Feel That? It's Momentum, and It Will Continue to Drive M&As in 2023

By Peter J. Schaefer

NEW DIRECTION PARTNERS

What will 2023 do as an encore to the record M&A activity seen among print and packaging businesses in 2021 and 2022? So far, the answer seems to be a near-repeat performance

None of us owns a crystal ball, but even if we did, the economic outlook we could see inside it would be murky. Inflation has receded a bit, but no one knows if the trend will continue. Fear of a recession is a little less than it was, but the prospect of entering one this year is still very real. And, who can say what will happen if there is a Congressional showdown over the national debt limit in Washington in June, as some are predicting?

The signals are hard to read, but they don't change a forecast that we still are willing to make: that the pace of mergers and acquisitions in the printing and packaging industries in 2023 will remain nearly as strong as it was in the record years 2021 and 2022.

The main source of our optimism is knowing that the M&A market for printing and packaging companies is flush with eager buyers. Among these, perhaps the most active are financial buyers using private equity (PE) funding to build platforms of related businesses that, in most cases, they intend to sell for higher multiples in years to come. Until very recently, low interest rates made it easy for PE buyers to obtain the leverage they needed to get their deals done.

All that said, the strategic buyers remain keen to make deals given that a smart acquisition almost always creates value for its owners, employees, and customers. Finally, we have seen renewed interest post-COVID from the European consolidators that are chomping at the bit to expand into North America.

Pent-up, but Not Forever

The COVID-19 pandemic held back the pace for most of 2020. But in the two years that followed, the M&A market flourished in response to the pent-up demand that the slowdown had created. And, sure enough, 2021 and 2022 turned out to be record-setting years for New Direction Partners in terms of the number of transactions we helped buyers and sellers to close.

Driving many of them was the remarkable enthusiasm of PE buyers for acquiring print-based firms: primarily packaging companies, but other types of businesses as well.

Last year, for example, we guided the sale of a top commercial printer in the Northeast to a fledgling private equity firm whose principals were nearly giddy at the opportunities the deal held out for them. More recently, we brokered the purchase of a major direct mail producer by a PE investor after fielding numerous offers from other PE players and strategic buyers as well.

Barring the unforeseen, we don't think there is much standing in the way of a similar pace of buying and selling for the remainder of 2023. If it isn't quite up to that of the prior two years, it will still be robust. This is a clear message to selling owners of financially strong companies that they will not have a better moment than now to move ahead with their plans to capitalize on what they have spent so many years building up.

Given that recessions occur every five years or so, we probably are overdue for a downturn that could put some M&A activity on hold. But, we agree with predictions that if one happens this year, the duration will be short, and the landing will be soft.

As for interest rate increases, it's true that they raise the cost of the borrowed capital that PE investors and other buyers rely on. Nevertheless, we haven't yet seen moves by the Federal Reserve changing any of the plans our current M&A clients want us to help them carry out.

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Why M&As Are Essential

The fact is that M&As are good for the printing and packaging industries no matter what the bigger economic picture happens to be. By reducing overcapacity and assuring the uninterrupted provision of products and services to the customer base, they help the sectors mature and consolidate in a positive way. This is particularly true in strategic acquisitions, where the buyers are growth-minded printing and packaging firms seeking to purchase similar businesses for their potential to create new stakeholder value.

These are all reasons why we expect the pace of M&As in 2023 to be close to what it was in the banner years of 2021 and 2022. Another good indication is that EBITDA multiples for printing and packaging companies – the numbers at the heart of the model on which financially healthy firms are valuated for sale – remain about where they've been since the bounceback from the pandemic. That is encouraging news for owners who have well-run and profitable businesses to bring to market.

Owners like these should not let worries about recession or rising interest rates deter them from going ahead with their plans. On the other hand, those whose businesses haven't fully emerged from a COVID-induced slump are advised to hold off until they have 12 to 18 months of solid performance behind them. In all cases, a clean balance sheet is the first thing that a buyer will want to see.

Now's the Time to Buy

If plans have been made to invest in equipment the business really needs – equipment that will improve profitability by expanding the range of things the plant can produce – owners shouldn't hesitate to go through with them. Smart buyers appreciate smart CAPEX investments and will factor them into their pricing.

Don't forget to review the customer list for relationships that could complicate the company's prospects for being acquired. We discovered, for example, that a selling client of ours would come to the end of a contract with its number one account at about the same time the owner wanted to bring the company to market. We advised renewing the contract first to avoid stirring any doubts in a buyer's mind.

Uncertainty is never good for business, and 2023 has already brought its share of unanswered questions about what the printing and packaging industries are in for next. But, there is still so much positive carryover from the two years preceding it that we don't expect its remaining months to be anything other than a period of exceptional opportunity for buyers and sellers alike. Seize the moment, and reap the rewards!

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.