

WHEN SELLERS SAY, 'SHOW ME THE MONEY,' WHAT SHOULD THEY EXPECT TO SEE?

By Patrick Henry | *June 7, 2013*

NEW DIRECTION
PARTNERS

Cookie-cutter thinking has no place in M&A transactions. Because printing companies and the personalities behind them are unique, no deal can be a carbon copy of any that preceded it or a rubber stamp for any to follow. But, over time, patterns in print industry dealmaking have emerged, and the M&A strategists at New Direction Partners (NDP) are well acquainted with all of them.

Consider deals with cash payouts at closing, the kind that most sellers aspire to make with motivated, well-financed buyers. The pattern that NDP partners Jim Russell and Peter Schaefer see here is a restricted one, tending to favor only large, top-performing companies or those with unusual product specialties or production processes. A business that fails to match these profiles most likely will have to be content with a tuck-in or another arrangement that doesn't include a substantial up-front cash payment.

That's the pattern—but Russell and Schaefer also have seen the exceptions. They say that two deals recently closed by NDP give good insights into how cash payments can be generated when one printing company acquires another.

The first case study involves a deal in which the cash payment was no surprise, given the desirable attributes of the seller.

In the second example, a deal that ordinarily wouldn't have involved cash did lead to a full payment at closing, thanks to something on the seller's books that a buyer ultimately found too attractive to pass up.

All the right elements were in place for a cash transaction between the buyer in the first case, a large national consolidator, and the seller, a profitable and growing company doing very well in one of the segments that buyers find most desirable. These niches, according to Schaefer, include wide format, data analytics, fulfillment, Web-to-print digital storefronts, and POP.

The seller's company wasn't large, but because it boasted a 15% EBITDA margin and was growing rapidly, NDP was able to generate enough interest to facilitate a competitive bidding process. In an auction of this kind, the seller's representative establishes requirements for buyers, reaches out to those who are qualified to bid, and creates a timetable for responding.

Of the roughly 30 companies invited by NDP to bid, nine indicated interest, and six followed through with offers. The seller picked the prospective buyer it liked, and within six months, the entire process—including due diligence, negotiations, and signing—was complete.

Schaefer says that deals with "bidding wars" have been few and far between since the late '90's, when opportunities for competitive auctions were more numerous than they are today. He adds that although the transaction with the winning bidder was based on a respectable multiple of EBITDA, the number wasn't what it would have been in the same kind of deal 20 years ago. Those kinds of multiples, he counsels sellers, aren't likely to be seen by most printing companies in the climate that exists now.

According to Schaefer, the national consolidator got what it wanted by making the proverbial offer that couldn't be refused—a "very compelling" bid that the other hopefuls were unable to match. He notes that in many auctions, however, the offers tend to be similar enough to leave the outcome mostly to "chemistry" between the seller and the buyer whom the seller is most comfortable with.

But, chemistry won't get a chance to happen if the fundamentals of what's being offered for sale don't measure up to buyers' expectations. Russell remembers NDP's attempt to engineer a cash-at-closing transaction for a company whose 12% EBITDA margin appeared to give it a fair shot at getting one. However, because the company was a relatively small (\$8 million) commercial printer without a distinctive specialty, it lacked the heft needed to interest potential acquirers in making a cash deal.

Another NDP client, a company facing even longer odds against selling for cash, was luckier. Russell describes it as an underperforming, \$15 million operation owned by a private equity firm that wanted out—hardly the profile of a magnet for a cash transaction. Predictably, national buyers passed the opportunity up. Consolidators, Russell says, typically aren't interested in turnarounds unless the seller's operation will be exceptionally easy to absorb into the buyer's national footprint.

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Nevertheless, NDP was able to stimulate competitive bidding between two regional firms eager to take over something special that the seller brought to the table: a multi-year contract and a strong relationship with a major client, effectively guaranteeing that a large portion of the seller's revenue would remain with the buyer. Because the contract work would be readily transferrable to whoever bought the business as a whole, the seller possessed an attraction that balanced out its downsides as an acquisition target.

In the end, the seller got cash from the winning bidder. There were no subsequent payouts, and the money paid at closing, says Russell, was less than what the seller would have received had the deal been structured around future royalty payments. But, because the seller obtained both the cash and the exit it was looking for, both the buyer and seller consider the deal a success.

The takeaway, say Schaefer and Russell, is that while cash at closing isn't an impossible dream for printing businesses lacking in size or specialization, sellers need to be realistic about what today's M&A market will bear. They emphasize that with proper counseling, every seller can reasonably expect to make the best deal that its circumstances will permit, whether or not up-front money belongs in the picture.