

# Case Study on M&A in Family Businesses

## Schmidt Print and Media - A Family Business in Upheaval

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## **1. Introduction**

Joachim Schmidt is the managing director of Schmidt Print and Media, a family business in the printing industry currently run by the 5<sup>th</sup> generation. He is standing in the gallery of the printing plant, from where he has an overview of all the presses and the production processes. A few weeks ago, his only daughter Katharina Schmidt told him she did not want to take over and manage Schmidt Print and Media in the future. She said she “had other plans” and wanted to follow her passion and convert her art hobby into a profession. Katharina grew up in the family business and learned to walk in the factory. She helped in the firm every vacation while she was at school and while at university studying art and joined the sales team at the printing company after completing her master’s degree. Joachim Schmidt considers his daughter an outstanding personality with great potential who knows the company better than anyone else. Nevertheless, he respects her decision to pursue her own career.

Due to this news, Joachim Schmidt has been increasingly preoccupied for several weeks with what the future of the family business should look like. He turned 65 this year, and the days of work in the family business are becoming increasingly physically exhausting. Having worked day and night all his life for his own company, Joachim now feels the need to retire, travel, and spend more time with his wife, who has had his back throughout their marriage. He has decided that something must be done. Katharina is his only child, and none of the existing employees is eligible to take over the family business and manage it in the future. Therefore, Joachim Schmidt contacted his bank’s long-time customer advisor a few weeks ago and talked to him about the possibility of selling the company. After a few appointments, the account manager created a sales exposé from Schmidt Print and Media and sent it to a large group of potential prospects. Since the account manager has known the family business for a long time, he pre-selected three interested buyers, which he now forwards to Joachim Schmidt.

## **2. Company Background**

The Schmidt Print and Media GmbH is a German family business with a long tradition in the print and media sector. It was founded in 1897 in Saxony, near Dresden, by Heinrich Schmidt as a bookbindery and has been in family ownership ever since (see Appendix 1 for the genogram of the Schmidt family). In 1928, the company was taken over by Joseph Schmidt, who brought in the first typograph typesetting machine, thus facilitating the production of newspaper typesetting and replacing hand lettering. Joseph Schmidt passed the company on to his son, who in turn passed it on to his own son Heinz and his wife, Maria, only a few years later for health reasons. The two invested further in the modernization of the book printing business, moving to a new printing, and publishing building in the same locality in 1971. In the following years, the conversion from letterpress to offset printing constituted a milestone for the company. In the subsequent years, the company was gradually transformed and innovated: In 1979, the couple purchased the first color offset press in A3 format, and two years later, also in A2 format. New machines enabled more efficient and higher quality printing, so the customer base was expanded, and

printed products were exported. At the same time, the company's location was enlarged, and new printing halls with new printing machines were established. From the 1990s, quality management system certification and environmental management systems became increasingly relevant for the business.

In 1992 Joachim Schmidt took over the family business, having a great vision in mind. From the beginning, his ambition was to continue the company on a sustained basis, to ensure growth and secure jobs, and to guarantee the identity of the former bookbindery. He changed the corporate identity from Schmidt Publishing to Schmidt Print and Media GmbH. Besides, he invested in new, contemporary offset presses and reformed the product range: Today's product and service portfolio encompasses media design, offset printing, digital printing, print finishing, and other offerings in the business-to-business segment. The customer segment includes large as well as small and medium-sized companies in almost every industry that use print products for marketing purposes, for example. In this context, Schmidt Print and Media can proudly claim some very long-standing customer relationships that date back more than 30 years. Moreover, the 25 largest customers account for approximately 70% of sales.

The company currently employs around 150 people. Schmidt Print and Media GmbH generated annual sales of around EUR 20 million in 2019, with an EBIT of EUR 1.3 million. Despite a complex market environment, Schmidt Print und Media has positive and stable financial figures. The company has shown a growth trend over the past ten years. However, the balance sheet figures show profit stagnation over the last five years, reflecting the industry's general direction. In terms of Schmidt Print and Media's product range, the family-owned company has been experiencing a decrease in newspaper and magazine print jobs for several years. At the same time, the printing of advertising materials, as well as packaging materials, is expanding.

