Q&A with Gerry Glynn, CEO of Richards Packaging

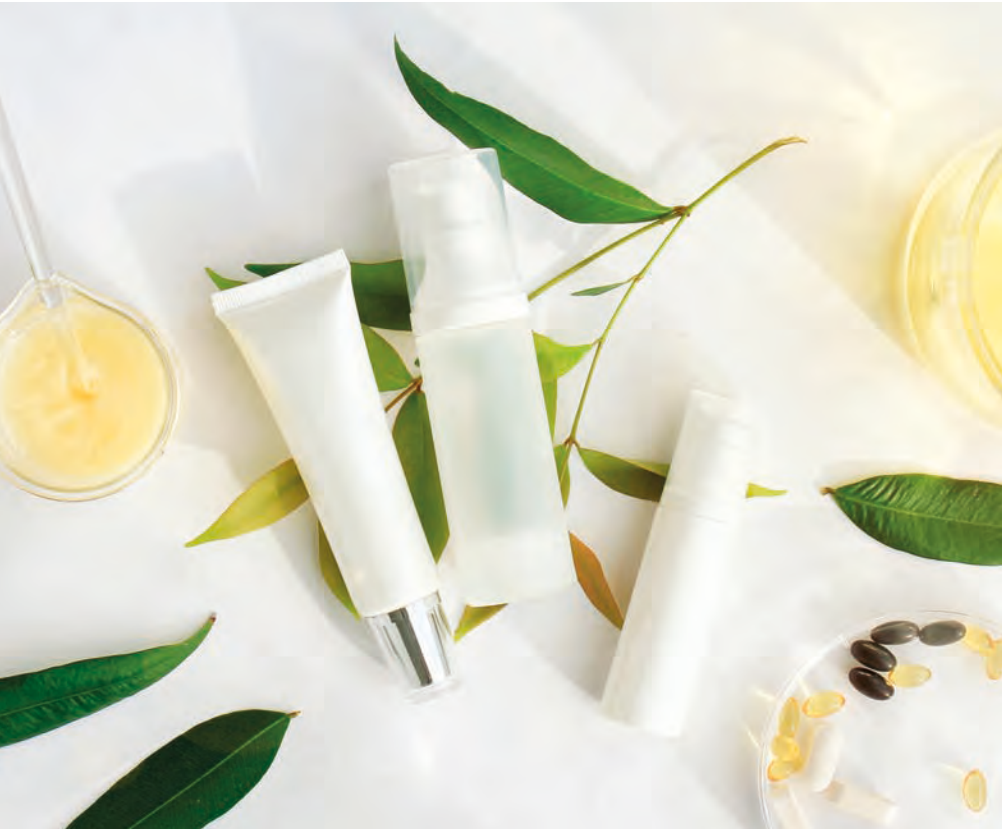
"Whenever you are moving into a new geography or a new vertical, you need a platform that is sizeable enough to have an appropriate starting position to grow."

Gerry Glynn is chief executive officer & trustee at Richards Packaging Income Fund and chief executive officer, director & trustee at Richards Packaging, Inc. (a subsidiary of Richards Packaging Income Fund).

Tell us a little bit about what Richards Packaging does and what differentiates you from the other players in the market (pre-COVID).

Richards Packaging is a publicly traded distributor of packaging components and healthcare supplies and products across Canada. Despite our name, a third of our revenue is from healthcare consumables and equipment and it is an area that we have been continuously looking to grow.

For example, we recently completed the acquisition of Clarion Medical Technologies in June 2020, a provider of lasers, aesthetics, and vision end products to doctors and practitioners in over 3,000 clinics across Canada. This acquisition was a diversification strategy for our healthcare verticals, which previously consisted of drug store packaging, nursing home specialized packaging solutions, and hospital equipment, consumables, and PPE products. Richards now offers over 8,000 different types of packaging and healthcare products and serves over 17,000 customers across Canada.



