

The image is a podcast episode cover with a yellow background. In the top left, the word 'EPISODE' is written in white, with '133' below it in a large, bold, white font. In the top right, there is a logo for 'THE DEAL ROOM' featuring a microphone icon. In the center, there are three circular portraits of the hosts: a man in a dark suit and pink shirt, a woman with glasses in a grey blazer, and a man in a dark suit and blue shirt. At the bottom, a black banner contains the text 'M&A in Mature Industries - the Print Industry Case Study - Part 1' in white.

## *The Deal Room Podcast*

### Episode 133 – M&A in Mature Industries - the Print Industry Case Study - Part 1

## Transcript

**Joanna:** Hi, it's Joanna Oakey here and welcome back to The Deal Room Podcast. A podcast proudly brought to you by a commercial legal practice Aspect Legal. Today we are talking about M&A in mature industries, and in particular, we're looking today at the print industry. Now, even if you're not in the print industry or interested in the print industry, a lot of what we talk about today is relevant across markets, particularly in relation to mature industries and ways in which businesses can still sell in these mature industries and in order to talk about this topic we have Stephen Edwards and Steven Stucci from Transworld North Sydney. That's right. You heard it correctly, two Stevens, how about that? Now, Steve Edwards is one of the directors of Transworld and it's been involved in buying, selling, merging and investing in businesses for more than 25 years he's been involved in over 200 deals across multiple industries and has been a CEO, Managing Director, shareholder, and chairman for many years and has sat on numerous boards and investment committees and Steve Stucci is also another director of Transworld North Sydney has been selling businesses for more than 15 years, and before starting the Transworld business in North Sydney, he worked at Snap Franchise as the head of franchise sales, developing an in house brokering system that assisted owners to sell their business. So today, we're really delving into some rich areas with the two Steves who

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give us a really good overview of dealing with mature industries, and in particular through the lens of their experience in the print industries, and we've actually made this a two part series because we get into a lot of detail that's really interesting, and we just can't stop talking. What can I say? So I just want to give you a little overview of what we're going to be covering in the two parts. And today, of course, is part one of the two part series. So we are talking in general about the state of the industry and highlighting the types of deals that are being done in a mature industry like this. We highlight what's deemed valuable. We talk about the time frames and processes. We talk about where buyers can come from and in particular. We then launched into a really interesting discussion about the role of private equity. We look at a couple of case studies, so we look at a particular brand that's sold to an off shore private equity group. And we really dig into that as an example. We talk about the process, the strategic valuation, and we also talk about the transition and the deal construction. And in our second case study, we talk about a business that's part of the global brand, which was a well established franchise system where multiple of their businesses were sold.

So we're really looking at some interesting insights into the mature industries, like, for example, the print industry. And the last thing we really look at is critical factors for buyers who are looking for a print business. So we're looking at how to review sales history, contracted clients leasing and other assets within the business and how the value of those assets are transferred. So you're in for an interesting ride for the next two episodes of The Deal Room podcast as always, so buckle in. Here we go for part one.

Well, Stephen and Steve, welcome onto the Deal Room podcast. I'm really excited to have two Steves on here today. That's fabulous.

**Steve:** Very confusing at times.

**Joanna:** It is. It is. I love when we're emailing, you know, and it's Steve, really. I don't have to remember who I'm talking to do I? Steve will do. Any Steve.

**Stephen:** Yeah, It's good to be here.

**Joanna:** Fabulous to have you both on, because I really enjoy talking about, you know, the specialist areas in specific industries. And today, of course, we're talking about M&A in the print industry. And I guess as the broader topic, we're really talking about how businesses can still sell in mature industry. So I'm really interested to get into the detail of this today. But before we do, could I ask you both just to give us a really quick background, because you both have really interesting stories. And so I just want a really quick background of... Why are you here talking about this area at the moment?

**Stephen:** As business brokers and advisors. We've been around selling and buying businesses for many years. And coupled with having very strong executive backgrounds and knowing how big it makes look to buy things and invest or divest and then also looking at a range of different companies in size on it's own, you know, getting customers in and getting buyers and sellers to match up strategically. And we

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feel by pulling that together under the great brand Transworld, we're all one of the global brands in the broking space that our partnership allows us to really add a little bit extra when we are dealing with clients, the buyer and the seller's side with our backgrounds it works very well for us.

