The Wisdom of 'Wait for It'

By Thomas J. Williams

All now vs. some now plus potentially much more later: if the choice arises in the sale of a business, the seller must choose carefully.

Psychologists say that delayed gratification is the ability to resist the temptation of an immediate reward in favor of a more substantial reward in the future. A few years ago, we saw the principle at work in the purchase and resale of a packaging business – to the great financial advantage of our clients.

This business had begun life as a commercial printing operation formed in a partnership between two owners of one company and the owner of another company in the same city. Together, they did a brisk trade in printing promotional materials for the pharmaceutical industry – a high-margin specialty that always looks good to potential buyers. To keep their pharma customers close, they provided each with its own online storefront where salespeople could order leave-behind materials for their visits to doctors' offices.

Following the merger, the partners saw that the moment had come to expand the scope of the business in the region they served. Upon studying their marketplace, they identified short-run folding carton packaging as the right product segment to enter.

Their region was home to many small food suppliers, and there was an obvious opportunity to sell cartons to their pharma customers as well. They also knew that large printing and packaging firms tended to avoid this end of the market because of its short runs and quick turnaround requirements.

Equipping for Expansion

Our clients had those capabilities in the pressroom, but as commercial printers, they couldn't leap from flat press sheets to packaging dielines overnight. Once they made the necessary investments in die cutting and folding carton gluing, they were ready to go market as fully fledged producers of short-run packaging.

The business quickly took off, enabling the owners to branch profitably into fulfillment and distribution as well. By this point, the combined venture had grown to about $20 million in sales. Seeing that what they had successfully built was now ripe for acquisition by a new owner, they approached New Direction Partners for guidance.

This took place during the COVID-19 pandemic, a period in which demand for packaging of all types skyrocketed. We located a potential acquirer: a large private equity investor wishing to establish a footprint in the space.

The PE firm's eagerness was evident in the terms of its offer: all cash at closing, or an opportunity for the sellers to stay on in return for part of the cash and an equity stake in the business. We urged the sellers to take the latter part of the offer seriously. Two of the three owners agreed to the deal, which deducted the value of their equity shares from the cash they received. The third owner took his compensation in full and exited.

Here is where delayed gratification came into play. The two owners who remained with the company were willing to sacrifice some up-front money for a chance at a bigger payout later on. Their instincts were correct, because soon after the sale, the PE buyer did what financial investors typically do. It acquired a second, similar company to create a platform that would let it take advantage of synergies and economies of scale.

The Art of the Flip

The combined business, now under a new name, continued to operate out of both plants in their respective locations. Then, about two and a half years after the initial acquisition, the PE owner sold the business to a national strategic buyer in the classic buy-hold-flip manner of the private equity world.

This resulted in a second payday for the two original owners who had stayed on, and a very lucrative one. By virtue of their equity stakes, each came away from the resale with several million dollars – money they wouldn't have earned if they'd taken 100% of the cash selling price that the PE firm first offered them.

This story turned out well for everyone concerned, and it illustrates a couple of key points about selling strategies for owners of printing and packaging businesses.

The first is that nothing improves an owner’s chances of making a profitable sale than being in a print market segment that buyers perceive to be of high value. In this case, our clients had the strategic vision to expand into a specialty with better margins, stronger demand, and greater protection against competition than the commercial print segment they started out from.

Focus on the Future

Another takeaway is the desirability of being flexible and forward-looking when negotiating with a buyer. The two owners who stayed on grasped the idea that their profit opportunity didn’t have to end with the closing of the sale. They saw how much more they potentially could accomplish by continuing to work with a buyer whose intentions to resell were clear. The wisdom of their decision speaks for itself in the final chapter of the story.

It's a feel-good story all around. Neither of the owners had reached retirement age by the time of the resale, and now they had both the time and the resources they would need for moving on with the next phases of their lives. Worth the wait, indeed!

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.