As Business Climate Stabilizes, M&A Marketplace Plays to Its Strengths

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NEW DIRECTION PARTNERS

The pace of mergers and acquisitions among printing and packaging companies is more vigorous than it has been in a long time – and is likely to stay that way.

With the COVID-19 pandemic still not entirely in the rearview mirror, and with world events in crisis, predictions about the business outlook can be risky to make. But, we're thinking that an upbeat view of the current state of mergers and acquisitions for printing and packaging firms is still justified. What's more, we're projecting that the pace of M&A activity should continue healthy for the rest of the year, even if some general economic indicators don't stay as strong.

Right now, the M&A marketplace is more robust than it has been in decades. After hiccups in 2020 due to the pandemic, the commercial and packaging segments began growing again in 2021. They are riding the same momentum this year against a backdrop of solid growth in GDP, interest rates that remain at historic lows, and friendly treatment by banks and other lenders. The result is a climate in which buyers and sellers who want to do business together can do it with creativity and confidence – the keys to successful acquisitions in any industry.

In fact, it's hard to remember a time when as many buyers were going in search of deals as we are seeing now. Some are strategic buyers: established printing and packaging companies that want to grow their business volume, product offerings, technological capabilities, geographic footprint, or all of the above by acquiring other firms as either going concerns or tuck-ins. Their sustained interest is a clear sign of the M&A market's underlying strengths.

PE Leads the Charge

But lately, significant activity has been coming from private equity (PE) investors whose objectives are more financial than strategic. Often, these well-capitalized players have little or no previous exposure to printing and packaging; they just recognize high potential returns on their money when they see them.

PE participation in print-related sectors used to be almost nonexistent. Nowadays, however, these financial buyers are lining up against each another for a crack at acquiring desirable printing and packaging firms. As in the epic clash between Chatham Asset Management and Atlas Holdings over R.R. Donnelley, PE investors have shown that they have the resources as well as the determination to go after what they want.

The question is how long this seller's market for owners of printing and packaging companies – because that it what it currently is – can last. Two schools of thought apply.

One holds that while confidence in growth is running high, it could decline in the second half of 2022 (an idea borne out by recent responses to PRINTING United Alliance's "State of the Industry" surveys). The difficulty of absorbing the costs of inflation also suggests that while revenues might go on growing, profits could do the opposite – with corresponding negative effects on business valuations and EBITDA multiples.

We are more closely aligned with the second school's belief that structural changes in the printing and packaging sectors will offset these concerns. Despite consolidation within the sectors in recent years, they remain highly fragmented, with few dominant players. Competition will make further consolidation inevitable, keeping the pace of M&As brisk no matter what other forces may be at play.

Distinction with a Big Difference

Another factor in favor of M&As is the widening gulf between the haves – firms that invest in growth-building and customer-retaining technologies – and the have-nots: those still trying to get by on legacy capabilities and static business models. There comes a point when owners of have-not firms, realizing how vulnerable their businesses have become to the haves, start actively seeking to be acquired by them. We expect to see this kind of motivation driving more deals in the months ahead.

These are all reasons why we believe M&A dealmaking will stay in high gear even if the general economy hits speed bumps. In the event of a downturn, the outcome for M&As would still be positive, since downturns tend to increase the number of tuck-in possibilities coming to market. And if no more shocks to the system are headed our way, the best-case combination of a strong economy, sustained strategic buying, and enthusiastic PE investment may not be too much to hope for in 2022.

For owners of printing and packaging companies, this means that the time has come to embrace the role either of seller or buyer. In a climate of opportunity like this, every owner should be thinking like one or the other even if there are no immediate plans to act. It can take months for both parties to an acquisition to craft a successful deal. There is never too soon a moment for buyers to begin identifying their targets, or for sellers to start preparing their businesses for the financial due diligence they can expect buyers to conduct.

Tough Times Don't Last

Our general advice is to stay optimistic, and judging from what we see among our clients, that is exactly what owners of printing and packaging companies are doing. There's a sense that supply-chain slowdowns, paper price increases, and other present headaches won't last indefinitely, and that so far, they haven't hurt the valuations of selling companies. Buyers, for their part, are being very understanding of what sellers have been up against and are structuring their terms accordingly.

That's as encouraging a frame of mind as anyone could hope to be in after all that business owners have had to endure over the last couple of years. We expect to see it reflected in further M&A transactions that leave buyers well satisfied, sellers well compensated, and the industry as a whole well positioned to prosper.

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.