**Joanna:** And of course, is not the only industry you focus on. But it is one that you know a lot about, I guess.

**Steve:** Yeah. So obviously, we're both from the executive background. We both worked at a SNAP franchising a number of years and my career started in accounting. So I then moved into franchise sales and sold a number snap franchises over time and built up, with Stephen Edwards assistance, we have built an in house brokering division. And it was very successful and until today it is still going on. So we thought obviously we got printing experience, and we have a lot of experience not only franchising experience, but we have experience with sales on our beauty clinic, for example. So the business process is very similar across the board with all businesses we sell. But however, we brought the experience and the skill of a network within the printing industry.

**Joanna:** Yeah and that history of experience working from within, I think, you know, always gives a really useful aspect to buyers and sellers. When you're dealing with a broker who knows so much about the industry as a whole that, you know, you're able to provide insight as well. And I think that's quite an important element.

**Stephen:** Yeah, I agree with you there. Another thing that we do have is having to run with an international national group, a good access to different deal rooms around the world, benchmark best practice, burn outs, all the new models of how to get out of businesses. We have an owner feeling pretty good about what they achieved and the buyers coming in to buy. Also finding out with our backgrounds that withdrawing most private equity group into the interesting parts of our business. Yeah. The last couple of deals we've been doing is to private equity groups.

And so we look far afield. It's not just our industry experience. It's corporate experience allows us to be a bit more diversified in where we sort of pop up and where we find deals.

**Joanna:** It's interesting, isn't it? Talking about private equity interest in the print industry, it's not sort of the most obvious connection, is it, or isn't it?

**Stephen:** One of the things having been on boards of this industry for a long time. People talk it down from afar but if you actually get into it, this repetition, this technology the scale it is gathered all in a bowl. So you have all the systems and all the things that sort of normal people that are buying these sort of companies look for. They definitely still sell. I think it's a self-perpetuating problem that the industry has to help our clients through that problem.

Strategically, match buyers that suite them the most, plus it's harder these days but there are still outcomes, positive outcomes that you got regularly.

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**Joanna:** Okay. Well, so then stepping back and talking about the industry, as it's itself we're really talking about this topic about businesses can still sell in mature industry. So maybe if you can just give a snapshot of where print is, you know, obviously we're talking about it is a mature industry. Where is it now versus potentially where it was 10 years ago?

**Steve:** Yes. A lot of printers these days are doing more short run on demand rather than the high volume web based printing. But that's prevalent in the industry. But it's more to do. It's more businesses are predominantly targeting that on demand, full color personalized printing, because that's where I guess there is bright returns for the business owner where there is high margins to be more of them. So it's basically a mature industry but then again, there's still a lot of contracted revenue out there that business owners have been quite successful with.

**Stephen:** I think it's important to broaden up the printing industry so some of the sectors that we're in like signage, design, mark up, web site and print digital. When you match that together, there's thousands of businesses, that are helping clients enhance their images and printing is only one element, they get involved in all types of companies that cover that. And often people just look at the printing industry believing it is all about just printing but there's a lot of research around the world saying that if you get into those other sectors, that it's actually growing.

**Joanna:** Right.

**Stephen:** And having the biggest growth in Australia, my board constantly we're looking through papers and I had to prove that it was growing. And so there are a few misnomers at times, it's the big capital equipment. Printers are defining it hard because there's too much capacity in the market.

**Joanna:** And so I guess it's about the industry having, you know, having opportunities, but just in different directions.

**Stephen:** That's right. That's right.

**Joanna:** So what would you say, you know, understanding the print industry, but also business sales and acquisitions in general. What are some of the things that are different about M&A in print to some other industries? You know, there's some things that you think, you know quite nuance in the print industry that, you know, are a little bit different.

**Stephen:** I think a couple of things. There's generally a lack of contracted revenue. So a lot of corporate turnover. Businesses generally have a lot of contracts.

**Joanna:** Yeah.

**Stephen:** The printing industry has a lot of On-Demand revenue. You know, money is coming in and out. It is such a heavily relationship based and service orientated. So it's very hard to value that at times on that side of the industry. And it's a very manual crisis. So it's still a manufacturing base. Getting income for buyers. So, yeah, technology's there, but it's still a heavily manufacturing base.

**Joanna:** And all of that is quite interesting because, you know, some of the mantras that we have with our clients who are buying business or a way for them to understand when they're selling businesses is the importance of understanding, well, where is the value in the business? That you are purchasing or selling? And how is that value protected in its transfer to the new buyer? And so when you talk about this issue of businesses in the print industry not having, you know, high levels so effectively, you know, I guess it can be quite difficult to prove that a new buyer will be able to maintain the revenue, as you know, as the previous business. So what are the elements of proof for someone or what kind of seller do to get their business ready so that, you know, they are able to cross that bridge for buyers coming in?

