

MULTICHANNEL MERCHANT

What Will 2012 Bring For Multichannel Mergers and Acquisitions?

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By Jim Tierney

It only seems like Chapter 11 stories have dominated the financial news in the multichannel marketing world this year. Will we see more of this fiscal gloom in 2012?

If there continues to be economic uncertainty, mergers and acquisitions “might be tougher to finance, particularly at high levels,” says **Lee Helman, managing director of investment firm Financo.**

Helman cites the 2012 presidential election as a potential piece of the M&A planning puzzle.

“There is also the presidential election on the horizon, and the possible tax changes that could come might be a catalyst for some business owners to consider selling,” he says, “with the challenge being a relatively low interest rate environment into which they can invest the proceeds of a sale.”

Helman believes the interest rate environment will continue to provoke entrepreneurs and business owners to invest in their own businesses rather than in fixed income securities.

On the plus side, 2011 has seen an increase in financing availability; strategic firms re-entered the market; and multiples increased somewhat and expectations were realigned. There also has been a strong shift toward internet transactions, rather than deals involving a traditional print catalog, says Chris Kampe, managing director for investment firm Tully & Holland.

Larger companies divested noncore titles and bankruptcy sales ensued. As postage costs continue to rise, making scale becomes more important for catalog businesses to enable the leveraging of creative, merchandising and fulfillment costs over sales volumes, according to Kampe.

Faced with lower profitability levels, smaller catalogs will continue to gravitate toward an internet retail model and prompt some smaller catalog companies to sell, he says. “Many of the larger catalog companies, once active buyers, are becoming increasingly interested in divesting non-core underperforming titles. We expect many well known catalogers to divest titles in 2012.”

On the internet retail front, changes at Google have dramatically reduced organic search and forced internet retailers to increase their search advertising budgets, placing pressure on profitability,” Kampe adds.

“Smaller niche internet retailers without scale will increasingly look to sell out to other online retailers in similar categories,” he says. “Internet retailers with sufficient scale may attract interest from brick and mortar retailers seeking to grow their internet channel sales.”

Craig Battle, managing director at investment bank Tucker Alexander, is optimistic about deals in 2012 because there is a “sense that global economic problems have been pushed out several more years and finally companies and private equity firms can put money to work.”

For the strategic companies, Battle says, organic growth will be difficult and for the PE firms they have an obligation to their institutional investors to get the money to work.

“That should make 2012 a robust deal year,” he says. But, “there will continue to be more demand than supply.”

Many private companies want to improve their earnings and build a trend before selling, “and that will take a few more years. What that means for those good companies that can show solid performance who come to market are higher multiples.”

Battle cautions “we will continue to see under-performers in distressed sales.”

Strong brand positioning, even with erratic performance, may also drive nice multiples as buyers figure to capitalize on the brand while revamping operations. “I don't think the elections will have much impact as both parties are perceived as ineffective. As a liberal Democrat, I think the Republicans may have a short-term positive impact on the economy should they win the White House, but it will be followed by a realization across the U.S. that they are an incompetent bunch.”