Leading up to the pandemic, what was your strategy i.e. what sectors/ geographies were you looking to grow?

Canada is a fragmented market in the packaging and healthcare supplies space. We recognize that the majority of the products that we sell into one vertical, can be easily be cross sold into the next. This has led our strategy to be focused on achieving a fully diversified footprint across Canada and leveraging the salesforce we have created through acquisition to grow in different verticals.

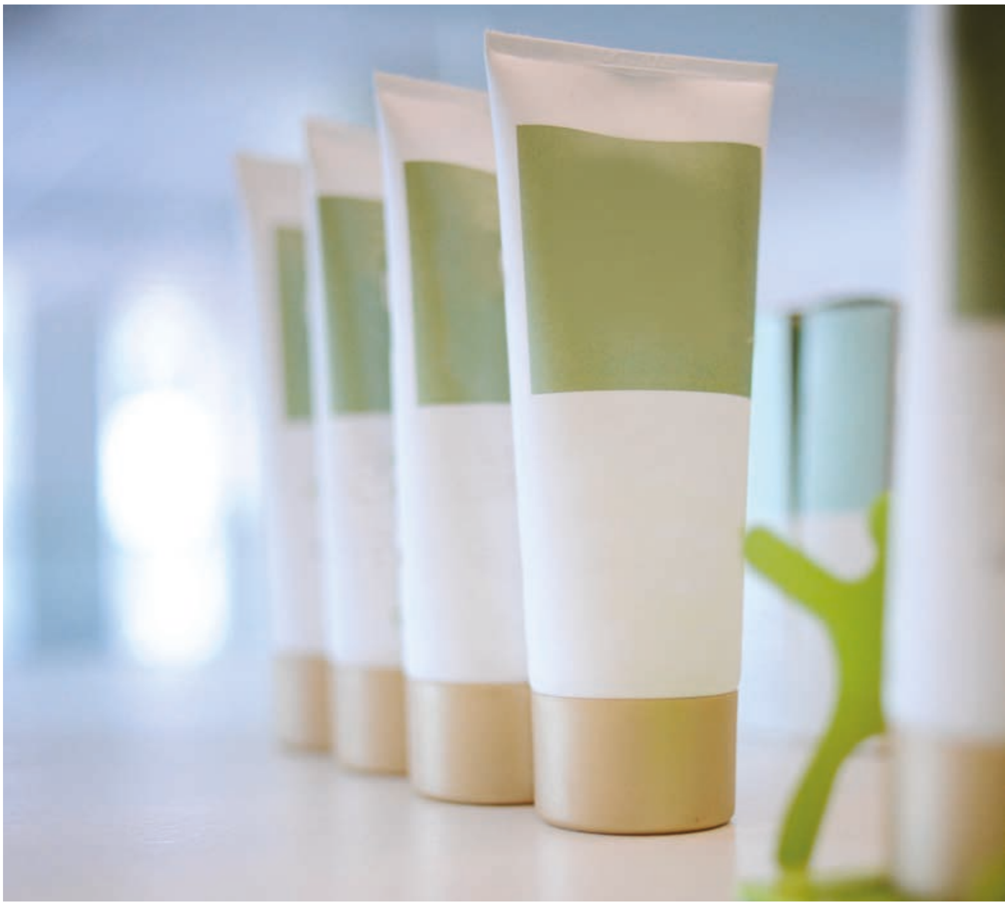
We have typically avoided the American market, as it's hard to achieve footing as a relatively smaller player and have therefore focused on gaining market share in as many verticals in Canada as possible. When expanding our existing product offering, we look to acquire regional players that can benefit from our scale across our national footprint, and when we look to move into new verticals we prefer to acquire targets with an existing large platform and offer their products into our existing end markets.

You have mentioned acquisitions a few times – how do you view the different ways of achieving growth (organic, brownfield, acquisitions).

