

American TonerServ, Makin' Prints...

HOW A SANTA ROSA COMPANY INTENDS TO CORNER THE TONER MARKET THROUGH CONSOLIDATION AND INNOVATION.

By Kathleen Dreessen

In offices across America, more printing functions rely on toner, as opposed to traditional ink printing, than ever before. A Santa Rosa company, American TonerServ (ATS), estimates that, in the United States, the toner market is worth \$22 billion annually. Hewlett Packard dominates the market at 65 percent, with heavy hitters such as Epson, Lexmark, Xerox, Canon, Brother and other OEMs (original equipment manufacturers) claiming another 10 percent of the total market. The balance of the market is made up of some 3,000 to 4,000 smaller, independent companies. The founders of ATS decided to enter the lucrative market, consolidate many of these smaller companies and create central hubs in major



Want toner? Dan Brinker's your man. [Duncan Garrett Photography]

metro marketplaces for toner sales and office equipment servicing.

The approach is working. Since starting the company 10 years ago, they've gone public and their first quarter report for 2007 showed quadrupled earnings from the same period in 2006.

Who's behind ATS and what's their secret?

The company

"Our business is basically a consolidator of the highly fragmented printer supply and service industry," says Dan Brinker, ATS president and CEO. "We look for independent businesses that focus on delivering printer service and supplies to end-business customers, acquire them and provide a one-stop shop for print management services. These businesses provide supplies, service and printing equipment, such as printers and multifunctional machines. We can provide service for printers throughout the entire United States and drop ship our toner and ink cartridges. We have customers nationwide."

Brinker came to Santa Rosa in the early 1960s, when his father, Lynn Brinker, joined with Ed Pisenti to form the Santa Rosa-based accounting firm Pisenti & Brinker. The firm is still thriving.

"I've been here 40 years," says Bill Robotham, executive partner of Pisenti & Brinker and board member of ATS. "Our role [at Pisenti & Brinker] is to help build businesses work so they can *choose* not to. That means getting systems and policies in place. Pisenti & Brinker is the biggest homegrown firm around here."

Dan Brinker started his career as a CPA at Pisenti & Brinker. "I then went to a home warranty company called American Home Shield," says Brinker. "It was a public company, and I was there for 10 years beginning in the mid-1980s. I was the vice president of finance and became president of the business a few years later. We were doing about \$6 million and had increased that to about \$125 million. In 1980, Service Master, also a publicly traded company, acquired American Home Shield. A lot of people did well on the stock. Service Master relocated in 1995 to Memphis, Tennessee. At that point, I left and got involved in a number of other businesses."

Dave Myerscough, the former president of Xerox North America, made a suggestion that would prove critical to ATS' success. "[He] said there was a big opportunity in

printers and, in particular, in capturing the print reads and seeing how many prints there are and charging on a per-page basis," recalls Brinker. This meant companies could enter into contracts with office equipment firms to pay for only the printing that they did; it was possible for a company to get an accurate per-page count and for the toner company to charge per page.

Brinker then learned the economy of using remanufactured toner cartridges instead of OEM cartridges. "Over the last 15 years, the aftermarket cartridge market has evolved from moms and pops out in their garages remanufacturing toner cartridges by drill-and-fill—meaning they'd take an old ink jet cartridge and put more ink into it—until now it's become a pretty big business."

Brinker says the quality of remanufactured cartridges, many made in the United States and China, is excellent.

"Most of the remanufacturing is almost like building new cartridges, the quality is just as good most of the time. The statistics are right up there with new cartridges. The mid-sized businesses that we sell to are realizing that [remanufactured cartridges] print really, really well, the failure rates are about the same as the OEMs and the prices are a lot less."

He calls printing costs the largest undocumented cost in business today. "It's anywhere from 1 to 10 percent of revenue, so it's a big number," says Brinker. "But it's fragmented. You have a printer here, a printer there and supplies. Who's ordering the supplies? It might be IT, the CFO or the purchasing person, so it's tough to get your arms around it. To help clients be professional and proactive about it, we have a software package that lets us manage the information with good data."

