



EPISODE  
**134**

**THE DEAL ROOM**

M&A in Mature Industries – the Print Industry Case Study – Part 2

## *The Deal Room Podcast*

### Episode 134 – M&A in Mature Industries - the Print Industry Case Study - Part 2

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## Transcript

**Joanna:** Hi it's Joanna Oakey here and welcome back to The Deal Room Podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal, now, today, we have part two of our two part series all about M&A in mature industries. And of course we are looking specifically today at the print industry now no fear if the print industry is not your industry, this is still relevant to you if you deal in an industry that is a mature industry because a lot of the areas that we talked about in this episode, and of course in part one, the episode prior are general comments in relation to dealing with mature industries. And of course, we have back to join us for the second part in our two part series, Steven Edwards and Steven Stucci from Transworld law Sydney, who both have decades of experience in dealing, not only in the print industry, but also in mature industries as a whole. Now in this two part series we are traversing, a lot of topics, but in particular we're looking at the role of private equity, we're looking at process and strategic valuations. And we're also looking at the state of the industry as a whole, how to do deals in a mature industry what is deemed valuable in a mature industry, the timeframes and processes, and we also look at the critical factors that buyers are looking for when they looking at

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businesses like for example, the print industry. So without any ado, let's head into part two, of our two part series all about M&A in mature industries. Here we go.

**Joanna:** Have there been any other sort of sales that stood out in your mind that, you know, that are really interesting when we're reflecting on this industry?

**Steve:** Yeah we had many prints sales. Every sale is different from the way we approach it because obviously the owner sometimes doesn't have it ready for sale, so we're there helping him putting the sale together before it goes on the market because a lot of owners, particularly don't have their profit loss statements for last three years ready.

**Joanna:** Right, absolutely and this comes back to the comment that we're making about the benefit of being ready for due diligence and having them ready to go, because I can think of lots of transactions that we've been involved in where we've been pulled in, right at the point where commercial terms have already been agreed and then we get involved, and then DD is on and our clients you know if we're acting for the sellers, then, oh no I didn't know you needed three financials that are creates all sorts of problems when, you know, they've been having to rely on their accountant to finish off financials which has happened in you know quite a few recent matters that we have it's just it creates problems already. In fact, it makes me think of we've got a deal at the moment we're we're acting for the acquirer, who is in the middle of a roll up, and, in the particular industry that we're working in, and they've negotiated commercial terms that had agreement on that we had draft contracts out and agreed we're at the doorstep of exchanging on this and then you know all our client was waiting on was the last financials that the accountants were preparing but the problem was, by the time the financials came through. They've been such a delay that actually, when we got updated financials the business performance had dropped a bit since the last financials date which, which is something that is important to note here happens when you know people are exiting a business have their eye on the sale rather than..

**Steve:** Yeah, That is the one of the last elements that that a purchaser asks for and this is the due diligence. I had a recent example on the last two sales ago where the year that stuff sales dropped by about 8%. It was a retail business...

**Joanna:** But then that's it the buyer wants to renegotiate.

**Steve:** Yes, they negotiate while it was not a big amount. it was about a 15 000 dollar little drop in price, you know, there wasn't a significant amount, but they had control of and they had a feel of where the sales were dropping. However, our justification for that was when we are pricing and business based on EBITDA sale. We are pricing the business on the last three years. It might be a drop in sales now, it doesn't necessarily mean it's going to continue to decline. We knew that it wasn't, hence the reason why they wanted a reduction across around 50,000. At the end we you know we had, there was a burden and beat around the bush.

**Joanna:** I guess what you're talking about here is, this is the reason why it's great to have, you know, a broker like you're an advocate in the middle for for the seller because in many situations if you don't have someone to advocate for you in that situation as the seller, you know, a buyer will either A beat down the price or B the

whole deal will fall through. In my example the deal fell through.

**Steve:** But we have reasons why and how we price the business. So the buyer was comfortable after that, and we minimize the negotiation.

**Joanna:** Yeah, well it's a really good point. But back to the point it's the reason why you should have your financials ready straight away, so that you're not holding your deal up by your failure or your accountants failure...

**Steve:** That's what I was about to say, have the accountant have the profit and loss statements ready everyday as well, so that you know what is going on to the market.