**Steve:** It's a good question about a lot of businesses in general. You need to have consistency in revenues, a minimum of three years, for example. And that's important. And also, we need to identify when there's any dependency on a particular contract in the business. So there's no heavily weighted contract within the business that sprint across the board with small talk contracts rather than having one contract being 50, 60 percent of the revenue, for example. And then that happens and people rely on and that's a huge risk to that business.

And much they've said relationship is all about relationships in this industry. So the people are the IP of the business. That's important to an acquisition company if you are looking to buy a business is looking at the people looking in the experience and looking at what type of clients do they have? Because like all businesses, but predominantly in print, which is relationship selling, if an employee leaves that company, they generally can sometimes potentially take that client with them. And that's something you need to look at. And that's a risk to that business as well.

**Joanna:** Yeah, absolutely.

**Stephen:** Constructive sales, now, print businesses have some protections and we will talk about that in a minute. But the key thing is making sure you've got very good data, so the data lasts, the longevity of the new people coming in. Some companies have terrible data. So you can't market to it. You can't have the right business working towards it, so for our clients, we always getting a look at their processes that are in their database. To add that value sale is not just the people base alone. It's very important. And then it's in the construct of the deal on earn outs set to protect revenue over periods. And often the owner of the business exiting is the person that generally has the most clients. If they're going to move out, it needs to be a good hand out for the earn out and the rights survey links to the market should matter and keep going.

**Steve:** I think it's important that business owners need to be involved in a quite detailed, structured handover process because if owners are a particularly looking to exit the business, as soon as the business settles, it's not going to work. Footfall that for the purchasing business the owner needs to stay in the business to reassure the purchaser. Obviously, the guarantee of income comes from business.

**Joanna:** Absolutely.

**Steve:** To sold a business that has that particular element in the business condition



as a condition of sale.

**Joanna:** And so you're just talking about, you know, a recent example where all of this played out. Maybe if you can walk us through that example?

**Stephen:** Yeah so Steve had a client, it was a private equity firm approached a few years ago and he took them through a journey where they bought a few businesses from him in the industry. And then our third business came along that I was representing. And we had a fair bit of interest with this particular private equity, wanted to add to their portfolio. So you've done a great job better than the other businesses. And now they are looking to sell, it was very interesting as this was a Malaysian route essentially coming in. Steve convinced them to reel it on the industry and help them go through to the reasons why and they were very hard nosed, as this private equity a couple years on what they are looking for. And we were had nosed in reverse on behalf of our client, due diligence was a very interesting model. But what ended up happening is it was an iconic Australian print company. So that helped. But also the owner was prepared to stay for a while. So what that's allowing us to do is have the profile transition.

The private Equity Co. wanted to buy the company that was under management. If the exiting owner, was going to exit. They wouldn't have purchased this business. We had quite a few offers, but the best price and the best deal was based around the private equity company. Provisions and protections that they put in, other than a very rigorous due diligence was all around they wanted an earn out. The earn out was 20 percent essentially of the asking price. Over 12 months equal payments, and they were linked to hitting a certain turnover number and that turnover was minus five percent of each month of the previous year. So there was a tolerance and then there was a 50 grand kicker on some profit as well. So there was two drivers who may use some protection in the equity group.

**Joanna:** That's clever. And the other offers that were coming across obviously said that this was the best offer in terms of price were the other offers. Also with a similar sort of earn out.

**Stephen:** I think this was the best offer from the point of view of the breadth of what can happen next. Frankly, I was really worried about his clients and his staff. They have been maintaining the business for fifteen years. And he really wanted the transition to work. But not everyone thinks that way. The reason they paid it was because they thought that the at risk I can live with that. And I like that the business was well groomed and was fit to market.

**Joanna:** Yeah. And isn't that I mean, that's such an important point. And, you know, I picked it up also in your comment that they did very extensive due diligence. So they you know, they like they obviously were looking for a business that they felt they were comfortable with to run as it was. And obviously, we know there are, you know, some buyers out there who are looking for bargains, which they'll factor into the price for businesses that aren't well-run and that, you know, but obviously, if you're looking for top dollar, comes back to the concept where you need to be well groomed for sale, you need to be sale ready, and you need to be ready for due diligence as well. You know, provide information quickly and provide information that will make a buyer

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feel comfortable when they looking at it. And so what was that process of grooming for sale? Had you been involved with this only that was existing prior during that period when they were preparing it for exit, or was that something that they had sort of been aware of themselves and have been doing in the background?

