The Anatomy of an Acquisition

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NEW DIRECTION PARTNERS

The story of a sale with a "second bump" is a case study of how the most profitable mergers and acquisitions fall into place.

In 2025, our columns in Printing Impressions will take a different approach by sharing the stories of actual M&A transactions that New Direction Partners has had the privilege of managing for its clients. We'll withhold names and certain other details to protect privacy. But each of these narratives will paint an end-to-end picture of what it takes to make the sale of a commercial company successful.

The selling client that is the star of this story was a commercial printing operation that had been formed by the merger of two firms serving the same regional market. New Direction Partners learned about the owners through another selling client we were representing, and at his recommendation, we struck up a relationship to help them understand what their options might be.

There were three owning partners: two who had worked together elsewhere before starting one of the two firms that merged; and one from the other company. The combined venture had grown to about $20 million in sales by the time the partners decided to sell it.

The company's main business was printing, kitting, and fulfillment for the pharmaceutical industry. But the owners also saw an opportunity to produce short-run folding cartons for local food manufacturers and distributors, and by that route were able to enter the packaging business as well.

Keeping a Stake

Pharma, food, and packaging are excellent markets to be in, and our client's presence in them is undoubtedly one of the things that persuaded a large private equity investment firm to purchase the company for 100% cash at closing. We urged the sellers to consider retaining some equity in the company post-sale – a decision that would prove very advantageous to the two owners who took our advice.

This is because the new owner did what financial buyers like PE firms typically do: use the initial purchase as an investment platform to build upon with additional acquisitions. In this case, the buyer immediately went out and purchased another printing business with large pharmaceutical clients. The buyer then renamed the combined operation and sold it to a well-known label producer less than three years after closing the original deal with our clients.

Thanks to the equity stake they'd retained, two of the partners profited very handsomely from the "second bump" they got when the PE buyer flipped the operation to a new owner. Some sellers – like the third owner in this story – do not retain equity, instead collecting full purchase price at closing. But our two clients, neither of whom had yet reached retirement age, saw the wisdom of continuing to work with a strong buyer whose intentions to resell were clear. Their strategy just as clearly paid off.

Considering that it unfolded during the COVID-19 period, the sequence of events in our client's acquisition went reasonably smoothly. New Direction Partners had serious discussions with several other prospective buyers before the PE investor came along. This firm is strictly professional in the way it operates, and like other sophisticated PE investors, it uses third-party contractors to perform the various steps of due diligence leading to closing.

T's Crossed, I's Dotted

These painstaking hired experts drew out the due diligence process longer than necessary by subjecting our client to a degree of scrutiny that smaller businesses don't usually receive. COVID-related travel restrictions at the time did not help either. Some frustration arose as an examination that should have been completed in about 90 days stretched across several months. But patience was kept, and the ending was a happy one all around.

Due diligence begins with the signing of the letter of intent (LOI) and concludes with the execution of the deal. Ninety days is the norm for the process, but we sometimes see it happen in a matter of a few weeks. This occurred with a buying client of ours who, after turning his operation all digital, wanted to find a complementary business for a family member to run.

We helped him to identify one in a geographical location he liked – a commercial shop with legacy equipment that could handle long-run book work more efficiently than his all-digital operation. Having acquired several other businesses prior to this, he knew how to perform due diligence without bringing in an attorney or other external personnel.

Admittedly, this is unusual. But by doing everything himself, our buyer streamlined the process, established the synergy he wanted to achieve, and avoided the procedural holdups that outsiders sometimes cause.

No Substitute for…

We have the greatest respect for the attorneys, accountants, and other professionals that our clients rely on, but if these advisors are new to mergers and acquisitions, their well-intentioned advice can be counterproductive. Owners of small, family-run businesses attempting their first transactions are especially ill served by guidance that lacks grounding in M&As.

This is why we recommend that selling owners begin exploring their options early with the help of advisors whose sole focus is transactions within the printing and packaging space. Sometimes the working relationship takes time to ripen – several years elapsed between the first meeting with our featured selling clients and the start of the deal we helped them make. But we think they would be the first to agree that the final payoff was well worth waiting for.

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.