**Joanna:** Here comes to another point, I think, a quick deal is a good deal generally I feel because the more a deal is slowed down the more likely it is to fall over or for issues to occur where you know you might have repricing sort of pressures or whatever the case may be.

**Stephen:** And the other thing that he told me is it's a very traumatic experience so if the business isn't big you've got an owner who's running the business and he's also going through this process, and he sale process to heal, or they got to move or devote his emotion and what you see is momentum Stop pulling away because they mentally checking into the business process that goes for three to six months, you have an almighty shift in the revenue portfolio. Another thing that we do a lot of is the DD or vendor due diligence we get them ready to be on market, that's one of the roles we should play. Once you're at market, you've got to have the buyer around it it should be...

**Steve:** Ready.

**Stephen:** And if it's not, I think that's their fault, and our fault. We shouldn't even get ready to get into the market in the first place.

**Steve:** We're there to i guess guide them.

**Stephen:** Yeah, a lot of vendors won't will listen because of that don't have the information readily available to give to us. So we tell them with caution that yes we can go to market but be aware of the fact that they will ask for these information and if it was not available, I can guarantee that you get called cold feet or just get nervous and I just pull out.

**Joanna:** Yeah, absolutely.

**Stephen:** Steve and I talked about this all the time how powerful the landlords, so we can go all the way down the line. And this private equity was interesting, they're only three years in Australia, New all the way down they had the money and everything but the main mode was going to adopt them back. Australia in three years, so that was written to to get to them. And so that happens a lot. Shopping Center gap all sorts of things.

**Joanna:** Yeah, it's a really interesting thing isn't it, so we have seen a bit of that as well. And one of the things that I say to my clients if they are the acquirer potentially

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facing this sort of issue is to get them ready to sell themselves to the landlords and it's interesting because someone coming in from a pay perspective or someone who's an aggregator doesn't necessarily think of them as themselves as someone who has to sell themselves to the landlord, but it's a marketing exercise and then of itself isn't it? Don't you think?

**Stephen:** Well they were bought by this product yeah

**Joanna:** Yeah exactly.

**Steve:** And this was one of the key things and we hadn't thought about that but it's here checklist now because, as I mentioned, you know, banks are problematic and tenure in leases are problematic.

**Joanna:** And it's about being on the front foot isn't about understanding that in advance and being able to manage it from the front, rather than having all of this time wasted in this sort of protracted negotiations and discussions with a landlord

**Steve:** Equipment financing, a lot of manufacturers in the print industry in general have a lot of equipment on lease. And what we generally do is assign it to the, to the purchaser. However, that can tend to be difficult as well, because they got to present financials, that are present so they credibility in the industry, before they can get assign that it's very similar to what a premises list. And what we sign our industry landlords, in without a landlord or without the assignment of equipment leases, we don't have a business to sell.

**Joanna:** Yeah, isn't that interesting. And so what then would you say your general takeaways in general messages in relation to the industry?

**Stephen:** I think people shouldn't talk it down. There's some areas in the industry that are doing it's tough. This generally is in the end of the doing well. You have to be a good offer idea, you know, I think the industry had an opportunity where you could be a bit mediocre and get off. People are still buying big we're aggregating, but you have to really have a business that's well represented the world presented, because if it's not, they went look at it. And people are looking for the volume profit and some aggregation society.

**Steve:** Yeah, so there is a lot of capacity out there, and some of these printers, who are looking to acquire, but they don't really need to buy the equipment as well. That could be just bought the bulk value. So, what I mean by that is potentially buying the clients, but also, I guess picking some of some of the staff within that business as well. and the equipment could be solved. Separately.

**Joanna:** And well I guess that then comes back to preparation if that's the kind of buy you're going after then it's about managing your financing of assets equipment leases to make sure that that's something that you can actually do.

**Stephen:** You've got to have a modular mind, you've got to think that if I want to get the modular why is that it could be the full or could be some could be yet staff tool plus revenue, could be some technology. Yeah, we've got some big businesses we're working on have technology that's adding to the Sol because the touch points of how

clients interact with their business, develop some uniqueness.

