

M&A Corner

Dealmaking tips specific to **L&NW**'s readership

After the Deal Closes...

By **Jim Anderson**

There was a great deal of “excitement” when you decided to sell your label converting or label-related company...or when you were approached by another larger label company (or one of their private equity owners). There was also plenty of “excitement” as the deal progressed through the normal stages of (a) Zoom/Teams calls, (b) site visits, (c) accepting a Letter of Intent (ie: the “offer”), (d) Due Diligence, (e) preparation of the Purchase Agreement and (f) Closing Day. That is when you get your money...

Most likely, you were not only the Owner of your label company, but were the Founder as well...and that could have been 25-50 years ago! Your Employees were like “family” to you, and there will be much trepidation on their part about “losing” you due to the sale and someone “new” owning and operating the company.

So, you got your money, and your Employees now have a new Employer...**what happened after the deal Closed?**

In some cases, a Seller may elect to “stay-on” for a time and in others he/she leaves almost concurrent with the Closing. I decided to look back at a few transactions in which our boutique intermediary firm (Corporate Development Associates-“CDA”) was involved and get some input. In one additional case, we were not involved, but the former President of the Seller’s company (Jim Kersten) remains as an advisor to CDA.



PrimeSource Companies to NovaVision-August 2023

In August of 2023, PrimeSource OPC (Winston-Salem, NC) and PrimeSource (Atlanta, GA) were sold to Bowling Green, OH-based NovaVision which is a portfolio holding of Pittsburgh, PA and New York City-based Incline Equity Partners (a “PE” firm). There were two legal entities (as Sellers) which had common majority ownership between three (3) Owner/Founders who wanted to retire. There were also four (4) additional family members who wanted to remain after the deals closed...**and have!** In a conversation with a Principal in the PE firm, all is going well...both plants remain fully-operational, the three (3) selling shareholders retired immediately and all four (4) “family members” continue to be employed in their previous positions. The two legal entities have been combined into one and operate as a division of NovaVision. Halfway thru the first full fiscal year post-closing and Sales and EBITDA have improved. Everyone appears to be happy!

LaFiesta Label & Packaging Systems to DRG Technologies-May 2023

In May 2023, LaFiesta Label (Chandler, AZ) was sold to Safford, AZ-based DRG Technologies which is a privately-held and family-owned label converter. LaFiesta was being run by Kirk Valadez who is the son of the Co-owner & Founder Leo (now retired). Although Kirk was fairly young (early 50’s), he had worked in the company since high school and frankly was tired of the “day-to-day”. He also was tired of large label customer prospects telling him that LaFiesta was “too small” for them to consider as a Supplier. After two “false starts” with potentially selling to label converters (both of whom have since been acquired by PE firms), DRG stepped to the plate and acquired LaFiesta retaining not only their plant in Chandler (produces shrink sleeves & mainly digital), but is a good tenant for the family-owned real estate. During a recent luncheon meeting with Kirk he said he could not be happier being a Division of DRG. Kirk now has more time to “sell” and many more products to offer LaFiesta’s customers.

StrataTac to Duraco-May 2023

St. Charles, IL-based StrataTac is a leading manufacturer of custom engineered pressure sensitive self-adhesive products and top coated films. In May 2023, CDA sold it to Forest Park, IL-based Duraco, which is a leading manufacturer of specialty materials including pressure sensitive tapes and labels, coated films and release liners. Duraco is a portfolio holding of Los Angeles-based OpenGate Capital (a “PE” firm). CDA’s St. Louis, MO Managing Director Roger Buck (a sometimes columnist for L&NW) who did the deal spoke to Andy Schwarzbauer who was StrataTac’s COO and one of three (3) former Co-owners. Andy found that getting used to working for someone as opposed to working for yourself was more of a change (challenge-?) than expected. That said, Andy feels that while some Sellers may have 20/20 hindsight and think selling may have been a mistake, he still feels it was the right time for him and his partners to make the move. Another point Andy mentioned was that when a Seller transitions immediately into “retirement”, he personally found that “...he is not through being awesome”. Andy’s drive to build and improve and/or create is still very strong.

