A Six-Step Guide to Successful M&As (Part 1)

By Peter J. Schaefer

NEW DIRECTION PARTNERS

Begin by identifying objectives, using that insight to pinpoint the right candidates to acquire or be acquired by. Then, watch the rest of the M&A process unfold according to a time-tested plan.

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Almost everything that matters in business and life is the result of a process: a series of defined steps leading to a desired outcome. Over the years, we have seen that buying or selling a printing or a packaging company usually consists of a six-step sequence of events that every owner can follow to reach a successful deal:

1. Forming the strategy
2. Identifying the target
3. Conducting the preliminary review
4. Negotiating
5. Performing due diligence
6. Circling back to confirm the details

The process is the same for sellers and buyers, and its outcome is the closing of a transaction that rewards both parties. We'll discuss steps 1 and 2 here and address the rest of the sequence in columns to come.

The main thing to know about step 1 is that doing it properly can make step 2 a good deal easier. Case in point: the recent acquisition of the labels division of a NYSE publicly traded conglomerate by a leading U.S. label converter, in which New Direction Partners represented the buyer.

Our client knew exactly what it wanted a growth-by-acquisition strategy to deliver: a broader territorial footprint; a new cohort of highly skilled employees; and advanced equipment with new printing capabilities. This helped us to target the search to a group of qualified candidates that included the division that was ultimately acquired.

Too Many Is Too Much

Because the buyer's strategy and objectives in the first step of the process were highly specific, the second step could be carried out much more efficiently. Admittedly, it doesn't always happen this way. If a buying client were to come to us, as some have, with annual sales as the sole criterion, that might give us hundreds if not thousands of potential sellers to sift through before the rest of process could move ahead.

As they form their strategies, buyers should be clear about what they want as well as what they don't want in companies to be acquired. A want could be a capability that the buyer doesn't already have, or a book of commodity business that can be folded into the buyer's plant. For many buyers, a seller's unionized workforce is a definite don't-want. The more items that can be identified under both headings, the smarter the candidate search will be.

Sometimes, an owner's first strategic decision is to determine which of the two roles to play. One of our clients, a major producer of POP displays, found itself outsourcing large volumes of other kinds of printing that its customers also wanted to buy. The fork in the road for this company was deciding whether to add these non-POP capabilities, or to sell its POP business to a printer that could provide everything under one roof. They chose selling as the best way to perpetuate their operation and keep their customers satisfied.

This story highlights the fact that sellers have to be just as certain of their strategies as buyers. In one sense, they have even more to think about, since selling a company changes the seller's role in a way that acquisition doesn't change the role of the buyer as the person in charge. This means, for example, that a seller who wants to stay active in the business will want to connect with a different type of buyer than the seller whose goal is to move on to other things.

Second Act with Private Equity

A great match for a seller whose working years aren't over is often a private equity (PE) buyer, who will typically expect the seller to continue in an executive role as the PE buyer builds a platform of companies around the one initially acquired. On the other hand, a seller wishing for a quicker exit may be better off seeking a deal with a strategic buyer, where the seller probably would be asked to stay on only for a short transitional period after closing.

When buyers and sellers know precisely what they do and do not want, their well-defined strategies create better opportunities to bring them together.

Another of our clients, the owner of a successful direct mail business, realized that the segment was transitioning to digital and inkjet production. But, he also knew that he did not want to make the inkjet investment himself. This was our cue to connect him with buyers who had the technology and could support his volume with it. A client we recently helped sell to a group of PE investors is actively seeking to acquire a company with inkjet capability as part of the platform-building strategy it is now executing.

Real estate considerations often dictate the strategies of sellers and buyers. The client who got the proverbial offer he couldn't refuse for his building now faced the question of what to do with the printing operation inside it. The answer was the sale of the business to a strategic buyer that could absorb the workload, freeing the seller's plant to be repurposed by its new owner.

All of these transactions succeeded for the same reason: they began with clear strategic objectives leading to the right choice of candidates for a mutually beneficial transaction. Completing the first two steps opens the way to carrying out the remaining four with equal efficiency and success.

Matchmaking Makes Sense
A caveat, however, is that steps 1 and 2 can be the most delicate of all because at these early stages, the parties are still strangers to one another. This can lead to misunderstandings that block further progress. A buyer making a cold approach to a seller could incorrectly be seen as an aggressive competitor. A seller making the overture might hesitate to share business details the buyer needs for fear of giving away competitive advantage.

Experience shows that the best way around these obstacles is to entrust the initial contacts to a qualified third-party advisor representing either the buyer or the seller. By acting as a knowledgeable go-between, the advisor can set the stage for a cordial first meeting and a productive series of engagements to follow. When that happens, the six-step process toward a successful deal will have gained a promising momentum of its own.

Next: Conducting the Preliminary Review. Negotiating. (Printing Impressions, September 2023)

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.