**Steve:** The trick there is people either value or technologies work, they think it's worth a fortune, because they soon find out it's just an AI to sell the business it's not a big value prop, same as this industry, or people that hire and design things that we do before we sign them up and just tell them what the variables are within, within selling a business, especially in an industry where there's a lot of variables and some of the things, and equipment lacking the premises lay subsidizing old business transaction but predominantly print. We've done that experience in industry that potentially could feel good for a while, and then the staff, where it's all about relationship selling in this industry as well. So that's even more. The other thing that I look at is debts, you know, a lot of companies run a very coordinated process. Having your staff saying anything in a 120 day knowing that that's a real worry because that means, start with the model. So that how bad is a client when he can pay 120 or 90 or whatever. And that happens a lot in this industry so we we really try and get him to talk.

**Joanna:** Right. I mean, you know, I always say this but isn't it interesting that a sale ready business is a better business to run in the meantime anyway and you know obviously there's pulling in, you know, all of the money that you're owed is a really good plan because cash is king, and helps you to continue to invest in your business, you look at real estate.

**Stephen:** Pretty much every real estate deal has a staging of the house. Take that concept into the business. It was stage of business so that systems processes HR debtors creditors, all that sort of stuff is how you stage your business until that stage, you shouldn't go to market.

**Joanna:** I think that's a really good point, and and it comes back to ensuring that your pre planning you know that you could you're giving enough time to get your business in the right shape for sale.

**Stephen:** Yes.

**Joanna:** Okay. And so, let's just quickly go through the critical factors that you think buyers are looking for in a print business what what are the top sort of three or five things that buyers are particularly looking for?

**Stephen:** They are looking at how strong the client base is, what's the product profile going into that client base and lost the revenue. So what's the frequency of the revenue then they look at the efficiencies how well run, because there are many manufacturing bureaus, that I run where they then look at the challenge, because there's still some technical talent in this company, and technology doesn't give them away of it you still like good skill. And then they look at the sales people, and they want know do they have strong relationships, and are they going to be moving out and what that will do is buy an industry, there's the business drivers, you know, a lot of small business don't have good reporting. So it's very hard to say the drivers in the business. So the astute buyer wants to be able to very quickly oversee labels and have a look. And that's just got to be easy, and debt ratios you know all the liquidity and all the ratios of standards that we'll look at, because there's generally a dip before there's an up. I've been in the train track management's work that out. And then they

go from there.

**Steve:** Obviously owner dependency is another way. It's not as easily transferable and that's what Steve was saying about a structure pain that parses actually be shorter than the owners is not as dependent on the business as townspeople. So,

**Joanna:** and I guess the other thing is, as you talked about earlier that leases are important, as the landlord discussions, can be quite vexing but the leases themselves, I guess, you know, good leases, long, long term leases leases that I've got a bit of time with to run. You know, I guess, must be another factoring.

**Stephen:** Also the banks now if you're mining money, you know they're getting tough so they want longevity for lease. Yeah, you see in people's age if you're adding 50 off, often now in the bank she's going to have an excellent plan is to stay out and try and get a 25 year loan and the banks aren't interested because you're getting into that age bracket so you really you're saying it's a big race. Anyway you need an exit plan or annual on top thing, because what happens is, 25 years you're probably not going to be in that business. Yeah, the banks are getting very specific.

**Steve:** I think, what's becoming more prevalent now is vendor finance. I think you can agree on that too Joanna.

**Joanna:** Yep, and you know, certainly we seeing a bit of it as well.

**Stephen:** Well in America, you know, in the industry for I have an ear as well. They have 25,000 printing companies and most printers was sold in vendor finance.

**Joanna:** Right. Well, we certainly not there yet I don't think but that's isn't that really interesting so most to say the majority was on us.

**Stephen:** Yeah, right.

**Joanna:** That's really interesting.

**Stephen:** Yeah, it's very big in America. Yeah, vendor financ it's just getting it into Australia, people these days think they should be doing that, the one of our clients the other day, you know, their accounts are all on vendor finance but you shouldn't need to do that in the front row it's not it's just the way things are going

**Joanna:** Well I mean, look at it to be completely Frank earn outs are a type of vendor finance anyway, as well as risk sharing but they are you know I guess effectively that's what they are you don't get all the money up front.

**Stephen:** In the end, they're actually selling the business at a higher price than what the actual asking prices because of the interest rates.

**Joanna:** And then, of course, there are a whole heap of considerations that come in when we're looking at vendor finance, particularly where vendor finances, is the main component of the purchase price, of course, as I said earn outs are a type but usually they're, you know, a smaller component of the purchase price but traditional vendor finance is, you know, the whole amount or the majority of the amount but then you

know you really have to have that's where potentially your buyer due diligence comes in and something that's really important for vendors, understanding, you know, whether they'll be able to run the business in such a way that they'll pay you.

