Identifying and Approaching M&A Targets

By Peter Schaefer | *Partner, New Direction Partners*

As we make our way into 2018, a healthy economy, optimism in the private sector, still-low interest rates, and the ongoing consolidation of our industry are keeping the pace of mergers and acquisitions brisk among printing and packaging companies. In a climate like this, it's useful for business owners to consider what it would be like either to sell their companies or to acquire other firms – a thought experiment that can lay the groundwork for a successful transaction when the right moment for one arrives.

Right now, the M&A market is tilted a bit more in favor of sellers, although buyers also are faring well. Which are you? If you are thinking about retiring, and if your business is doing well, selling now may your best chance of attracting offers at the high end of what the market is willing to pay. Owners in other circumstances, seeing how difficult achieving organic growth can be, may decide to jump-start their companies by purchasing what they can't easily home-grow: an expanded customer base, new production capabilities, the fresh skills of talented personnel.

In either case, you have to be clear about what you expect of the company that will be your counterpart in the transaction. That means spelling out the details. If, for example, an acquisition-minded client of New Direction Partners were to tell us that the target should be "a digital printer anywhere in the U.S.," we'd ask the client to specify a state, a desired annual sales figure, a production profile, and anything else that could help us make the most advantageous match.

Like a job-seeker polishing his or her résumé to make the best impression on employers, a selling owner should be equally prepared to give the full picture of what makes the company attractive as an acquisition candidate. The more specific you are, the more reliable your list of potential transaction partners will be.

When it happens, the transaction will either be financial or strategic: a distinction that bears strongly on identifying the right partners for the deal.

Financial buyers look at acquisitions primarily as investments. Often with the backing of private capital, financial buyers seek companies that they can use as platforms for growth and profitability over time. They aren't necessarily looking for standout financial performers; what they're interested in are well established market positions, solid production capabilities, strong management teams, and other factors that promise to deliver an ROI on the funds they are willing to commit to the purchase.

The platform may be strengthened with additional acquisitions until the financial buyer becomes a seller and conveys everything to a new owner. The process typically takes three to seven years, but financial acquisitions don't always culminate in resales: investors sometimes stay in for the long haul as proprietors of the successful enterprises they've built.

Owners of printing and packaging companies who want to add new dimensions to their businesses often find that the best way to do this is through strategic acquisitions. We see this happening when owners realize that they could make customers "stickier" by offering production services that customers want but the business currently does not offer: for example, wide-format printing. In many cases, acquiring a company with the capability and the people to deliver it makes more sense strategically than attempting to create the service from scratch.

As a buyer, you should review your objectives to make sure they're consistent with the long-term good of your business. Knowing precisely what you need is the key to finding transaction partners who can provide it. Sellers, likewise, need to reconcile their expectations with the realities of the marketplace so that when discussions with buyers do take place, the parties will not be talking past each other.

Once you have clarified your partnership expectations, you will be ready to go out and find the sellers or the buyers that fit the profile – but you probably will not be qualified to do it on your own. In some ways, the initial approach is the riskiest part of the entire M&A process. We have seen plenty of instances where otherwise well-matched buyers and sellers could have clicked, but failed to, because something was missing: the diplomacy of an advisor acting as a third-party buffer.

Why are the principal parties to a transaction the poorest choices to get it started? It's mostly about not wanting to appear to be at a competitive disadvantage. A buyer representing himself or herself stands a good chance of being seen as a rival bent on gobbling the other owner up, especially if the two companies are neighbors. An owner in selling mode may not want to advertise that fact personally – it might lead to speculation that could prejudice the seller's position.

Privacy and discretion are essential at this sensitive stage. New Direction Partners doesn't initially disclose the identities of the clients we represent, whether they are sellers or buyers. We will furnish enough detail to establish basic interest, and then proceed to formal introductions when both parties are comfortable with the idea of getting better acquainted.

This is only the beginning of a sequence of events in which the parties become fully transparent to each other in negotiations, due diligence, and the final crafting of an agreement. Managing the buyer-seller relationship and keeping the emotional temperature under control isn't easy – it's a lot harder, in fact, than most owners probably think it is. The process also takes more time than can be spared by owners with businesses to run.

To summarize, owners of printing and packaging companies who want to think proactively will be open to the possibility of selling or buying no matter what stage of its life cycle the company presently is in. Clarifying expectations and expressing them in detail are the first steps toward identifying potential transaction partners. Knowing whether the character of the transaction will be financial or strategic sharpens the criteria and facilitates the search.

It's impossible to predict how long the industry's M&A-friendly climate will continue, but for now, we feel confident in saying that the transaction partner you're seeking and the deal you want are out there. With proper guidance, you'll find them.

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.