Successful M&A playbook for label and package printing industry

In this guest opinion column, Ian Smith and Kevin Young explore the strategy for successful acquisitions

If you are considering an acquisition in the label and package printing industry, keep this essential premise in mind: the key to any successful acquisition is to buy what you want, not simply what's up for sale.

It starts with strategy.

Knowing what you should want to buy depends on your reasons for wanting to acquire. For example, let's say your business objective is to fill a capabilities gap.

If you are a **flexographic converter**, your strategy might involve acquiring a digital converter to offer customers both large runs and short, customizable runs.

An **industrial label manufacturer** might consider acquiring a screen label converter to add durable labels to its product line.

A **consumer goods-focused converter** might acquire a hot stamping and embossing converter to provide premium, luxury label options for high-end products.

In each example, the business objective of filling a capabilities gap is achieved by acquiring a relevant target company.

Once your objectives and strategy are clear, so is the sight line toward a successful acquisition. Typically, an acquirer will proceed with the steps below.

Acquisition profile

Searching for targets that meet your strategic objectives requires answering essential questions.

1. Are you looking for a business specializing in specific printing capabilities, such as 3D printing, RFID label production, offset labels, thermal transfer labels or eco-friendly label conversion?

2. Is location a concern?

3. Is technology a major consideration?

4. Are you targeting specific industries, such as logistics, retail, healthcare or manufacturing?

5. What size business?

6. Do you have a customer mix in mind?

7. Are you considering public companies or just private entities?

This targeted approach will produce a refined target list that aligns with your strategic objectives. The next phase involves prioritizing these targets using a set of defined filters.

Conduct a preliminary evaluation to shortlist your targets

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Annual and quarterly reports and company websites contain information that can help you build an overall picture of potential targets, including their office and plant locations, stated mission, culture, technology and equipment, executive profiles and even customers.

Other sources include trade and business press coverage, social media and commercial newspapers that serve the target's surrounding community.

The critical first in-person meeting

Label businesses suitable as targets in size and disposition are generally privately owned. This brings us to a fundamental need in the acquisition process. Establishing a proper relationship with the target company's owner. (Note: owner, not CEO) A decision concerning an exit strategy to sell rests with the owner. This relationship must be one that the owner perceives as not just potentially advantageous financially but also friendly and beneficial to his or her loyal employees. Recognizing the owner's involvement in the business is crucial to establishing the type of relationship that leads to an agreement.

You have only one chance to make a first impression, so find out as much as possible before you meet. Get to know your target company's history. When and how was it founded? How did it progress? Did the founder start the business in a garage and expand it to a 100,000sqft production facility? What were the significant achievements? These talking points can help facilitate a positive initial meeting and demonstrate that you appreciate their business's success and evolution. It's important to remember that when you are buying, you are selling a story, a vision of the target's strategic benefits to both your group and their business.

The letter of intent (LOI)

An acquiring company that has successfully implemented its strategy, amassed critical information and built a mutually beneficial relationship with its target company's owner will now be prepared to negotiate a letter of intent (LOI).

This decisive document captures the primary commercial elements of the impending deal. A signed LOI allows a deep dive of due diligence to commence. It also stipulates exclusivity for a defined period, often with penalties attached for non-compliance. You will not want your acquisition progress undermined by unwanted additional suitors.

Due diligence

Merger and acquisition courtships often occur over several months at the target's headquarters and plants and the acquiring business's home base. This is all part of relationship building. Your ongoing goal is to arrive at the best deal, not the fastest deal.

Think about six to 12 months and 10 to 20 meetings; you'll usually be in the right range.

Dialogue should continue during this time, and you should expect your target company to allow you to conduct an in-depth assessment of its operations.

Detailed due diligence checklists are outside the scope of this article but cover financial performance, forecasts, asset quality, competitive positioning, customer contracts, assessment of the management team, outstanding litigation, compliance track record, product road maps, technology road maps, IP and cultural fit. Successful acquirers also use due diligence to validate their post-acquisition integration plan because integration is vital to a positive outcome.

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