

Inside the buyout

Milacron to pay \$25 million over three years for ILM

First financial "angel" bore brunt of ILM success

by Maureen Dobie

If all goes well with the laser industry over the next three years, about 20 local professionals who dared to sink nearly \$500,000 into International Laser Machines Inc. (ILM) will realize a 250 percent return on their 1982 investments.

So said Gary Colip, former ILM attorney, director, founder and investor who received the first of several paybacks

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when Cincinnati Milacron Inc. bought ILM on July 11.

Milacron spent \$7.5 million earlier

this month to acquire the local laser maker and promised to pay as much as \$25 million by July 1989 if ILM

shipments and profitability meet projections, said Colip, an attorney with Cohen Malad & Hahn.

Most of those millions will go to ABS Ventures II, the venture capital arm of Baltimore's Alex. Brown & Co. which sunk \$2 million into ILM a year after it was founded. But Colip said that local shareholders such as Max Rettig, himself and others who own 7 percent of ILM will receive no less per share than the Baltimore firm will get.

He and other sources surmised that the \$25 million price tag might be one of the largest ever paid for a start-up manufacturing firm in Indianapolis.

ILM founder and president Robert C. Holland remains at the helm of the westside firm, which supplies laser-operated drilling, cutting, stamping, welding and marking machines for automotive, aerospace and basic manufacturing companies. Holland is, no doubt, gloating a bit, remembering all the local bankers and more than 20 local venture capitalist groups who thought he was a bad risk when he sought an additional capital infusion for ILM one year after his fast-growing firm was founded.

And local lender groups are, no doubt, kicking themselves for missing an opportunity to more than double their money in three years' time. As it turned out, ABS Ventures of Baltimore is the big winner in the ILM-Milacron deal.

"I won't tell you how much money we made, except to say that we did make money in an amount that made us happy," said Bruns Grayson, managing partner of ABS Ventures. "At the end of the day, we owned about 35 percent [of

If Colip's calculations are correct, that 35 percent ownership could reap an \$8.87 million return on an investment of about \$2 million.

"ILM had managed to get a hold of a strong customer base and a lot of orders even though it was a small company, and all that made sense to us," Grayson noted. When IBS last talked to ILM's Holland in September 1985, he had posted nearly \$2 million in first-year sales, had more than \$6 million in back orders and was supplying lasers to firms such as General Electric Co., General Motors Corp., the U.S. Navy and the Pratt & Whitney division of United Technologies Corp. ILM had shipped six lasers, each at prices of more than \$500,000, and had a staff of 47 people.

Between fiscal 1985 and 1986, ILM sales grew by more than 300 percent to \$8 million, and Ford Motor Co. signed on as a customer, said Mike Laird, vice president of marketing. A new laser-powered machining center was developed for cutting, drilling and welding all at one station, and a national advertising campaign is now under way. Laird said that customers who buy ILM's new laser will get another laser free—a Chrysler laser, that is.

Laird pointed out that Bob Holland might still be a frustrated entrepreneur if not for the support of Max Rettig, president of 23-year-old Rettig Engineering Co.

"Max Rettig was the angel" whose early money set ILM into motion, Laird said. Rettig knew Holland as chief operating officer of Control Laser in Florida, and the two conceived ILM together when Holland moved back to Indiana to start his own firm.

Rettig provided space, personnel, payroll and start-up costs for ILM and helped put together a limited private placement offering in 1982 which attracted about 23 investors and \$500,000. Rettig and Holland planned for Rettig Engineering Co. to merge with ILM, but that idea was rejected by ABS Ventures, Rettig said. He was reimbursed for start-up costs, legal fees and accounting fees, but received no interest when ABS Ventures stepped in.

Colip said ABS Ventures also insisted that he and Rettig—as large ILM shareholders—agree to limit their voting power when ABS representatives were added to the board. The venture capital group also required key executives to sign employment contracts and required vendors to reduce their prices, Colip said. "They [ABS Ventures] drove a hard bargain," he noted.

Next, ILM gave the subcontract work that Rettig had done to another vendor and moved into its own facility. Rettig's bank credit was tightened, forcing the engineering firm to file for Chapter 11 protection under the U.S. bankruptcy

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—Bob Pinkus

percent offer, but Holland said "no." "Then Milacron offered to buy the whole thing," said Pinkus, who founded Brantley Venture Partners in Cleveland.

Negotiations began in late February and culminated in the July 11 purchase. "Bob Holland and I did virtually all of the negotiation with them [Milacron]," he said. Pinkus added that Milacron has put no conditions on ILM except to insist

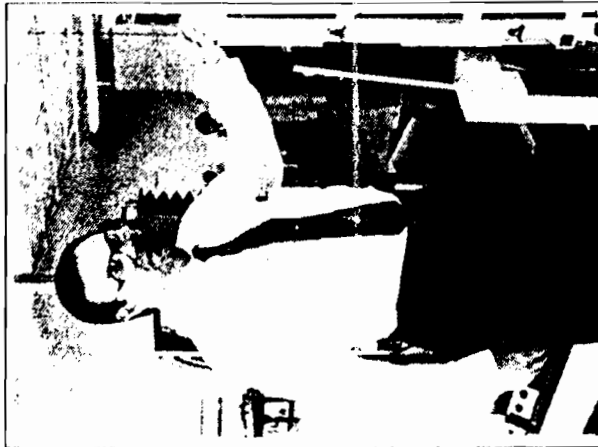
that it retain local management. "Their mandate to the company is to operate independently," he said, adding that ILM has enjoyed as much success as any start-up firm usually ever sees.

Cincinnati Milacron is one of the largest machine tool companies in the world with an industrial products division (which makes robots, among other things) and a plastics machinery division.

The machine tool business accounted for 45 percent of Milacron's sales in 1985, but showed a loss of nearly \$18 million. The company posted 1985 revenues of \$732 million and a net loss of nearly \$45 million.

But 1986 has been better for Milacron, which saw a 12 percent sales increase in the first quarter and a 28 percent rise in net income. In May, Milacron agreed to develop software for IBM Corp. that will be used to integrate factory floor workstations.

John Reading, Milacron's vice president of investor relations, said ILM was bought after the company considered buying much larger laser firms because it was considered "a good technological fit."



ILM's Bob Holland

code. However, things are looking up for ILM's "angel." The Huntington National Bank of Indiana has extended enough credit to take Rettig—which has merged with Laser Robotics Machining Inc.—out of Chapter 11, and the company is posting a profit.

Despite all the trouble that has befallen him since he assisted Holland and ILM, Max Rettig said he might do it all over again. "However, next time I would insist on complete support from a financial institution," he stated.

Six months after the Alex Brown subsidiary sank \$2 million into ILM, the venture capital group found another investor in Wind Point Partners of Racine, Wis., a unit of Johnson Wax, Laird said.

Former ILM treasurer and board member Bob Pinkus was instrumental in luring venture capital to ILM. At first, Milacron was approached as a potential customer of ILM's, then as a possible investor. When ILM asked Milacron to buy 20 percent of the company, Milacron said "no." Milacron countered with a 50