I am frequently asked, “What is happening today with Merger and Acquisitions?”  
My answer is “More than you think and very different from prior industry downturns!”

If you research merger activity in the last recession of 2001-02, you will see two prevalent statistics – a greater than 50% reduction in number of transactions and a 50% reduction in EBITDA multiples from 6x to around 3x. NEITHER IS HAPPENING TODAY!

“Today the number of merger and acquisition transactions approach historically high levels and EBITDA multiples are falling from a much lower peak but in today’s market, EBITDA multiples are just not that relevant.”

In the prior recession, which followed the most robust merger and acquisition activity period in history, merger and acquisition activity came to a halt as the gap between seller expectations driven by then recent multiples and buyer reluctance driven by the fear of falling sales was too wide to bridge.

This is also happening today but the need to be more efficient is driving two merger and acquisition strategies – Cashless Mergers and Tuck-Ins.

CASHLESS MERGERS

Cashless Mergers are not new. They have been around for many years; they are prevalent in many industries but have occurred only infrequently in the printing industry. In a Cashless Merger the owners of two firms share ownership in the combined firm. Some times the ownership is equal but many times they are not. Cashless Mergers allow the synergies of combining two operations to be realized but without the implication of one owner being bought out. Agreeing on relative value is often easier as the agreed valuation methodology (or methodologies) is applied to both firms. For example, if the owners agree to use EBITDA as a valuation method, what EBITDA multiple is used is less important since the same EBITDA multiple is used for both firms.

Conversely, the joint owners must agree in advance as to how the new firm will be operating. These rules are usually evidenced in a shareholder agreement.

Cashless Merger Benefits

- Affords realization of synergies
- Requires no incremental cash
- Less complex valuation discussions
- Banks’ approval readily available

In addition for the need to be more efficient, the lack of the need for incremental cash is a major driver of Cashless Mergers.
The pre-merger banks will need to approve a Cashless Merger. However, because of the savings generated by a Cashless Merger, this approval is easily granted. In fact it is not unusual for the bank of one of the merged firms to request funding the combined firm. This situation is preferable as it facilitates integration and the requirements to co-mingle assets to implement synergies.

A very interesting variation that we see with Cashless Mergers involves the combining of two plants into one and the new owners continue to use two distinct brand names in the marketplace. We know of two such transactions under negotiation that mirror the joint production of two newspapers that have occurred in several North American cities.

The steps for completing a Cashless Merger (in order of recommended completion) are:

1. **Agree Merger Benefits.** When both parties understand merger benefits it is much easier to surmount the obstacles of a merger. **THIS IS THE MOST IMPORTANT STEP.**

2. **Agree Relative Valuation.** One methodology or multiple methodologies can be used. Ultimately, the desired relative value can be achieved by manipulation of closing balance sheets through dividends or debt adjustments.

3. **Agree Social Issues.** Both parties need to agree on ongoing management, brand, operating philosophy, operating procedures, location etc. It is highly recommended to hire an experienced independent party to assist in identifying and addressing social issues. **THIS IS THE MOST DIFFICULT STEP.**

4. **Agree Communication Plan.** This step is often overlooked but how and what you communicate to employees, customers, banks and suppliers is imperative for a successful merger.

5. **Document and Close.** This step should be completed in conjunction with competent legal counsel. Hire lawyers who understand mergers and acquisitions. Real estate lawyers and friends should be avoided.

If you would like to learn more about this type of solution, contact Paul Reilly with New Direction Partners at (303) 520-7803 or via email at preilly@newdirectionpartners.com.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners’ website at www.newdirectionpartners.com.