The proprietary software, Essential Strategic Printing (ESP), lets the print management companies go into a printer network and track exactly how many prints have been made, the failure rates and how much toner is needed or when it will need to be refilled. It also lets dealers offer customers cost-per-page contracts. The ESP technology provides remanufactured cartridge dealers the ability to compete with firms offering OEM cartridges.

"That tool lets the print management companies, the ones we're buying, go into a company and proactively manage print."

Who are these companies ATS is purchasing?

"We're targeting businesses that have salespeople with

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—Dan Brinker, American TonerServ

feet on the street and relationships with customers. It's those businesses that have been around some time that we're acquiring. We went public in February of last year, assembled a management team and put some systems in place.

"In July of last year, we acquired what are called 'customer lists' from Computech Printer Solutions in Reno, Nevada. We didn't acquire all the assets and liabilities, just the customer lists, and we directed marketing to those customers. We bought another customer list in December of last year. In April of this year, we acquired a company called Optima Technologies, which is in Florida. We're doing an annualized run rate of 4.4 million. There's seasonality in it, but it's close to around \$5 million annual revenue."

Optima extended ATS' reach into major metropolitan markets, and Brinker says ATS is actively pursuing other businesses to acquire. "We have a number of companies we're talking to throughout the country. We have really aggressive growth plans. We'd like to be a \$200- to \$300-million company in the next three to four years. The market is really fragmented and large. There's something like 3,000 to 4,000 of these smaller companies out there. We feel we're uniquely positioned to become the leader in consolidating them."

Going public

The symbol for ATS is ASVP on the Over the Counter Bulletin Board. Why did the firm decide to go public? "Being a fragmented industry, we saw no publicly held company that was acquiring the independent printer businesses out there," says Robotham, "companies with the best practices and the systems in place. We're taking away some of the pain of dealing with selling, inventory, receivables and running a business. People we take on can now concentrate on selling. We take care of all the rest. It's a solid business."

"We felt going public would give the companies we buy an opportunity for a 'second bite of the apple,'" says Brinker. "We can acquire them with cash and notes, but then stock gives them incentive to stay around for a long time and be more rewarded financially in the long run."

ATS board member Tom Hakel, who's also the general manager of Stag's Leap Wine Cellars, explains: "It was a couple of years to get the company to a public status.

"The reason we wanted it to be public was so that smaller organizations would be able to participate in the appreciation and growth of the stock with us. Since the companies we're buying are essential to our strategy, we want them participating with us in an alignment of goals."

It took so long to go public, Hakel continues, because

ATS did self-registration instead of using a third party. "It took two years. But that was good, because during that time, we were figuring out what the real strategy was and how we were going to go about this," he says.

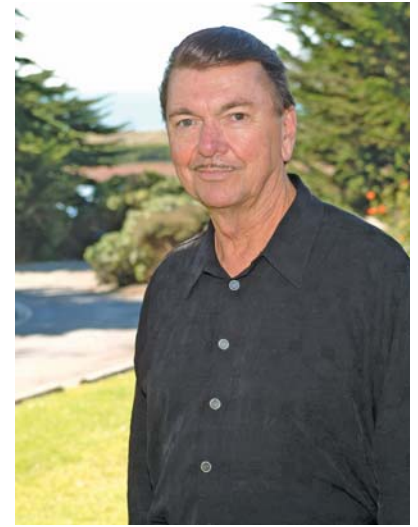
"Effectively in my mind, the company started its business operations on July 1, 2006 *after* we went public. It was on July 1 that we hired the employees and made our first customer list

acquisition and started the business. But in actuality, the company started about 10 years before that."

