M&A Recap and Forecast: No Better Time to Act than Now

By Peter J. Schaefer and Thomas J. Williams

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Just as 2019 saw more M&A activity than 2018, 2020 shows all signs of being busier for dealmaking than last year. That's a bright green light for owners of profitable, well-managed printing and packaging companies – but only for as long as it lasts

It's always harder to forecast a new year than it is to recap the prior one, and with so many major news events breaking on the political and international fronts right now, it's an especially tricky moment to be in the forecasting business. But, we think that the near-term outlook for mergers and acquisitions in the printing and packaging industries is plain enough, and we're encouraged by the vitality we continue to see in the M&A marketplace.

By themselves, external events don't change M&A outcomes, but they do impact the general economy within which M&As take place. Right now, all the indicators are positive, and they will remain that way until we enter the downturn that, sooner or later, printers, packagers, and the rest of the country's economic base will have to undergo.

A mild downturn shouldn't do much damage to EBITDA multiples and the other metrics of valuation for sale. A big slump, on the other hand, could return the industry to where it was roughly 10 years ago, when most sales were of troubled companies that had been targeted for acquisition by bargain-hunters. At that time, few companies were being purchased on a multiple-of-EBITDA basis, the preferred method of valuation for sellers.

We're not economists, but we think the likelihood of a major recession in 2020 is small. For one thing, recessions tend not to occur in presidential election years – most of the last 11 have coincided with the first year of a presidential term.

The pattern may or may not repeat itself in 2021. In the meantime, a combination of macro- and microeconomic factors should keep print and packaging M&As happening at a robust pace. The macro advantages include continuing GDP growth, steady consumer confidence, and the willingness of banks to lend money for M&A financing.

From the micro perspective, the printing industry continues to transition from relying on print alone to providing more broadly based forms of communication. The movement has separated the "haves" – companies that have reinvented themselves to become part of the new picture – from the "have-nots" that are falling behind.

The haves are potential buyers. The have-nots, realizing that they've failed to invest for the long term, accept selling to the haves as their best alternative course of action. The resulting supply/demand dynamic creates attractive opportunities for buyers and sellers alike.

Another driving force is something we've witnessed for several years now: enthusiastic private equity (PE) participation in print and packaging M&As. Private equity comes either from deep-pocketed venture capital firms or from "family offices" managing the assets of wealthy individuals. Printing and packaging used to be almost invisible to these financiers – but the picture is much clearer and brighter to them now.

Lately, we've been seeing PE investors without previous exposure to the industries showing real eagerness to break in. In one recent deal, we had no fewer than four of these PE newcomers competing with each other for the seller's favor – a sure sign of how lucrative gaining a stake in printing and packaging now appears to the "smart money" out there.

PE players like to make platform investments by acquiring haves that they then can surround with the valuable assets of have-nots. Another tactic of theirs is to acquire two companies in the same market, thereby gaining all the upsides of owning a "centerpiece": eliminating competition, consolidating operations, and cutting costs. Sellers whose companies fit these models shouldn't be surprised to find PE investors showing serious interest in them.

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With all the momentum that M&As had behind them in 2019, it's no surprise that the year included a number of very significant transactions (see sidebar on page 00). Although we can't predict what this year's headliners will be, we're prepared to say that barring an economic shock, 2020 should see even more M&A activity than last year, just as 2019 was busier for dealmakers than 2018.

For sellers, this is the proverbial moment to strike while the iron of opportunity is hot. Owners who have been considering selling should make 2020 their year of decision – it's hard to remember a time when the climate for selling a printing or a packaging business has been more favorable. Buyers, likewise, should have plenty of good choices for meeting their strategic and financial objectives in the companies that come up for sale this year.

The temptation may be to wait until the market grows even hotter, but we urge prospective sellers not to give into it. Many companies that had put off selling just prior to the Great Recession of 2007-2009 linger on the market today as their owners struggle to rebuild them to a point where they'll again be attractive to buyers. In the M&A marketplace, ill-advised delay often spells lasting disappointment.

Right now, the timing is perfect for companies that are growing in desirable niches; have invested in profit-building technologies; keep their customers "sticky"; and avoid commoditization. The larger these standout companies are, the higher the valuations they'll enjoy.

Our recommendation to all sellers is to get the house in order with financial reporting that documents growth, profitability and customer loyalty. Debt should be low, but not by virtue of failing to make capital investments in equipment and other resources that the business needs in order to stay competitive. Buyers discovering gaps in capex investment usually will reduce the offering price accordingly, knowing that they will have to spend money that the seller wasn't willing to.

We also counsel against trying to inflate the appearance of profitability through excessive cost-cutting: something else that savvy buyers can easily spot. On the organizational side, the seller should be able to assure the buyer that the company's management team will remain in place long enough to accomplish a smooth handoff of ownership.

In fact, the best advice we can offer prospective sellers is to run the company as if it weren't for sale, continuing to do all the things that made it a strong candidate for acquisition in the first place. In a year as fruitful for dealmaking as 2020 looks to be, buyers will take notice – and well-prepared sellers will take full advantage of the attention they've earned. PI

sidebar:

If It Moves, Acquire It

2019 was a busy year for M&As in the printing and packaging spaces, with private equity (PE) deals leading the parade. Here are the highlights:

• PE investor Platinum Equity purchased label producer Multi-Color Corp. and merged it with a division of WS Packaging, which Platinum Equity acquired in 2018.

• Platinum Equity completed its buyout of Jostens, a maker of yearbooks, jewelry, and other consumer goods for the K-12 educational, college, and professional sports segments.

• Vision Integrated Graphics Group, a marketing solutions provider acquired by PE firm H.I.G. Capital in 2018, made an acquisition of its own by purchasing SourceLink, a provider of omnichannel marketing solutions.

• H.I.G. Capital acquired Circle Graphics, a provider of made-to-order wall décor and branded out-of-home visual solutions. In January of this year, Circle Graphics announced its acquisition of Metromedia Technologies, a producer of grand and large-format digital graphics for out-of-home (OOH) applications.

• Packaging provider WestRock acquired carton producer UBS Printing Group; as well as Linkx Packaging Systems, a maker of automated packaging machinery.

• Graphic Packaging acquired Artistic Carton Co., which consists of a mill and two converting facilities.

• TC Transcontinental acquired Holland & Crosby Inc., which specializes in in-store marketing products, including advertising displays and signage, for North American retailers.

The year also was notable for a planned major deal that did not come together: the acquisition of LSC Communications Inc. by Quad Graphics, which was blocked by a civil lawsuit filed by the Antitrust Division of the U.S. Department of Justice.

The aftermath has been painful for both companies. Quad had to pay LSC a $45 million reverse termination fee and later revealed plans to sell its U.S. book manufacturing business. At year end, the New York Stock Exchange notified LSC that it would commence proceedings to delist the company’s common stock for failure to maintain market capitalization requirements.

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.