MaverickLabel.com to Cenveo-September 2019

In September 2019, print industry veteran and serial entrepreneur Mark Trumper and his co-owner decided to sell their Edmonds, WA-based MaverickLabel.com (online label distributor) and engaged CDA to do so. Cenveo's New Albany, IN-based Discount Labels ended up being the acquiror after showing Maverick to several other printing industry manufacturers. (**Note:** Cenveo sold its Custom Labels Group which included Discount Labels to Brook + Whittle in April 2022). In a recent conversation with Mark, he said he has no knowledge of what the financial performance of MaverickLabel.com might be, but would guess Gross Margins may have slipped a bit due to online discounting and the use of coupons. Mark said that Maverick's office was closed and of the 37 or so employees they had at the time of the sale only 6 remain and they work "remote". Mark and his partner were fortunate to have done an "all-cash" deal (and not an earn-out) with Cenveo, which as a distributor might have been based on retained Gross Margin. When I asked Mark if he would still do the deal again, he said: "Yes, because the time was right for the company and both me and my partner."

Diversified Labeling Solutions ("DLS") to TSC Auto ID-January 2019

I should make it clear that CDA was not involved in any way with this transaction, but Jim Kersten remains as our Senior Advisor to the Label Industry, so we have "access" to him. Jim retired as CEO of DLS in December 2022...he had no ownership in the company. This transaction, unlike the four (4) others referenced in this column, had a foreign Taiwanese OEM of thermal and thermal transfer printers, TSC Auto ID Technologies, Inc. (TSC), acquiring DLS, a label converter. The Buyer was not another label company (or a PE firm), so it presented the Seller with an opportunity to operate somewhat independently of the equipment side of the business. Let there be no mistake that the fact that TSC was a manufacturer of printers that used the labels that DLS manufactured was a plus! Everyone seems quite happy with the deal...no job roles were lost and no plants have been closed...DLS continues to serve its distributor and VAR customers. The only people that might not have been "happy" would have been those trade suppliers to TSC prior to them being able to convert the products themselves. Jim said that the three (3) major benefits to selling DLS to TSC were: (1) No changes in DLS management structure or company operations, (2) access to capital since TSC was larger (and public) and (3) the fact TSC was in the printer side of the industry vs. the label side which meant the acquisition was completely additive to both firms.

So, to keep you and your employees "happy" following the sale of your label company, here are some of the things you might be on the look-out for prior to Closing:

- 1) If your potential Buyer has been reasonably acquisitive, ask them if it would be OK for you to reach-out to a few of the selling owners (of their acquired companies) for feedback on how things were post-Closing. If they should balk at his, it could be a bad sign...

- 2) Ask yourself if it matters that the Buyer keeps your former plant operational or simply “tuck-it-in” to one of their existing facilities.
- 3) If there is real estate owned by you (or a related entity) or owned by a third party, does the Buyer intend to sign a multi-year lease or acquire the building(s)? This could be an indication that they intend to close your facility.
- 4) Ask the Buyer if they intend to retain the majority of your employees...as a rule, the most at risk are your accounting and order entry personnel which function will be gobbled-up by the Buyer.
- 5) Your employees will want to know if the Buyer’s Healthcare and 401K plans are at least as good as what you have been providing to them. While this may not be important to you personally going forward, it will be to them.
- 6) If you accepted and Earn-out as a portion of your Total Consideration for the transaction, do you intend to stay employed by the Buyer post-Closing? Will the earn-out be contingent on retained Sales, Gross Margin, EBITDA, etc. If so, you will need to stick-around to see that nothing happens to these items.

Remember, selling your label company is perhaps one of the largest (and perhaps last) transaction you will ever accomplish. In some respects, it is like a marriage and will go through stages like dating, engagement, the ceremony itself, the honeymoon, etc. You need to make sure that this decision (as to the Buyer) is first and foremost the right one for you and your family and secondly for your employees who helped you get to the point of selling. Also remember that the “new car smell” wears off after a while...

It will be important to you to have people around you who have been through this same process many times...your accountant, attorney and a good intermediary familiar with the label industry will be of immense help.

Good luck to you on this exciting journey...and **after the deal closes!**



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