We find it much easier to grow at scale through acquisition rather than organically and therefore focus on external growth.

To start a greenfield project, you need to lay the foundation for suppliers, salesforce, market presence, and customer confidence, which is difficult in smaller markets. When we purchased our regional nursing home provider, we utilized our cross-country footprint to scale that business outwards and found success.

Another growth strategy we use is to acquire firms with an existing large platform in a new vertical, and cross sell products from other spaces that where we currently compete.



How did you determine the key criteria you look for in acquisition targets quantitatively, qualitatively, and geographically?

As we have seen the impact of COVID-19 on multiple businesses, the most important factor we consider when looking at a target is their exposure to events similar to this pandemic. We have been fortunate that our operations have been exposed in a positive way to COVID-19, but it is important to access the financial strength of a target if they were to be exposed in a negative aspect.

From a qualitative perspective, we always ensure to look at the marketing stance, the strength of human resource, the product set, and the outlook for each target. We see ourselves as partners when making an acquisition, and when moving into new markets we like to acquire targets that are also acquisitive, where we can assist with technical and financial support of the business and allow them to continue to build out their strategies. We understand that by moving into new geographies we will be faced with changing business environments and will rely on management to guide us through our expansions. For this reason, we value the human resource on the ground tremendously in an acquisition.

Can you speak about your process when working with targets post close?

Our past two acquisitions have been based on earnouts, which allows our partners to continue to benefit from the success of the business after a transaction. The last acquisition we completed for example paid out double the original agreement, which is a win for both parties in our view. In general, we offer our newly acquired companies technical support with our computer systems and controls which helps with pricing and cost containment, which is a key tenant of our involvement from day one. From a strategic and marketing point of view, we like to take a hands-off approach and share our national resources and ideas with our companies if able, but generally rely on management teams to continue to achieve results. We want the entrepreneurial spirit to remain strong in our management teams, so we maintain a non-disruptive role in our acquired firms.

Do your acquired companies operate as stand alone divisions?

Since we operate across a number of different segments, combining our nursing home, drug store, and hospital companies for example, is not possible without complication. We believe that harmonization would be anything but positive due to the extreme execution differences between each vertical. For this reason, our companies tend to operate autonomously, and we find it works the best for each company to focus on their own separate operations.

Can you speak about any learnings from past acquisitions?

We are happy to say that our acquisitions tend to be very successful and we have been fortunate to have had only one transaction that has not achieved the result we had forecasted. In that situation we had purchased a company that was too dependent on a single individual, and when they decided not to commit to the long term success of the business, the result was undesirable.

We have learned from this experience to always look at long term sustainability attributes of a business from a human capital perspective, such as the sales organization and age profile of our targets. This is an integral factor for our acquisitions, and when we have stuck to acquiring strong human capital companies, we have found success.

When the pandemic hit, you were in the midst of the Clarion transaction. Can you share how this impacted negotiations?

Many companies that were in the middle of transactions during the pandemic halted negations and decided not to pursue any acquisitions. This was mainly due to buyers not having the financial strength and risk appetite to complete transactions during periods of uncertainty.

We have been committed to a large acquisition plan for an extended period of time and like to ensure that our deals close once we have entered negotiations. Taking a longer term view on our strategy, we do not need to adjust pricing for short-term benefit, and certainly do not want to take advantage of our future business partners. During the Clarion transaction we were not only able to learn more about the Clarion management team during an unprecedented business environment, but we were able to showcase what type of partner we intend to be moving forward, by holding true to our original offer. Richards has been operating for over 100 years and is looking to be transformative over the longer term, not the next quarter.

When COVID started appearing in Europe and North America, how did Richards prepare itself and what steps were taken to address the impact of the pandemic?

We knew that the supply channels were going to be disrupted and that demand was going to come in a fashion that would overwhelm many organizations. We have a deep inventory strategy which really paid off for us during this pandemic.

