



EXCESS SUCCESS: RYAN KUGLER FINALLY MADE IT IN SHOW BIZ—SELLING STUDIO SURPLUS

Los Angeles Business Journal, March 27, 2006 by Anne Riley-Katz

RYAN Kugler can walk into almost any discount retailer or video store and see his work—most often heaped in “specials” bins or on discount racks.

And he’s actually happy about it.

The president of Distribution Video & Audio, Kugler is a kingpin in the video closeout business. His Burbank company is one of the largest buyers of surplus video and audio inventory in the country and a big entertainment wholesaler, meaning Kugler buys up millions of surplus video rifles, then pushes the tapes and DVDs to retail chains nationwide.

The business, known as DVA, makes sense given Kugler’s Hollywood roots—he grew up in La Canada, but as a teen moved to Palm Harbor, Fla, with his family in 1989 when his father bought a video distribution business.

Kugler worked in the warehouse of his father’s business during his summers in high school. After graduating in 1991, he started working at the company full-time, along with his brother Brad, who is now his partner.

With aspirations of being a Hollywood director, Kugler thought his involvement would be short-lived.

“I was opposed to working in the family business in the beginning,” he said. “I knew I wanted to be in the entertainment business—but as it turns out, this actually is the entertainment business.”

These days, though, Kugler’s higher Hollywood ambitions are coming to fruition: The company just launched its own content distribution arm, called First National Pictures, which will focus on family and children’s content.

And the closeout part of the business continues to grow. The company sells about 17 million video units a year, with projected revenues of about \$17 million for 2006.

“VHS has had one foot in the grave for some time, but you will still find customers who buy it,” said Richard Buchalter,

vice president of sales at Chatsworth-based Image Entertainment, Inc., one of DVA’s suppliers. “You always need partners like DVA as a format matures the way DVD has, because you will see an abundance of surplus content.”

At the time Kugler got started, the company moved about 100,000 video tapes a year, supplying video outlets such as Blockbuster, Hollywood Video and small mom-and-pop type stores with a basic inventory of used VHS tapes for rentals to get the stores started.

Fast growth

Then in 1994, Kugler got a call suggesting that the company purchase 15,000 brand new Hanna Barbera video tapes. He snapped the tapes up, then turned around and sold the entire order to Target.

“I realized quickly that there was a business in buying excess VHS videos from the studios, so I just started calling the studios to see which had excess inventory of rifles,” Kugler said.

One of his first calls was to Disney in 1995, when Kugler asked about securing surplus video stock. “At the time, they said ‘we’ll never sell to you,’” he said. “Two years later, they sold us millions of units.”

Though DVA does not presently have an active contract with Disney, it was the first of many such deals for the company, which moved its headquarters to Burbank in 1998. Slowly, Kugler established relationships with Paramount, Universal and other studios to move their excess product to smaller retailers.

“The big studios would not waste their time with smaller retailers,” said David Miller, a financial analyst for Sanders Morris Harris. “They want to deal with the big outlets like Best Buy, Circuit City and Wal-Mart.”

As a niche business, DVA has few competitors, though its own suppliers and buyers occasionally qualify, since some of the company’s larger retail customers also buy directly from the studios.



DVA, which buys and sell millions of units, now has about 800 accounts, divided almost evenly between suppliers such as the studios, and retailers including Target, Best Buy, Borders and Barnes & Noble. Kugler said that despite a wave of retailer consolidation, DVA is doing more business than ever, because the closeout market remains very strong.

Meanwhile, First National Pictures, launched late last year, already has the rights to distribute classic films such as "The Little Princess" and TV series including Baby Felix the cat, Teddy Ruxpin, and Nickelodeon's Cornell & Bernie.

"We have all these customers that buy these assortments, and the most popular are our children's videos," Kugler said. "We thought, we are selling all these closeouts, why not do our own and make a little more money?"

Kugler is currently planning to launch a First National Web site where customers can buy and download digital versions of content.

Distribution Video & Audio

Year Founded: 1989

Core Business: Buying and distributing surplus video and audio inventory, such as VHS tapes and DVDs

2004 revenues: \$13 million

2005 revenues: \$15 million

2004 employees: 32

2005 employees: 40

Goal: To become one of the largest distribution companies of quality entertainment products

Driving Force: The desire of retailers to provide discount home entertainment titles to customers