

# Update: the M&A Outlook for Printing and Packaging in 2021

By Paul V. Reilly and Peter J. Schaefer



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Any slowdown in the pace of M&As among printing and packaging firms is only temporary. The industry is recovering, buyers are flexible, and the fundamental forces that drive M&A activity are still in play.

We haven't arrived yet, but at least we know that there's a "there" there – and that we're closing the distance between ourselves and it. With a return to normal business conditions in sight, we are already seeing a pickup in activity for mergers and acquisitions in printing and packaging in 2021.

2020 put a serious damper on industry sales, although packaging firms generally fared better than commercial printing businesses. The latest NAPCO Research/PRINTING United Alliance COVID-19 Print Business Indicators Survey tells us that toward the end of the year, more companies were starting to report upward trends in business activity than those reporting declines. Encouragingly, Alliance economists are holding to their projection of sales growth between 2.5% and 4% this year.

This doesn't add up to a complete rebound for M&A activity, at least not right away. Many companies continue to struggle, and many potential sellers, focused on restoring their businesses to full health, have back-burnered their selling plans for now. In any case, it will be difficult to determine valuations until the market settles down and nervousness about the future subsides.

## Buyers Haven't Gone Anywhere

That said, owners whose print and packaging businesses came through the pandemic's first year in reasonably good shape are still well positioned to sell on acceptable terms. This is because the buyers haven't gone anywhere, even though they may have shifted into a lower gear for the same reasons sellers have. They still have cash, and as they scan the print and packaging segments for opportunities, their motivation remains high.

There are two kinds of buyers: strategic and financial. Those in the first group mostly are print and packaging firms looking to acquire other print and packaging firms for strategic reasons. These could include bringing in new volumes of business, in the form of acquired accounts, when organic growth has stalled; expanding into new geographical territories; and adding technologies, products, and services that the acquiring firm does not have.

Financial buyers are investors – financiers seeking a return on their investments in sectors where they see that prospects for growth are good. Using both borrowed money and private capital, they seek out solidly-performing acquisition targets they believe they can make even more profitable; or that they can add to a platform of similar companies previously acquired. The high flyers in this group are the private equity (PE) firms: boutique investors with access to capital from high-net-worth individuals and other well-funded sources.

Since COVID, we've been seeing some hesitancy on the part of strategic buyers, who are concentrating on getting their own houses in order as they try to determine what the recovery will look like and how the lending environment might change. But, many of these buyers have excess capacity to fill, and they know that they can't postpone acquiring new accounts indefinitely. The financial buyers, meanwhile, have a lot of money that they don't want to keep sitting on the sidelines. We think that these trends will converge at some point this year in a renewed surge of M&A activity.

## Sellers Still Want to Sell

It's important to remember that many firms have not been negatively impacted by COVID. In fact, many packaging, label, and niche commercial printers have seen their sales and profits grow in the past year. These COVID winners are busy, and they're enjoying great valuations right now. Many of the COVID wounded were bolstered by forgivable loans from Small Business Administration's Paycheck Protection Program (PPP), which received a second round of funding in January. These firms are planning on returning to the market after the current qualification period ends.

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Meanwhile, the availability of cheap and plentiful money for financing acquisitions is supporting solid multiples – some of the best we've in the last 10 years. Proposed increases in capital gain rates are driving many sellers to close their deals before year-end. As strategic buyers who were reluctant to perform due diligence during COVID get back into action, we foresee a return to robust activity.

Another positive sign is the flexibility that some buyers are showing in the way they structure deals with COVID-impacted sellers. In cases where the seller has recovered quickly, the buyer may be willing to remove the two or three months of poor results and plug in the same number of months from the pre-COVID year, so that there's no penalty to the calculation of selling price. (We call this EBITDAC: Earnings Before Interest, Taxation, Depreciation, Amortization and Coronavirus.)

In the same spirit of accommodation, some buyers will acquire on the basis of 2020 numbers and then wait to see if performance in 2021 rebounds to what it was in 2019. If this happens, the seller gets an earnout – in effect, a second paycheck – to make up the difference between the initial selling price and the adjusted one.

## Hope in Distress

We wish we could say that every printing business is looking at good options like these, but the sad fact is that for some of them, the damage done by the pandemic has been too severe. These firms have been staying open mostly by virtue of their PPP loans. Once that resource is exhausted, however, they will have some tough choices to make.

Liquidating press equipment and other assets probably won't be advisable, given that liquidation values currently are low. We think this will lead to an uptick in opportunities for tuck-ins and cashless mergers once troubled owners realize there are alternatives to locking the doors and selling everything off. When done correctly, these transactions create value for buyer and seller alike, even if the seller is struggling financially.

## The Watchword Is Optimism

A year ago, in a forecast published in these pages during the some of the worst moments of the pandemic, we acknowledged that in the short term, we didn't know what would happen – the upheaval to the economy had been too sudden, and it was too soon to measure the extent of the loss. We also said that as the threat of the virus started to fade and the economy began to rebound, M&A activity would rebound along with it.

We're sticking by that prediction. Today we have vaccines, hope, and a powerful pent-up desire to get back into the normal rhythms of business. The printing and packaging industries remain among the most highly fragmented industries in the U.S., and fragmented industries inevitably consolidate through M&As. Owners of printing and packaging companies who are ready to move onto the next stages of their lives continue to search for profitable exit strategies.

We still don't know exactly what will happen, but we're confident that any slowdown in the pace of deal closings is only temporary. As always, those thinking about deals of their own on either the buying or the selling side are invited to discuss their aspirations with us. We're in the listening business.

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](http://www.newdirectionpartners.com).