M&A MYTHBUSTING: JUST HOW GOOD AN INVESTMENT IS A GENERAL COMMERCIAL PRINTING BUSINESS?

By Patrick Henry | *June 12, 2012*

Tough economic times can be poor environments for dealmaking—a hard fact of life that also applies to mergers and acquisitions in the printing industry. Valuations are down, cash for M&A investments is tough to come by, and potential buyers can be more than a little gun-shy about opportunities they would otherwise leap at in a more favorable climate for business expansion.

Jim Russell and Peter Schaefer, partners in New Direction Partners (NDP), see another deal-suppressing trend at work: the belief, held even by some industry insiders, that general commercial printing companies aren't worthy targets for acquisition by other printing firms. Although it's a perception they strenuously reject, both acknowledge the tangled roots it springs from.

First is the inescapable reality of the industry's ongoing shrinkage. Research by Printing Industries of America (PIA) and other sources shows that the number of printing plants continues to fall at a rate of about 1,000 to 1,500 plants per year. with employment dropping in tandem. Volume and shipments per plant also declined dishearteningly during the "Great Recession" of 2007-2009.

The general commercial printing sector has absorbed the worst of these blows, leaving even well-managed, financially secure firms looking less attractive to buyers than they should appear. And therein, according to Russell and Schaefer, lies the myth to be busted.

WHY THE LONG FACE?

"The commercial space may be contracting, but that doesn't mean it's disappearing," Schaefer says. Projections from PIA bear him out. The association has said that in 2020, the printing industry will still have a large economic footprint and will continue to hire tens of thousands of new employees annually—hardly a scenario for a memorial service.

What's more, says Russell, contraction isn't altogether a bad thing: fewer firms can mean an easing of overcapacity, and the winnowing-out of weaker businesses makes the strengths of the survivors that much more apparent. He and Schaefer argue that a general commercial printing firm wishing to be acquired still has a fair shot at making a good deal with an accommodating buyer—if it can show that it has the characteristics of a printing business that's being managed for the long haul.

Diversified capabilities and multiple revenue streams are what buyers find most desirable in acquisition candidates, Russell and Schaefer agree. Thinking beyond the offset press department is crucial, since that part of the operation, no matter how productive it is, may not be enough to sustain the business as a whole in years to come. Firms that have expanded into ancillary activities—for example, mailing and fulfillment, digital printing, and wide-format graphics—will stay out of the commodity trap that always threatens businesses with only offset services to offer.

Web-to-print—the Internet-enabled sale and production of print—is another capability that makes commercial shops look good in the eyes of buyers, Russell and Schaefer say. Now that printing has come into its own as a form of computer-integrated manufacturing, it's necessary to present the same level of automation on the customer-facing side. When prospective acquirers know that a W2P solution is in place, they also know that the target is making it as easy as possible for customers to place, monitor, and repeat their orders.

PLAN FOR SUCCESS WITH SUCCESSION PLAN

Technology isn't the only factor that buyers and their professional M&A advisers will consider when sizing up a potential acquisition. They also will ask, says Russell, "Is the seller's strategy forward-looking? Is the owner thinking not just about the payout, but about what will happen after the close?" What the seller must be prepared to show here, he says, is the existence of a management succession plan.

"Succession planning is a must," Schaefer agrees, noting that buyers often will insist on having a management structure in place as a prerequisite for closing the deal. Even if a firm isn't seeking to be acquired, he says, it still needs to be clear about how management roles will be filled after those presently occupying them have moved on. Some firms have found their growth prospects stunted precisely because they failed to identify the next generation of leadership, Schaefer says.

A company's financial discipline, or lack thereof, is certain to come under scrutiny in the due diligence phase that follows initial negotiations in an M&A. What will please the buyer and its auditors, says Russell, are a manageable debt load and evidence of reinvestment in capabilities that can drive future growth. Excessive compensation to owners and other signs of financial profligacy will have the opposite effect.

NEW OWNER, NEW BEGINNING

Positive traits like these, say Schaefer and Russell, make general commercial print firms well worth looking at as acquisition targets, even in a sluggish economic climate. They note that businesses of this kind often do best by structuring the deal as a tuck-in: a transaction that compensates the owner of the acquired company with revenues from the merged entity's future sales. Once the deal is closed, says Schaefer, the new owner probably will be in a good position to adjust customer pricing and take other income-enhancing steps that were unavailable to the seller.

Broadly speaking, say Russell and Schaefer, general commercial printing firms are better off than they were a year ago, even if the improvement has been relatively modest. As advisers to M&A-minded investors, they remain convinced that these businesses have a great deal to offer potential acquirers—and they'll be happy to make the case to anyone whose confidence doesn't match theirs.