### **3. Industry Overview**

The printing industry has been experiencing an increasingly complex market situation recently (see Appendix 2 for an overview of the recent market developments). Firstly, technological disruptions, digitization, and a trend towards sustainability have caused sales in the German printing industry to decline sharply since 2011. Besides, the number of employees in the German printing industry is rapidly decreasing. This development is due to increased productivity, automation, process rationalization, and necessary cost-cutting efforts. The lack of profitability in the printing industry harms investment incentives, and due to low margins in this industry, it is difficult to find outside capital providers. Finally, significantly rising energy and raw material prices, for example, wood, and long delivery times make the industry situation even more problematic. The result is a strong consolidation trend in the industry: Whereas in 2000, there were around 15,000 print shops with 260,000 employees, there were only approximately 7,000 print shops with about 149,000 employees in 2021 in Germany.

#### **4. Potential Buyers**

On inquiry, the customer advisor of the local bank sends Joachim Schmidt offers from three prospective buyers for the family business. These include two private equity (PE) funds and a large, globally active printing company.

The first interested buyer is a Dutch PE fund, with over 200 employees and a presence in 10 European countries. The investor has completed transactions with over 800 companies to date and currently holds minority and majority stakes in 53 companies. Among them are already two companies in the print and media industry. Hence, the investor claims to be able to draw on existing expertise and develop synergies. Its funds are supported by leading international institutional investors that share the investment growth strategy. The investor has a fixed investment horizon of three to seven years. Regarding Schmidt Print and Media, the PE investor reports enabling growth and increasing earnings by investing in digitization and technologies. The purchase price is in the medium to high range. The investor is willing to compete on the purchase price, as they see sufficient synergies and want to use Schmidt Print and Media as their platform for their buy and build strategy.

The second interested buyer is a German mid-market investor with about 20 employees and a portfolio with nine companies. The investor focuses on medium-sized companies in the German-speaking region, and his current portfolio includes several family-owned companies. In addition, the investor operates with a flexible investment horizon. To continue the company values of the former owners in the long term, the investor states that he follows the principles of a medium-sized company. In addition, the investor, whose team invests a significant portion of its private capital in the portfolio companies, invests together with strategic partners. These co-investors are mostly well-known families and entrepreneurs who do not focus on pure profit maximization but also pay attention to the social responsibility and values of the partner companies. The investor only enters into majority shareholdings. His price offer is in the lower mid-range. In the offer, the investor states that he is receptive to individual contractual arrangements.

The third interested buyer is a globally active media group with US origins. The group has sites in the US and Asia. It intends to expand its presence in Europe and primarily in German-speaking countries. In this respect, the company has recently undertaken several transactions in Germany and Switzerland. According to a detailed post-merger integration report, the company aims to integrate Schmidt Print and Media into the group in the best possible way. The price offered by the group is the highest among the three interested buyers. The strategic buyer is known for its M&A activities and heavily consolidates firms in the media business. Their core business is in digital media for online shops. The idea to purchase Schmidt Print and Media supports the strategy to offer customers a vast digital portfolio of media solutions. Further, they want to help online shops send out individualized offline marketing campaigns to increase average shopping card values and reduce check-out cancellations. Thus, they are

looking for a local player with a proven track record to fulfill their printing needs. As they see tremendous upside potential for their clients, they are less price sensitive than the private equity investors.

