From ‘Virtually Worthless’ to Richly Rewarding

By Peter Schaefer

NEW DIRECTION PARTNERS

The purchase, sale, and resale of a highly successful business has lessons to teach buyers and sellers about perseverance and faith in better things to come.

A sale of a business that goes from the buyer’s first introduction to the seller to a signed letter of intent in just six days? It isn’t a typical deal, but we had one that actually unfolded that way, and this is its story.

It begins with another sale: that of a heavily indebted flexible packaging company on the verge of bankruptcy. The owner, an inactive investor, focused only on top-line results and didn’t pay sufficient attention to bottom-line margins. As a result, profitability had dwindled to a point where the business was virtually worthless.

But the buyers saw something more.

They were a pair of very young, very high-energy entrepreneurs from outside the printing and packaging industry, and this was their first venture within it. They convinced the selling owner to enter into an informal “sweat equity” arrangement that would give them ownership of the company in return for turning the business around in order to pay down its debts. And that is exactly what they proceeded to do.

By dint of disciplined cost-cutting, a “whatever it takes” commitment to customer care, great salesmanship, and ferociously hard work, the partners brought the business back from the dead within their first year of ownership. By the time we met them, the company had been generating phenomenal 50+% organic growth for almost four years in a row.

The partners continued to grow revenue, EBITDA, and EBITDA margin until they realized that taking the business to a level higher than the one they had already reached was something that they couldn’t do by themselves.

They wanted to be actively mentored by industry veterans, and they were willing to do it by selling the company – now under a new name and handsomely profitable – in an arrangement that would let them stay on in management roles. They engaged New Direction Partners to bring the company to market, and we began identifying prospective buyers for it.

A famous consolidator of printing companies used to say: “If you’re under 40 or over 70, you’re not a seller of your business.” Our clients were in their 20s, so what this translated into was uncertainty about their true willingness to sell a company that was performing so exceptionally well. Some also questioned their commitment to staying on post-sale.

But we persisted and eventually found a strategic buyer that wasn’t troubled by these needless concerns. An attractive offer was made, and the transaction moved into the due diligence stage.

But just as the transaction was on the verge of closing, the buyer decided that for reasons having nothing to do with misgivings about the sellers, the deal was off. Our clients were understandably disappointed by the news, and at a setback like this, other sellers might have thrown in the towel. Nevertheless, our clients told us that their motivations in deciding to sell hadn’t changed and they wanted the search to continue.

The next day – a Saturday – a former selling client of ours called us to say that his non-compete agreement with his buyer had expired and that he and his partner wanted to get back in the game and buy a business. When we described what our young entrepreneurs had built, his response was, “Can we visit the company on Monday?” That certainly was arranged, and by that Friday, we had a signed LOI in hand.

Our former client and his partner had many years between them of running successful businesses, and they turned out to be exactly the kind of mentors our sellers were looking for. The four-way partnership came to full fruition three years later when a financial buyer acquired the company in a rollup for a sky-high multiple of EBITDA.

Because our two young sellers had retained an ownership stake as part of the deal with our former client and his partner, the reward they reaped was very significant. They have since moved on to entrepreneurial opportunities outside the printing and packaging industry. But their experience of ownership while they were part of it highlights a couple of important points for others wishing to buy or sell.

One of them, brought home by the details of the initial acquisition, is that there very often can be alternatives to bankruptcy for businesses in dire financial straits. Our buyers, determined to resurrect a company in which they saw potential, proposed a deal that let the seller exit ownership without carrying a record of unsettled debt – something that he wouldn't have been able to accomplish by filing for bankruptcy.

The point illustrated by the resale to our former clients is that there's no substitute for solid industry connections when positioning a company to be acquired. That perfectly timed phone call wasn't an accident. It was the product of a well established client/adviser relationship, and it worked to the great advantage of everyone involved – both then and a few years down the road.

The speed of the deal may have been unusual. But the personal ties that brought it about will always be fundamental to success for buyers and sellers in the printing and packaging space.

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.