**Stephen:** It's a great point because the it was due to a divorce that this even went on the market. So it was testament to the business that all of a sudden it started happening pretty quick and how business...

**Joanna:** As happens for many, many different reasons. Right?

**Stephen:** Yeah, And so everyone was hyped up and there was a lot of grief between husband and wife within the business. So we had to run a really good process. And prior to them going in the market, we were hoping, get that business in the show. And where it led to the market, so the data and the HR. It needed to look like a fully functioning, well, professional business. We worked with them and then we signed an agency agreement Steve that had a great relationship with this company. So we built some trust that we were professional and then we created a great data room and DD. And that in the mind of DD, because I think that the company would do that, but in our experience led us to make it happen. And the seller he had no idea so they really got a value. And if they speak to him, he'll say, that is the best fee that he ever paid because he had no clue. He knew how to run a printing business, but he didn't know how to run the process.

**Joanna:** That's fabulous, because I think perhaps it's not really well understood how just the importance of being able to provide that DD information quickly, as well as the information itself being provided, you know, satisfying some of these risk concerns. That's the point DD, after all. But just being able to provide information quickly certainly gives buyers a level of comfort or on the flip side, not, you know, taking a long time to provide them can seed lot of doubt in the mind of buyers, particularly professional buyers

**Stephen:** Yeah, they are looking for under managed business so they do not know that the management structure in that business is running quite well. So, turning that over, you know, well that is very important but if it's not running well, there's landmines everywhere, so the DD, allows the buying party, especially if they're a bigger entity, to really have a look at skill factors in the business. Know the talent pool. And that worked out very well for us. And for a customer as well.

**Joanna:** And what was transition like then in post completion for this particular matter, given obviously you had all these prep going into sale. What did that will look like at the end?

**Stephen:** What happened here is there's a three month transition and there was a ACL we helped create. So an action to follow this for party. So now the value proposition from Transworld will to pull that together. And the second thing was that an employment contract was negotiated for the exiting owner. So it had the first three months is conditional sale. Then it had an employment option, which he's taken. So that just gives that secondary level of comfort.

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Private equity doing their risk management. I was quite worried that that person left not just wouldn't get in an industry later but would everyone just leave. That's the comfort we've constantly got to try and provide to buyers. Because if you've got a business that has sales reps, you're only as good as those relationships and you can't train and have systems for that.

**Joanna:** Right. Okay. All right. Wonderful. And I guess, you know, while we talking about this example of, you know, the PA scale, maybe we should just sort of step back one step and talk about what private equity is looking for when they are in the print industry looking for business. So we touched on some of it. We touched on, you know, the importance of, you know, the business looking professional, growing for sale, having a management team. But maybe if you can just run through some of those other important elements are.

**Stephen:** Yeah. So they're looking at revenue as the priority. They're looking to increase their top line. But also net profit is important. The EBITDA what they get the return for their investors, particularly so top line and on bottom line are most important, financials are the most important thing for an acquisition for a private equity firm. But also, they're looking for basically a company that's established, has got a good name and it's got some systems in place that can easily transfer into the into the portfolio.

And they bring their rigger on to the top. So they put a bit more governance in corporate. Better molding models and they get some synergy benefits. You put the three together. It's got some legs. Yeah, I generally hang around for five years. So they want to make sure they've got returns that they can show their shareholders because it's a return base acquisition really.

**Joanna:** I absolutely love these case studies. Case studies are a great way for us to really be able to get in and understand some of, I guess, the intricacies, the differences in this industry.

All right. So that's it. So part one of our two part series is all about M&A in mature industries and in particular taking a look at the print industry. Of course, we were speaking with the fabulous Steves, Stephen Edwards and Stephens Stucci. And if you would like details of how you can contact Steve Edwards and Steve Stucci, then just head over to our show notes or to our website at [www.thedealroompodcast.com](http://www.thedealroompodcast.com). Where you'll be able to download a transcript of this podcast episode. And, of course, you'll be able to link straight through to Stephen and Steve if you'd like to talk to them about the print industry or any other industry that you're interested in having specific insight into if it might be a mature top industry. Of course, on our website, you will also find details of how to contact our lawyers at Aspect Legal. If you or your clients would like to discuss any legal aspects of sales or acquisitions.

Of course, we have a number of great services that help businesses prepare for a sale or acquisition and help guide them through getting transaction ready and getting through the transaction as a whole. We work with clients both big and small and have different types of services depending on size and complexity. So don't hesitate to



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book an appointment if you'd like to find out how we can assist. And finally, if you have enjoyed what you've heard today, then don't forget to tune in to part two next week in this series.

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