ATS currently has approximately 50 employees between its Santa Rosa, San Francisco, Florida and Tennessee sites, along with independent sales representatives around the country. "The way I'd describe the company is that some people are always looking for the 'sizzle' in a business," says Hakel. "The fun part about this business is, there's no sizzle. The sizzle is cash flow. It's more like a Warren Buffett company: looking for undervalued opportunities and helping them improve. When we look at a business, the most important part of a roll up strategy [that is, when smaller companies merge to reduce costs] is to add value. Ultimately, when you buy a company, the end user experience has to be improved. We believe we provide the systems, know-how and best practices to help our acquired companies achieve this objective.

"The big thing about this is leveraging our infrastructure, systems and management on the business side and leveraging the acquisitions via debt financing. We're helping the smaller \$5- to \$10-million local companies with liquidity—in other words, buying them out and having an exit strategy for the business we bought. But we're also giving them tools and the platform of services so they can extend these products and better manage their customer.

"Typically, when we buy these companies, we like the management staff to stay at least three years so we can get a transition. When I describe ATS, it's basically a service organization. We sell toner, we service equipment, we'll sell HP toners [which are more expensive than aftermarket toners] if we have to. The key is just that customer needs are met for print management. The big thing is keeping



Bill Robotham of Piseni and Brinker is an ATS board member.



Tom Hakel, general manager of Stag's Leap Wine Cellars

the identity and relationships of these local service organizations.”

Start me up

“When we started in July, we had three objectives: The first was to build the infrastructure so that we could stand up and say, ‘We have the capability to consolidate this industry,’” says Hakel. “You can’t just have an idea, you have to be able to do it. The first thing was to build a management team. We’ve

really built a world-class team led by Dan.”

The second objective was to build a platform to manage the business. ATS selected Larry Ellison’s NetSuite.

“The third thing we had to do was prove to the industry that this concept was real, prove it was big and that it could be consolidated. That’s when we built this rather large pipeline of companies that we’re in discussions with to consolidate. We have a signed letter of intent with Tonertype based in Florida. They’re doing more than \$5 million in revenue already. The combination of that \$5 million with what we already have puts us at the \$10 million mark, which is a great first year.”

Hakel says the next big challenge for the management team is securing a long-term financing relationship. “We’re in the process of negotiating term sheets, getting the terms from a lender/financing partner that will work with us to consolidate the industry. It’s very clear. To consolidate this industry now, we have to find the large financing partner that will secure a long-term financing relationship as we buy these companies that require cash to make their payments. We’re in the process of working through these relationships.”

Closing the deal

Hakel, who’s worked with a lot of young companies in a variety of different endeavors, says he has no plans to leave ATS once the company is on solid footing.

“I’ll stay involved at ATS—helping with financing, acquisitions and business strategies—because I’ve done a lot of mergers and acquisitions and transaction work in my life, and just like Stag’s Leap [which sold earlier this year to Chateau Ste. Michelle Wine Estates of Washington and Marchese Piero Antinori of Italy], we didn’t use an

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—Tom Hakel, American TonerServ board member

investment bank per se. That was a direct transaction, and I was heavily involved in that. This is a passion. I worked at Pisenti & Brinker for years in the early 1990s, and Bill Robotham has always been a mentor of mine. So working with Bill again is a real joy.”

Hakel says the company’s long-term goal is to be an operating company with one of the largest presences in middle market, non-Fortune 1,000 companies, such as regional CPA firms, hospitals and law firms.

“It’s a really on-the-ground, hands-on toner and equipment service business, but we see a big growth opportunity. We focused on creating shareholder value through these mergers and acquisitions.”

Eventually, he envisions ATS as not only operating out of Santa Rosa, but also providing print management services throughout the North Bay.

“It’s always exciting to be part of how Sonoma County has changed in the past 15 years,” says Hakel. “We’re still very ag-centric, but now comes the telecom industry and the engineering firms and all that. Like American Home Shield, the Brinkers took that company and made it public for many years here. In the 1980s, it was very exciting to have a company that locals could know, follow and participate in. ATS is a company we intend to build and grow in Sonoma County. We hope people understand what we’re doing.”

If ATS profits continue to soar, the board and Dan Brinker, like his father before him, will surely help grow Sonoma County’s economy. ■

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