment
  - In my case, I got a seller loan equal to 50% of the purchase price for 5 years at bank rates. I paid for it out of business cash flow through my income from the business.
- Use balance sheet cash from the business
  - I used cash from the business to finance 25% of the purchase price through a stock buyback from the former owner
- Personal sources
  - FFF
  - Savings/Investments
  - Insurance cash value loans
  - Home equity loans
  - 401k loans

# How Do You Get an “A” Team? Start With People You Know!

- Make sure you have an “A” team of advisors
  - Lawyer, accountant, and perhaps a business broker or M&A specialist (from your acquisition efforts)
  - Advisory board and/or board of directors (if desired) made up of people you know and trust with skills and knowledge you may need
  - Consultants, as and when needed

# How Do You Create a Top Team With People You Don't Know?

- Move slowly, but with determination toward your desired company culture endpoint – it can take several years!
  - Observe the people and the process
  - Gently probe, looking for understanding, but without threatening
  - Honor and respect the past – you bought the company for a reason
- Match expectations with capabilities
  - Don't expect someone who's 5 feet tall to perform like someone who's 6 feet tall
  - Train, encourage, support employees to improve capabilities
  - Move responsibilities around to cover inadequacies and cross train
  - Give people the authority to make decisions – good and poor
  - Hire someone if a critical skill can't be performed by existing staff
    - I only had to bring in a quality person, and then only after a few years
  - Fire someone if they can't improve or will not change with the culture shift
  - Don't be afraid to use consultants and other outside services to boost employee performance and confidence
  - Reward the team for company success - profit sharing, bonuses, improved benefits, perks, stock plans or ESOPs.

# The End Game – What Builds Value?

- Build a great team that can run the day-to-day company without you
  - You need to focus on strategic issues
- Have a clean balance sheet and steady growth
  - Run the business professionally, not like you're going to flip it in a year
- Start planning an exit strategy the day you buy the company