VITAL FINANCIAL SERVICES

Case Study: Providing credit colutions for a company in an industry undergoing change

Lender	Borrower
Community lender	**Woman-owned printing company**

Situation:

A 30-year-old printing company was ready to transition to the second generation of ownership. Adding to concerns around this move was the fact the printing industry as a whole is undergoing tremendous changes.

The owners had a vision for how to secure the future of their company. It involved investing in modernized new equipment that while expensive, would reduce manual press set-up time as well as paper and ink waste. The total equipment cost was $1 million, but would save the company approximately $400,000 annually. The equipment worked more effectively for customers and the company. It would allow the company to increase sales significantly, while still realizing the expense reductions. Even though the company had been in business for 30 years, its segment of the industry had become more competitive and the company was at a break-even point. The ownership realized that without significant changes to their business model, the company would not survive more than a few additional years. The business would not provide a secure retirement for the first generation, nor a secure future for the second generation.

The incumbent community bank did not feel comfortable in extending additional credit to the borrower to purchase the new equipment. The lender turned to VITAL Financial Services to see if we could assist the company in securing the additional credit while allowing the current bank to retain the deposit relationship.

Action:

Credit Facility: In 2015, VITAL brought in a nonbank lender, and structured a credit package that allowed the borrower to receive the needed capital to purchase new equipment, restructure the current debt to lower the monthly obligations, and add working capital to offset the costs associated with reduced productivity while the company installed and trained on the new equipment.

VITAL looked at all the debt on the borrower's balance sheet, and suggested that all current debt be combined into a single SBA 7(a) term note of $1.7 million. This included the estate debt, equipment debt and working capital loans. The real estate debt was more than 51% of the total, allowing the borrower to qualify for a real estate amortization on all of the loan. This allowed the existing debt payments to be as low as possible. Even though the company had been operating for 30 years, they had never sold any of their printing presses. All were still operating and used regularly. The new equipment was put on a separate SBA 7(a) 10-year note for $1 million. The consolidation and extended term on the current debt, plus the extended term on the new equipment loan, put the payments at an amount the company could handle.

Note: The nonbank lender does not accept deposits or offer checking accounts, so the current lender was able to stay in the credit and continue with the deposits and merchant services they offered the company.

Results:

The loan was closed, the debts were consolidated, and the 50% down payment for the new equipment was sent to the manufacturer. When the equipment arrived safely, was properly installed, and training underway, the remainder of the payment was sent to the manufacturer. As part of the process of due diligence for the new equipment purchase, the company reexamined all the cost assumptions used in their pricing model. They discovered errors and outdated assumptions that needed to be changed. The result was an increase in top-line revenue for some of their products, as well as a significant reduction in COGS for products that made use of the new technology.

The combination of those items, plus the company's renewed focus on execution, has paid off in improved financial performance. As more reduced-cost work is migrated to the new equipment, the company will continue to improve financially. The new equipment has created additional opportunities for new business for the company, as some friendly competitors in the industry now subcontract with them to perform work that can be done more cost-effectively on their new equipment. It will take another 6 to 12 months before the business realizes the full benefit of the new equipment, but at this time, the company is very pleased with the results, and is looking forward to successful transition to second-generation ownership. They feel confident this complete lending solution will carry the company into a bright and sustainable future.