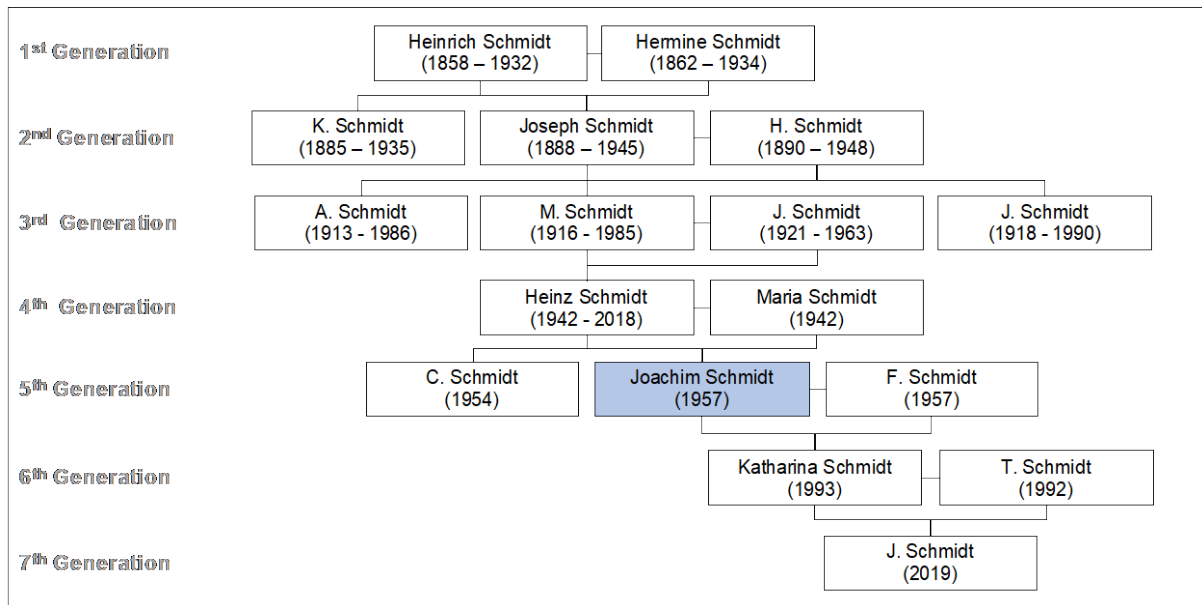
## **5. Conclusion**

Standing in the gallery of the printing plant with the three proposals in his hand, Joachim Schmidt reflects on the offers from the interested buyers. It is a highly emotional decision for him that must be well thought through. On the one hand, he thinks of his mother, who still lives in an apartment adjacent to the printing factory, and on the other hand, of his employees, all of whom he knows by name. He states: “It’s important to me that the company gets into good hands and continues to be managed properly. An incredible amount of heart and soul went into it.”

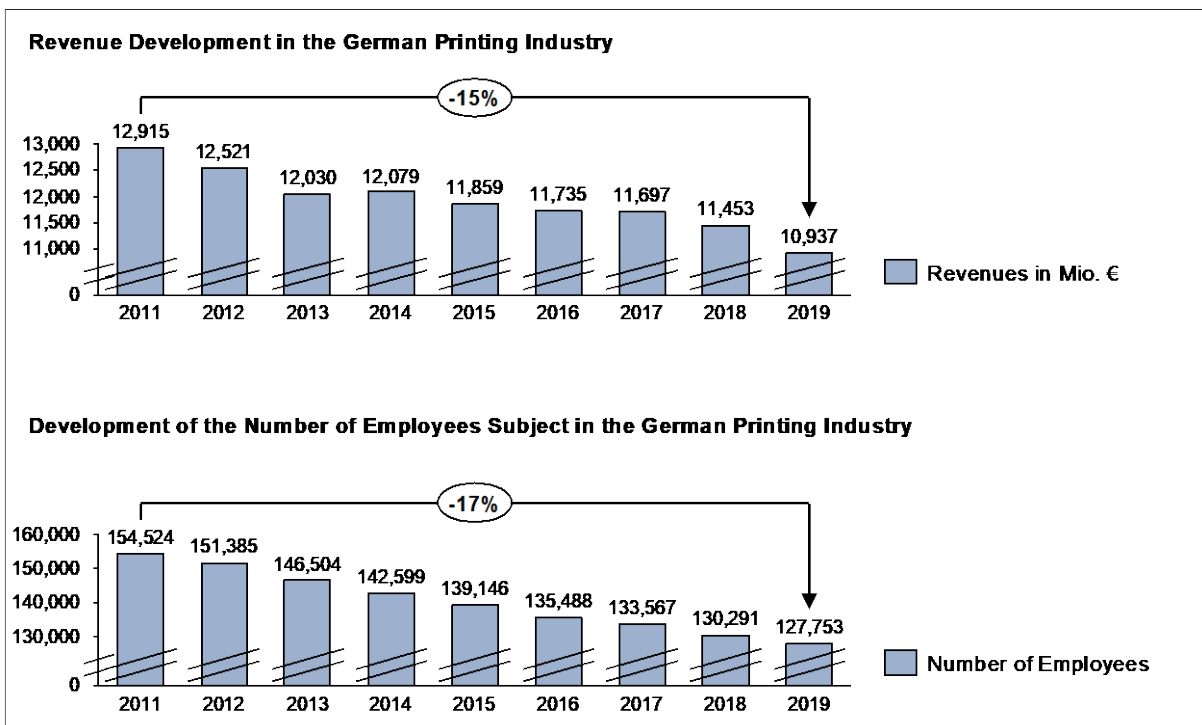
He has many thoughts in his mind: Which buyer is best qualified for the family business, and what purchase price seems acceptable? Should the family and its family members still be able to exert influence in the company, and what should the future shareholding structure look like? Joachim Schmidt has no previous experience with M&A transactions, so he entirely relies on the support of his advisor, whom he trusts completely...

