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Survival of the fittest

Scott Deveau, Financial Post

With Wayne Wilbur at the helo, printing firm Astley Gilbert, positioned itself well to ride out the downturn and even gobble up struggling competitors.

Brett Gundlock/National Post

Astley Gilbert Ltd., one of the largest printing houses in Canada, has seen its fair share of industry-related woes in the past 20 years. But, the Toronto-based leading provider of reprographics services for the construction industry in Canada, prides itself on staying ahead of the curve.

When people were predicting the digital age would eliminate the need for paper catalogues, blueprints, and brochures, the company began helping many of its customers set up Web sites and e-mail accounts. Now, it charges those customers for the use of its proprietary software, which lets them do much of the upfront design work with their partners online before anything needs to be printed.

Of course, the Internet hasn't eliminated the need for print. About four years ago, the company made a multi-million-dollar investment in a state-of-the-art printing press that uses digital imaging rather than plates and allows for a much quicker turnaround and fewer costly mistakes. These efforts have made the printing house more competitive and leaner than its competitors heading into the current economic downturn, says Wayne Wilbur, chief executive of the company.

As evidence, 10 of Astley Gilbert's competitors have gone belly up while its workforce doubled to 250 in the past two years, he said. "It was very risky to make such a large upfront investment," Mr. Wilbur said in an interview. "The good thing is it worked out."

A lower cost structure has also helped the company generate healthy cash flows, which are being used to buy up some of its distressed competitors. In the past year, Astley Gilbert bought out two competitors and it is sniffing around for more deals.

"We offer an alternative for those trying to survive," he said. "If the bank closes them, then they end up with nothing."

In the printing business, buying up competitors in a downturn is less about increasing capacity as it is about buying a book of business to offset any declining sales. Opportunistic consolidation is becoming increasingly common as the economy shifts from bad to worse, said Brad Cherniak, a partner at Sapient Capital Partners, a Torontobased financial advisory firm for small to medium-sized private businesses.

"Small businesses, bottom line, are like sharks," he said. "If you're not moving you're dying. They have no choice but to continue to grow."

The major impediment is not as much a lack of capital in the markets as it is that many potential sellers have yet to realize they won't make it through a recession. So their expectations are not falling as fast as those of the buyers, he said.

"Although it's fairly obvious we're in a recession and a bad one, it takes businesses a while to adjust their expectations. So owners think they can ride out the trouble and that the value of the company has not been permanently hurt," Mr. Cherniak said. "Necessity has not yet come out as the main driver of transactions."

This is understandable given that the sale of a business for most owners is a once-in-a-lifetime activity. But business owners also have to be realistic about how long they can hold on, said Mark Shoniker, BMO Business Finance managing director.

"What you have now is a lot of businesses struggling and they're burning through cash," he said. "Buyers have a keen sense of that, and they will sit on the sidelines waiting for you to fail in the hopes of either picking you up that much cheaper or nibbling at the sidelines and basically stealing your clients."

In addition, with many small business owners putting personal guarantees on bank lines of credit and other obligations, they have to be cognizant of when they've hung on so "stubbornly long" that they have surpassed the asset value of their business and put themselves at personal risk, he said. "If you're going through cash quite rapidly, my advice is to never look a gift horse in the mouth," Mr. Shoniker said. This is a buyers market and there are plenty of opportunities -- and capital -- available for company's with strong balance sheets and a desire to grow in this downturn, he added.

Flying Colours Corp., a Peterborough, Ont.-based company that refurbishes Bombardier regional jets into business jets, is one of those companies. It snatched up one of its main competitors, Missouri's JetCorp., last week when the parent company filed for bankruptcy and divested its subsidiaries.

Mr. Shoniker advises buyers to remember, the most important thing is to ensure you're not overpaying, you are buying assets not shares, and that those assets have an equal value in today's market as they do on the books.

"Cash is king in this cycle," he said. "I truly believe those who are out there buying right now are the smart ones."

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