We had a large number of new customers coming to us asking for product, but our biggest focus was to satisfy our current customers who we knew would be around after the supply channels had restored. We were seeing demand increase by up to 30% from our existing customers, and made sure we could satisfy their inventory requests as our top priority. During this surge we did not raise our prices, did not reallocate inventory supply to gain market share, and were able to build a closer relationship with our customers, while still achieving unprecedented growth from the increased volume.

Can you tell us about the role of technology in your business?

We have over 17,000 customers and over 5,000 suppliers. The diversity and mass operation that we bring across Canada would not be possible without the use of technology. Without technology we would not be able to stay on top of pricing, inventory trends, or our customer service from coast to coast.

We believe that our technology allows us to effectively monitor all these attributes and we see positive results in our customer satisfaction levels, our yields on investments, and our growth. From a systems point of view during the pandemic, we were able to continue regular business operations as our systems were capable of handling extreme levels of volumes and transactions.

How has your view around M&A changed and what kinds of companies would you acquire now to position yourself for the future?

Prior to the pandemic, we were already pivoting into healthcare and we are continuing to be excited about the space. The healthcare industry tends to grow faster, have better metrics, is more innovative on the product side, and we agree with the demographics trends that support the industries long term growth. Five years ago, two thirds of our revenue came from food and beverage packaging, and today that number is below 40%.

We have really focused on growing the healthcare and aesthetic sectors of our business, mainly through acquisition, and going forward we are taking a very broad view on our acquisition strategy and hope to continue to build out all of our verticals. Through a mix of growing existing channels and entering new end markets, we are looking at every opportunity that fits our criteria. There is a scarcity of targets in the market, especially as we grow, so we have developed an opportunistic view of our acquisition strategy with a broad criteria.

Can you speak to opportunities you want to see more or less of moving forward?

Whenever you are moving into a new geography or a new vertical, you need a

platform that is sizeable enough to have an appropriate starting position to grow.

Fortunately, we have several large existing platforms which allows us to complete tuck unders if the correct opportunity presents itself. We are also open to larger acquisitions in our existing platforms, where we can combine our businesses and expand.

Richards is primarily a Canadian company. What is the vision around international expansion/growth?

In terms of international expansion, we are focused on English speaking countries, excluding the US. We see English speaking countries being the most consistent to the Canadian marketplace, and are excited by opportunities in Australia, the UK, New Zealand, or South Africa.

The approach to business, the business ethics, and the sophistication is similar to the Canadian landscape and is something that we understand.

Taking a partner approach with our acquisitions, we believe that expanding into new geographies without a language barrier would be essential for integration. ■

RICHARDS PACKAGING
acquired
CLARION MEDICAL TECHNOLOGIES

Clairfield advised Richards Packaging Income Fund on the acquisition of Clarion Medical Technologies

Richards Packaging Income Fund (TSX: RPI.UN) completed the acquisition of all of the outstanding shares of Clarion Medical Technologies, a Canadian provider of medical, aesthetic, vision care and surgical equipment, and consumables.

The acquisition will strengthen the position of Richards Packaging in the healthcare market, where its current platform includes Richards Pharma Solutions, Healthmark, and Dispill. It will also allow Clarion Medical to leverage the considerable resources of Richards Packaging to expand the reach of its healthcare innovations.

Clairfield International acted as exclusive financial advisor to Richards Packaging. Clairfield's role included a targeted acquisition search for Canadian healthcare and medical companies, whereby various screens and outreaches were conducted that led to the identification of Clarion Medical.

Following the acquisition search, Clairfield supported Richards Packaging through all aspects of deal evaluation and diligence. This included evaluating Clarion Medical's financial statements and operations, meeting with management, assessing strategic and synergistic opportunities, negotiating deal terms and purchase price, and support with all closing documents. Clairfield continues to advise Richards Packaging as it looks to acquire other Canadian healthcare and medical businesses.