## 6. Appendix

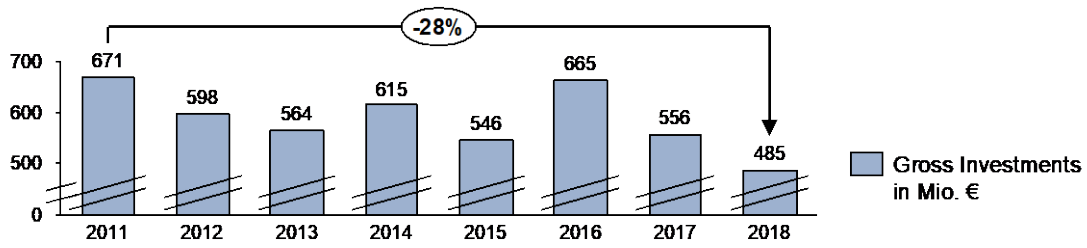
### Appendix 1: Family Genogram of the Schmidt Family



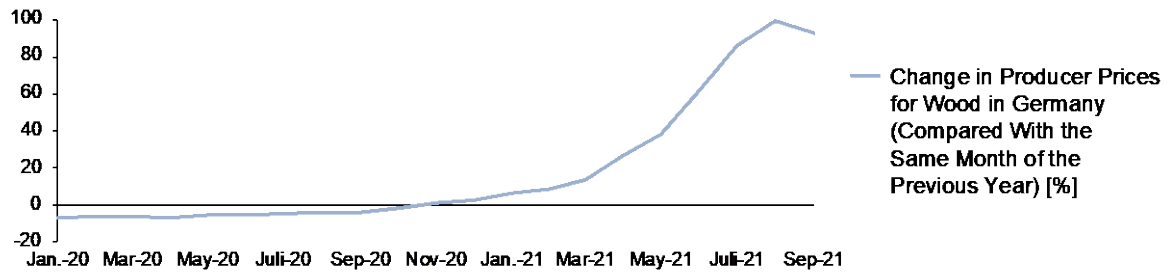
### Appendix 2: Industry Developments



### Gross Investments of the German Printing Industry



### Development of Producer Prices for Wood



Source: Statista

### **Discussion Questions:**

Introduction question: What are the key differences between typical M&As and those involving a family firm? What particularities must be considered in the sales process of a family business?

1. As the M&A advisor, which of the three potential buyers would you recommend to Mr. Schmidt and why?
2. What contractual deal components would you recommend to Mr. Schmidt (e.g., ownership structure and other guarantees)?
3. Depending on your answer to question 1, what are suitable ways to find a new managing director for the company, and what skills and experience should the person have?
4. What are the critical success factors for the post-acquisition integration process in a family business? What could be Mr. Schmidt's role and his daughter's role after the sale?