Reports of an M&A Slowdown Are Off the Mark – Here's Why

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NEW DIRECTION PARTNERS

Commercial printers can thank the steadfast strategy of financial buyers for keeping the pace of acquisitions brisk in 2023 and carrying the momentum over into 2024.

There was some talk last year to the effect that the pace of mergers and acquisitions in the printing and packaging industries was starting to slow down. Frankly, we thought the same thing might be true around the beginning of 2023, as we watched rising interest rates and fears of recession dampen the enthusiasm of many business owners and would-be buyers.

We all remember too well that printing and packaging had pretty much been blackballed by financial investors and lenders following the Great Recession of 2008-2009 – a reminder that if the economy as a whole takes a severe nosedive, our industries typically are in for a rough ride.

None of that came to pass in 2023, and we don't foresee it happening this year. This is largely due to the business model of financial buyers, which has proven to be consistently sound and profitable when applied to printing and packaging companies.

Financial buyers are investors: private equity (PE) groups that use their own capital as well as borrowed funds to create business entities they intend to sell for profit at a later date.

The strategy begins with acquiring one company as a "platform" to which others are added until the desired footprint and economies of scale are achieved. The process usually takes three to seven years, at the end of which time the conglomerated business is "flipped" to a new owner with a solid ROI for the seller.

Steady as She Goes

To reach this point, PE investors strive to stick to the plan of building up the business through acquisitions around the platform – which is exactly what most of them continued to do with their printing and packaging holdings throughout 2023, regardless of the bigger economic picture. This helped to keep the pace of M&As from slowing down significantly last year, sustaining a momentum that should continue to stimulate dealmaking in 2024.

Owners of packaging companies – particularly manufacturers of flexible packaging and labels – tend to be the biggest winners in this seller's-market scenario. This is primarily because they are growing. Growth drives buyer interest, EBITDA multiples, and selling prices for owners ready to field offers from financial buyers.

But, commercial printing companies can also be on private equity's radar if they are well managed, profitable, and most important, focused on print market segments in which PE investors see growth potential.

One of the most attractive applications is direct mail, especially when produced digitally for 1:1 personalization. Another is POP, rebounding in the aftermath of COVID-19. Envelope converting also looks good now that it is no longer constrained by paper shortages. Book printing has its own place on the list of opportunities that PE investors favor.

Each of these specialties is a competitive differentiator that steers the company clear of the commodity pricing trap. A general commercial printer without differentiation may not draw as much notice from private equity unless it has critical mass in the markets it serves.

News of industry M&As in the last few years includes notable examples of PE interest in the commercial print segment:

• The most active buyer in this space is Marketing.com, owned by JAL Equity: a PE investor that has made a large number of commercial print acquisitions in which New Direction Partners represented the sellers.

• We represented CP Direct in its sale to Granite Creek Capital for that PE group's first investment in print. It worked out so well for them that they then acquired Salem One, which offers packaging and direct mail as well as commercial print. Granite Creek turned this acquisition into a separate platform for direct mail.

• Having bought Prisma Graphic in 2022, CenterGate Capital remains on the lookout for more opportunities to grow by acquisition.

• New Direction Partners represented Sandy Alexander in its sale to Snow Peak Capital, which followed up by acquiring another of our selling clients, Abbott Communications.

Strategic Buys Still Matter
We shouldn't overlook participation by strategic buyers in the M&A market for commercial printing. Strategic buyers seek to purchase companies like their own with long-term growth as the goal. Acquiring a similar company spurs growth by bringing in new customers, broadening the buyer's geographic reach, or adding products, services, and capabilities that the buyer does not have.

Very active national strategic acquirors whom we know well are CJK Group, Mittera, and Taylor Corporation. There also are numerous regional strategic acquirors looking for the right opportunities.

These buyers know that a well planned and executed strategic acquisition creates value for everyone concerned. Unlike PE investors with time-delimited resale targets, they see acquisitions as enduring propositions for stability and growth. The continued presence of strategic buyers remains key to keeping the pace of M&As within the commercial printing segment healthy and strong.

Given all of these trends, our view is that M&A activity in 2024 should be at least as vigorous as it was in 2023. No one has a crystal ball for the economy, but there's reason to be optimistic that interest rates may come down, taxes won't increase, and recession can be avoided against the backdrop of a presidential election year. We might even see an uptick in M&As across the board, in commercial printing as well as in labels and packaging.

That makes it worth repeating our recommendations both to owners who are ready to sell and to those who wisely see selling as part of a longer-term business strategy.

First and foremost: don't stop making investments in the equipment and capabilities the business needs to stay profitable. When buyers perceive underinvestment that they will have to make up for post-sale, it will be reflected in the decreased size of the offering price.

When possible, keep balance sheets and income statements free of things such as personal assets and non-recurring items that could distort the valuation of the company.

Focus on timing. It's always desirable to sell while the business is growing, but waiting until growth has peaked can scare off buyers worried about a slippery slope to follow. Fortunately, most owners have an innate sense of how much room they have left to grow the business. That is the window in which to sell.

Make Haste Slowly
Along the same lines, owners of companies attractive to financial buyers should be wary of trying to sell at a point where they would need to make a quick exit from the business. This is especially true for owners with critical relationships to key accounts.

Financial buyers typically don't involve themselves in the day-to-day running of the business, and the last thing they want to be faced with is having to hire a new CEO on short notice. Sometimes, sudden departures for personal reasons are unavoidable. But, if the seller can't commit to a reasonable transition period, he or she should reasonably expect this to impact the valuation of the company and the size of buyer's offer for it.

Complications aside, the industry should come to the end of 2024 with another strong track record of M&As behind it – commercial printing included. At New Direction Partners, we're always eager to discuss the outlook and the opportunities with buyers and sellers alike.

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.