The Anatomy of an Acquisition

By Jim Russell

NEW DIRECTION PARTNERS

This case history of a successful M&A transaction highlights the value of perseverance in bringing a seller together with the right buyer.

In 2025, our columns in Packaging Impressions are going to take a different approach by telling 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 a start-to-finish picture of what it takes to make the sale of a label or packaging company successful.

This issue's story began as a result of a relationship we struck up with a member of a national buying consortium that we'll call NBC. As a partner of NBC, we attend their annual conferences and offer their members a service we call a desktop valuation: a straightforward exercise that reveals what the business might be worth in a third-party sale transaction. It also suggests what can be done to increase the company's valuation in the marketplace.

We deliver the desktop valuation in the form of a five-page document that calculates a selling price for the business in two ways: as a multiple of EBITDA; and as the worth of the company's assets in a sale structured as a tuck-in. The higher figure represents our best estimate of what we think the seller's market value is today.

The NBC member who became our client asked us to perform an initial desktop valuation that we then updated for them over the next couple of years. Once they'd decided that they wanted to sell the business, they engaged New Direction Partners to represent them.

One or the Other

The engagement was a bit unique because at the time, we also had a client who wanted us to find a label company for them to purchase. We introduced the buyer candidate to the seller as the representative of the buyer, avoiding the conflict of interest that would have arisen from attempting to represent both parties.

After a few months, however, it became clear that a deal between the two wasn't going to materialize. Now free to represent the seller, we went back to market using our own list of buyer candidates as well as leads provided by Axial, a subscription-based network for professionals who craft M&A transactions for middle market companies.

Within a few months, we had two offers. One was from the same buyer whom we'd represented in the first go-round. Knowing there was competition, they came back with a better offer for the seller, whom we were now representing. The other offer was from an individual from outside the seller's region who had no direct experience in the label industry but was eager to break in.

Although this buyer had previously worked for a supplier to the label industry, his relative lack of industry exposure was one reason the seller was reluctant to work with him. They were also concerned that because he was acting on his own, not on behalf of a company, he would be unable to raise the financing he would need to meet their price. And so they decided to take a second pass at negotiating a deal with the buyer we'd brought to them initially.

Not So Fast

But because this buyer had never acquired a company prior to this, they made some missteps. For example, one of the first things they wanted to do in the due diligence phase was to talk to the seller's employees and get a feel for the company culture.

However, given the fact that sellers naturally don't want their people to know that the company is in the process of being sold, contact between employees and the buyer rarely takes place before the deal closes. Assessing company culture is always important, but it's not step one for the buyer.

Eventually, the buyer and seller came to a mutual decision that the fit wasn't right and a deal wasn't achievable. With our buying client out of the running again, we went back to a list of other buyers that included some who had passed on the opportunity before.

But, our individual buyer was also still in the picture despite the fact that his first attempt hadn't gone anywhere. He stayed in touch with us, following up nearly every month to find out how the deal was going and to express his continued interest in working with us and our client, the seller.

We liked him, and we felt that he would be a good buyer for our selling client. So we encouraged him to redraft his offer to see if the seller was willing to take another look at the possibility of a doing a deal with him.

The seller was interested, and the buyer formalized the offer with a letter of intent (LOI) outlining his proposal for the transaction. We also received LOIs from two other prospective buyers: a small private equity firm looking for an investment opportunity; and a printer who was not in the label space but wished to enter it strategically by acquiring a label firm.

A Persuasive Proposition

Meanwhile, our individual buyer had been doing some preliminary work with his bank and the Small Business Administration to ensure he could obtain the financing. SBA loans once were thought of as difficult and cumbersome, and they do place some unique requirements on those who apply for them. But the process has become much friendlier for funding small-business transactions than it used to be, and our buyer was so successful at structuring his loan that he was able to offer the seller all cash at closing with no seller financing.

That relieved the seller's concern about his lack of experience. Now, instead of having to wait for the purchase price to be paid out over a period of years, they could walk away with the entire amount as soon as the deal was done. This meant that they needn't worry about how his ability to run the business might impact them financially after they were gone. They agreed, however to remain involved for six to12 months to insure a smooth transition.

With both parties in general agreement, our individual buyer was ready to proceed with doing his own due diligence on the seller's company. The signed LOI gave the buyer exclusivity from that point forward, as it required us and the seller to refrain from speaking with any other buyers while due diligence was under way.

The due diligence went fairly smoothly. The seller's shop was non-union, its books were clean, and it had no unusual characteristics to slow the process down. Drafting the legal documents for the purchasing agreement included drawing up a new lease for the building, which the seller would continue to own as the buyer's landlord. Also needed was a non-compete agreement with a carve-out that would permit the seller to work for a supplier to the label industry if they so chose.

The deal proceeded to closing, and the employees were notified of the change in ownership a few days after that. Since then, almost all of the news coming from the company has been positive. The new owner has made the business substantially more profitable, doubling its EBITDA and adding positions to its staff. The strongest indicator of the buyer's success came recently when he approached us to say that he was interested in acquiring another business.

Culture and Stick-to-itiveness

All told, the deal took about nine months to complete, which is close to normal for an acquisition of this type. Many things made it work, but the basic ingredient was buyer-seller compatibility. As advisers to selling clients, part of our role is to judge as best we can the character of the buyer and the likelihood of a cultural fit with the seller's business. In this case, our instincts about the buyer were correct, and the fit was a solid one.

Also worth mentioning is the value of perseverance in any transaction of this kind. Even though our buyer was rejected once, he stuck with it and didn't let hard feelings come between him and his objective. And ultimately, he got his prize, and the company has performed extremely well under his leadership. The seller achieved their objectives as well, which were to complete the sale of the business, protect their employees' jobs, and secure a reliable tenant in the building. Because everyone stayed the course, everyone came out ahead in the end.

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.