# M&A Trends on the Way to 2021: What We Can See from Here

*By James A. Russell*

The COVID-19 pandemic will continue to have a bearing on mergers and acquisitions among printing and packaging companies as we enter 2021. But, the virus won't be making the deals. Smart owners will, and with realism and flexibility, the deals can be as good as any in a normal year.

If we're realistic, we're going to get through this. Despite all the glum news we've been hearing lately, that's what key printing industry business indicators are telling us.

Not surprisingly, a recent NAPCO Research/PRINTING United Alliance survey found that the pace of business was still far below what would be expected in a normal year. But it also reported that sales, quote activity, and confidence were starting to trend up from the bottom in the darkest days of COVID-19 in March and April. If that's not exactly cause for rejoicing, at least it tells us we have good reason to hang in there and keep on believing that better times are ahead.

We're seeing this new strain of realism at work in the M&A marketplace as well. Sellers who once imagined they would have to ride out only a few bad months now understand that recovery will take longer. They know that if they sell now, they are likely selling based on current EBITDA levels that are probably lower than what their companies generated in pre-pandemic 2019. Even though the multiple of EBITDA has not changed, the gross purchase price is likely to be less because EBITDA is down. This obliges them to adjust their thinking about timing and valuation.

We know an owner who, having enjoyed two very good years in 2018 and 2019, naturally expected 2020 to be the right time to sell. Now he's confronting the likelihood that his numbers will not return to what they were until 2021, and possibly not even then.

He's reconciled to the fact that if he sells this year, the pandemic's negative impact on his company's performance will be reflected in the selling price. The good news is that this well-run company remains highly desirable for acquisition – if its owner accepts the market's present estimate of what the business is worth.

However, the virus doesn't dictate everything. The industry segment a company belongs to and the personal circumstances of its owner still influence the selling decision, even in an M&A market as upended as this one.

For example, businesses concentrated in printing for events are looking at a longer bounce-back period than those producing labels and packaging, where demand hasn't declined nearly as much (and may even have increased). Younger owners may be more willing to tough it out to full recovery than owners nearing retirement age.

**'Second Paycheck' Option**

As it always does, the M&A market is finding ways to adapt to changing economic conditions with creative approaches to dealmaking. We're seeing this on the part of buyers who have to take sellers' COVID-impacted performance into account, but who also want their offers to be attractive, fair, and reasonable.

In this spirit, some buyers are willing to acquire on the basis of 2020 numbers and then wait to see if performance in 2021 rebounds to what it was in 2019. If this happens, the buyer adjusts the purchase price accordingly and sends the seller a "second paycheck" to make up the difference.

In this way, both parties share the risk and the reward of an uncertain situation. If the numbers don't recover, the seller will still have received a price the market deemed acceptable at the time the deal was closed.

It might be thought that with pressures mounting on many sellers and potential sellers, we have entered a buyer's market similar to the one that followed the recession of 2007-2009. Interestingly, this hasn't turned out to be the case, at least not so far.

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We actually expected to see more businesses in distress than we did after relief funds from the Paycheck Protection Program (PPP) ran out over the summer, and we're happy to admit we were mistaken. As mentioned, EBITDA for some sellers has come down from pre-pandemic levels, but not as sharply as we've seen it fall because of other kinds of economic shock.

Nevertheless, the market is full of opportunities for active buyers, who continue to have a number of favorable trends on their side. Interest rates on money to finance acquisitions remain historically low. The private equity (PE) capital that has funded so many print and packaging transactions in recent years is still there, and PE investors are still looking for places in the industry to put it to work.

And, organic growth remains as challenging as ever to achieve: an incentive to buyers to grow by acquisition, and an encouragement to sellers to position themselves to be acquired.

**Tried-and-True Tactics**

Pandemic or no pandemic, the way to do that is to continue to manage the business in the same way that has always kept it strong and successful. Clean up the balance sheet, and retire debt. Operate in as lean a manner as possible, including resisting the impulse to refill positions previously eliminated in headcount reductions. If there is an opportunity to pick up accounts from a struggling competitor, seize the opportunity.

Above all, build value by doing whatever it takes to keep customers sticky – convinced that there's no advantage for them in abandoning their current provider for a competitor. Make it as easy as possible for them to place, track, and repeat orders through a customer-facing digital storefront: a prerequisite, in our opinion, to retaining customer loyalty in a business climate that can only grow more competitive.

Recovery will occur, but when it does, it won't necessarily be easy to recognize. The strength of the rebound will vary, and probably widely, according to industry segment occupied, products and services offered, and the customer bases served. The timing is still anyone's guess. We are all hoping for a return to normalcy in 2021, but there is no guarantee that even a full a year on the right track will be enough to deliver everything we want to see.

But, print and packaging company owners who survive crisis don't do it by holding out for guarantees. They double down on uncompromising customer service, tight financial discipline, and smart business management – and it works. That's one M&A trend for 2021 that we can and do predict with absolute confidence.

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.