Consolidation marches on

While overcapacity is bad news for printers, some see it as an opportunity to snap up solid firms that have lost their way, discovers *Noli Dinkovski*

At a recent seminar held by Richmond Capital Partners, delegates were asked whether they thought there would be more acquisitions of print and packaging companies this year than last. The verdict was unanimous – every one of them believed there would. True, the delegates may have had a vested interest in the subject – after all, they were attending a half-day instruction course on the buying and selling process – but their opinion wasn't without foundation.

Figures from data provider Zephyr reveal that recorded mergers and acquisitions (M&A) activity in the printing sector rose by 40% from 2003 to 2005, and there is no reason to suggest it won't continue. In an industry where profits are being driven down by overcapacity, growth through acquisition has become a viable alternative for many who feel that achieving it the organic way has become too difficult. This, coupled with a trend among banks to offer higher levels of financial investment to support such deals, means there is little indication that the rate of M&As is set to slow.

These sentiments are echoed by Gerry Hoare of private bank Investec, who believes in most cases, acquisitions are a much more cost-effective way of growing a business than pouring investment into an existing one. "If you decide to expand through scaling up on equipment or a larger sales team, you will not start generating new business on day one – it's more likely to be a few months down the line.

"However, if you take on a new business you've instantly got a wider customer base, and you can actually make some efficiency savings as well. For a start, you won't need two boards of directors to run both firms," says Hoare.

Online negotiation

Little wonder then that chartered accountants Unity and finance firm Graphic Arts Finance have combined to set up Printers Exchange Network (printersnetwork.com), an online portal for firms that wish to negotiate the buying and selling of their business or equipment confidentially. Having gone live →



TOP TIPS ACQUISITIONS

Richmond Capital Partners chief executive Paul Holohan offers a step-by-step guide for those considering buying or merging a business:

1 Have a pre-defined strategy before embarking on anything. Be clear about what you want to achieve.

2 Set out an ideal candidate profile of requirements you are looking for in a business. It could encompass anything from location, staff and services, to kit and factory space.

3 Take some soundings on how to finance the deal. Make sure that you've got a unique outline and that you've spoken to financial providers before going any further.

4 Once you know you have the funds, get a professional adviser involved. Most firms will not respond to direct approaches from their rivals, whereas an adviser will generally get a more positive response.

5 At the agreement stage, undertake the process of due-diligence before signing anything.

6 Consider the importance of post-acquisition planning. Research shows that the 100 days immediately following a takeover is the most critical. Too many overlook this and think the work is done once the transaction is completed.

at the start of the month, the Network helps printers make "the right choices", and only after a confidentiality agreement has been signed will it pass on the information to interested parties. Online registration costs £360 per year or £30 per month.

The concept of the Network is to get two businesses under a single roof utilising just one set of machinery and staff, and with the subsequent increase in turnover thereby actually making a profitable return.

Unity managing partner Peter Donnelly says the Network provides a secure environment for print businesses to discuss their needs. "In an oversaturated industry, it's an opportunity to get people together in a way that will benefit both sides of any transaction," he says.

Not to be outdone, the BPIF will very soon announce its Corporate Initiative to assist with M&A activity. "It's following on from the success of our Finance Initiative, which helps companies with all types of restructuring," says BPIF Corporate managing director Marcus Clifford. "More than half of the 50 or so enquiries per month we had as a result of the Finance Initiative wanted advice on buying or selling, so it is logical that we do something."

Industry support

While praising the Printers Exchange Network for providing a useful opportunity for printers, Clifford stresses how complicated the business of buying and selling can be, and claims the BPIF is uniquely placed to deal with all aspects of the process. "We cover the whole gamut – we can offer corporate finance, due diligence, financial structuring, and tax, legal and project management," he says.

One such party that has been highly active in acquiring print businesses this year is private equity firm Media & Print Investments (see box). Managing director Mike Dolan feels that the £5m-£10m sales revenue sector is overcrowded and further consolidation is inevitable to keep the industry healthy. As a flip-side, however, he suggests it presents a viable investment opportunity for anybody prepared to look at the print industry as a growth business.

"The businesses we're looking for are ones that are capable of being absolutely first class, but for one reason or another – either through underinvestment or lack of interest by the existing management, have lost their way a little bit," says Dolan. "We look for potential – good clients, a reliable workforce and usually spare capacity. With those elements, we can put in the correct type of management systems and the correct investment, and so move the company forward."

"We look for potential – good clients, a reliable workforce and usually spare capacity"
Mike Dolan, Media & Print Investments

Opportunities are also to be made by buying companies out of administration. It's possible to pick up a big basket of assets at less than their true value and you get to buy a client base for virtually nothing. However, according to Richmond Capital Partners chief Executive Paul Holohan, a rapid increase in insolvencies may deter banks from investing in the industry, "which is bad news for everyone".

Holohan reckons the industry is facing an uncertain 12 months. "There's always a few that think the good times are just around the corner, and it just becomes aspirational rather than realistic. My advice to any struggling company is to get help early. Don't leave it and hope for the best."

Investec's Hoare claims that the threatened rise in interest rates, however small, may add pressure to the sector. "The current climate is tough. People are reluctant to make decisions on whether to merge, buy, upgrade machinery or take on more staff."

That said, 2006 has so far demonstrated that M&A activity is continuing unabated. BPIF's Clifford states: "I think many business owners are looking to exit the industry, but at the same time there has been an equal increase in buyers who are seeking acquisitions as a key part of their business strategy." ■

M&A ACTIVITY RECENT DEALS

CPI
The European book group has been built via a string of acquisitions. In the UK, it began with Cox & Wyman, then Liberfabrica, parent of Bath Press, Bookcraft and Redwood. Next on its list was Mackays of Chatham, Antony Rowe and then this year Fulmar. Now the UK makes up a third of its turnover.

Media & Print Investments
This private equity firm entered the industry with a bang by acquiring four print firms in three months. Its first foray was in January when it took over B1 printer Borcombe SP. In March, Media & Print gained control of short-run print firm Richard Harsher, while in the same month BAS Printers and Guilder Graphics were taken off the hands of then owner Ben Crozier.

MSO Group
Belfast-based packaging firm MSO was active at the start of the year with its purchase of TP8 division Hannibal and pharmaceutical packaging specialist Storey Evans. However, as part of its strategy to streamline the business, MSO closed its Galloways packaging plant last week.

Benson Box
The packaging firm has acquired two companies this year – Crewe-based Medica and Print Design & Graphics in Newcastle.

Wyndeham Press Group
Prior to its takeover by Icelandic firm Dagsbrún, Wyndeham bought Blacketts last year and went through a series of acquisitions of repro and pre-press companies including Graphics Facilities Group, Icon Reproduction, Connect Digital Imaging and JGA Design Strategies.