**Stephen:** That's right. Make sure you get access to decision making management.

**Joanna:** Yeah, and building in, you know, things like, you know, or at least considering stepping right and you know the security that you're taking so there's all sorts of things I guess to consider from a vendor finance perspective but yeah absolutely right. It's one of those things that, of course, being able, having the, I guess, having the ability to consider vendor finance as one of your options as you're exiting will increase the potential pool of buyers so that's the point of it all, I guess.

**Steve:** It's a really important part of it. And doesn't mean you're getting lists for the business, it just means, in a way you could get more, because that's what my field of view, might only be 20% or a small portion but why would you let that 20% get in the way. That meant you know not a bad vendor,

**Steve:** Where they're actually proposing this to vendors upfront now conditioning and that potentially could be part of the negotiation.

**Joanna:** And when you're talking about that though, are you talking about the vendor finance effectively being sort of a small component that's a deferred payment or you're talking about that as being a major component that you now talking about is something that that really...

**Stephen:** It is an 80/20 or 60/40 split.

**Stephen:** Around the concept that may come in the early discussions might give you a ratio and then you drop the ratio, but people often just don't feel that we should be funding people.

**Joanna:** Yeah, well you know and banking is getting tighter and tighter at the moment in Australia as we all know, so I guess it will be, you know, a topic of future discussion quite a bit,

**Stephen:** I think. Yeah.

**Joanna:** Good luck. Excellent. Well, look, that's it, guys, I just want to say a massive thank you for your time and coming on to the show today. Gosh, we've traversed quite, Quite a few areas that certainly not just been about print we've really covered a lot. If any of our listeners interested in getting in contact with you How did they go about doing that?

**Steve:** Well, as for the two Steves...

**Joanna:** Haha. I love it. How do we find the two Steves?

**Stephen:** You can go to our website, Transworld North Sydney, [tworld.com.au/northsydney](http://tworld.com.au/northsydney) and my number is 04 5777 1035.

**Steve:** And my number is 04 1769 6228.

**Joanna:** Fabulous.

**Stephen:** And we have a team of associate's with us so we're always here to help vendors and clients on what they're looking for. Give us a call.

**Joanna:** Fabulous. And we'll put all those links in our show notes and on our website as well so if you didn't catch it because you're running along the beach or on your commute into work at the moment. Have no fear, just head over to our website all the show notes for a link, straight through to Steve and Steve, well, Stephen and Steve. Thank you for coming to the show today. I really enjoyed it. I hope you did too I'm sure our listeners will as well.

**Steve:** Thanks Joanna

**Stephen:** Thank you Joanna.

**Joanna:** Well, that's it for our two part series all about M&A in mature industries, of course, over this episode and the last episode part one. We've been specifically looking at the print industry is representing how M&A can work in mature industries. We've really taken a great snapshot at the role of private equity, the role of different types of buyers, the role of looking at strategic buyers and offshore buyers, we've talked about the state of the industry we've talked about the types of deals that have been done at the moment, and the opportunity for the types of deals that can be done. We've looked at what is deemed valuable, and we've also looked at critical factors that buyers are looking for when they're buying a business in this industry. I hope you found this run through of looking at the print industry is representative of mature industries as a whole, interesting and insightful. Of course, if you would like to contact Stephen Edwards will Steven Stucci at Transworld North Sydney, just head over to our show notes or our website at [thedealroompodcast.com](http://thedealroompodcast.com), where you'll be able to link straight through to both of them at Transworld North Sydney there you will also be able to download a transcript of this podcast episode. If you'd like to read it in more detail. And of course, on that website you will also find details of how to contact our legal Eagles at Aspect Legal, if you or your clients would like to discuss any legal aspects of sales or acquisitions. Well that's it, thank you so much for tuning into this two part series I found it really interesting. I hope you did as well. And of course, if you enjoyed what you heard today. Don't forget to press subscribe on your favorite podcast player, so we can be delivered to your ear, every week as we release, and finally as well if you enjoyed what you heard, then maybe pop over to your favorite podcast player and leave us a review. Well, that's it. You've been listening to Joanna Oakey and The Deal Room podcast proudly brought to you by a commercial legal practice Aspect Legal. See you next time.