

Fair to Middling Marvelous

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Many printing companies belong to what investors call the “middle market”: businesses that we define as having annual revenues between \$5 million and \$100 million. Not all that long ago, it seemed that investors seeking middle-market opportunities wanted to look at anything but printing—the stigma unfairly placed on the industry during and after the recession frightened the “smart money” away in the 2009 timeframe.

This, happily, has changed, and for the last several years, middle-market investors have shown that they now regard acquiring profitable, well run printing and packaging companies as a smart play. Recently, New Direction Partners spoke with a group of these investors about structuring a multi-company transaction. It’s a conversation we wouldn’t have expected to be having on behalf of printing firms just a few years ago.

Owners thinking about selling should be aware of who these players are and how they make decisions about targeting companies for acquisition. In almost all cases, they’re private equity investors: financial buyers with cash they want to put to work in both short- and long-term ventures. As buyers with purely financial objectives, they differ from buyers who acquire strategically: for example, a printing company buying another company to obtain its customer base, its technology, or both.

Often, the financial buyer’s objective is to hold the acquired company for a certain number of years, improve its performance, and then sell it for a profit. But, we’ve also seen open-ended acquisitions meant to generate growth and cash flow for the investor over the long term. Private equity players may have a combination of financial and strategic objectives, such as when the investor acquires a company to expand a platform of businesses it already owns. The good news here is that private equity now believes printing companies have a place in each of these scenarios.

As individuals, private equity investors come from backgrounds such as financial management, investment banking, and business consulting. Although the strongest players tend to self-fund from existing resources, private equity deals are often also typically done with borrowed capital. In many cases, private equity investors like the seller to keep “skin in the game” by retaining a share of ownership—another difference between these buyers and strategic acquirers, who typically want 100%.

How can a middle-market seller connect with private equity investors? A good way is to work with M&A advisors who move in these circles and understand how this type of investment comes together. Recently, New Direction Partners received some recognition along these lines when it was named one of the country’s best middle market M&A advisory firms in a survey of private equity players by Axial, a consultancy for private investment. But, we always urge our clients not to overlook strategic buyers—demand from both categories of investors is strong.

As always, we counsel owners not to delay taking advantage of the demand. Capital is still available, and interest rate hikes by the Federal Reserve shouldn’t discourage motivated buyers from borrowing it. There’s general optimism in the business community about anticipated trends in taxation and business regulation over the next few years.

Eventually, we will face the slowdown that follows every period of economic recovery. As any smart private equity investor would agree, it would be a shame to sit waiting for it when there are attractive deals to be done in the here and now—where the middle market has never looked better.

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.