Mergers & Acquisitions in the Printing Industry

CEO PEER GROUP

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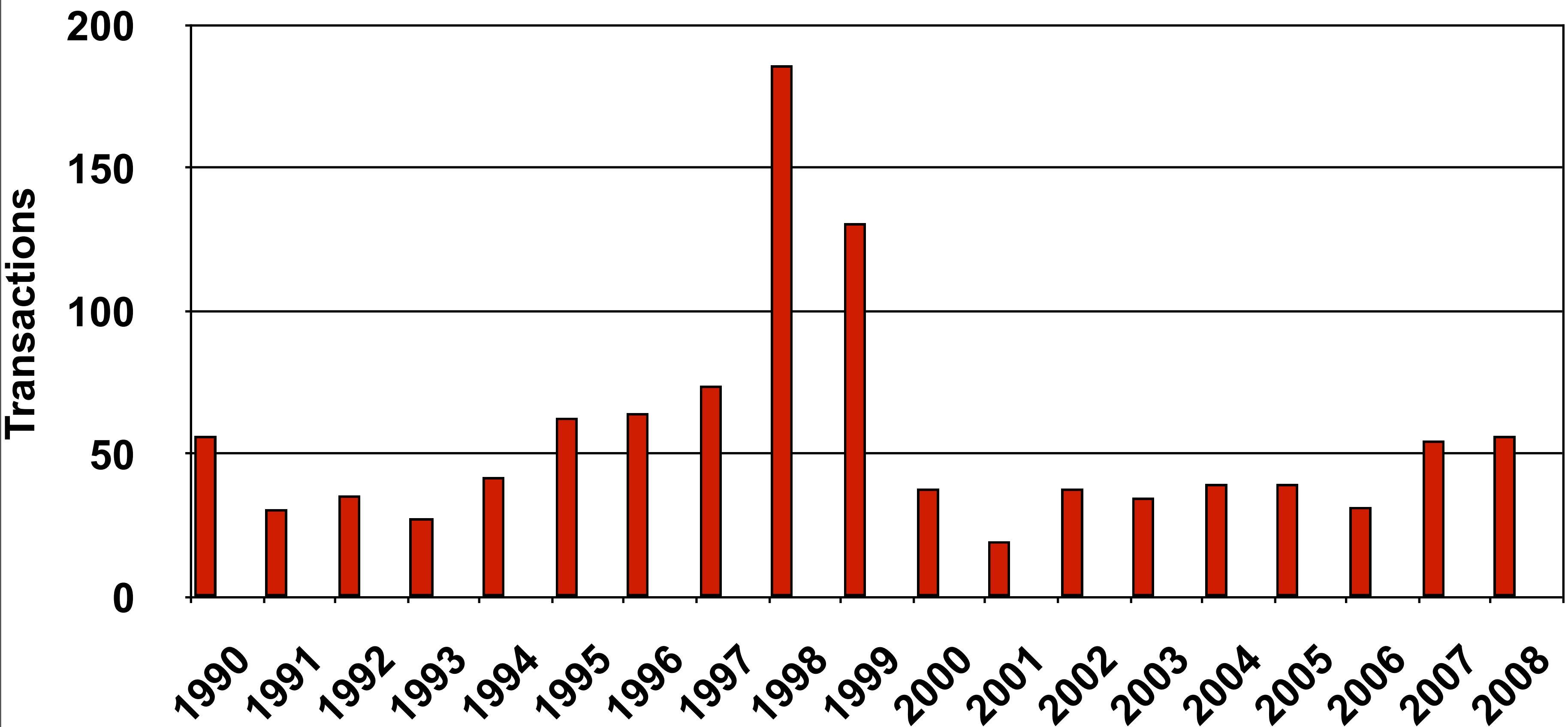
Session Agenda

- Current Trends in Printing M&A.
- What Determines Value?
- Consolidation – Why it's Attractive to Buyers.
- What's Attractive (and What's Not) to Buyers.

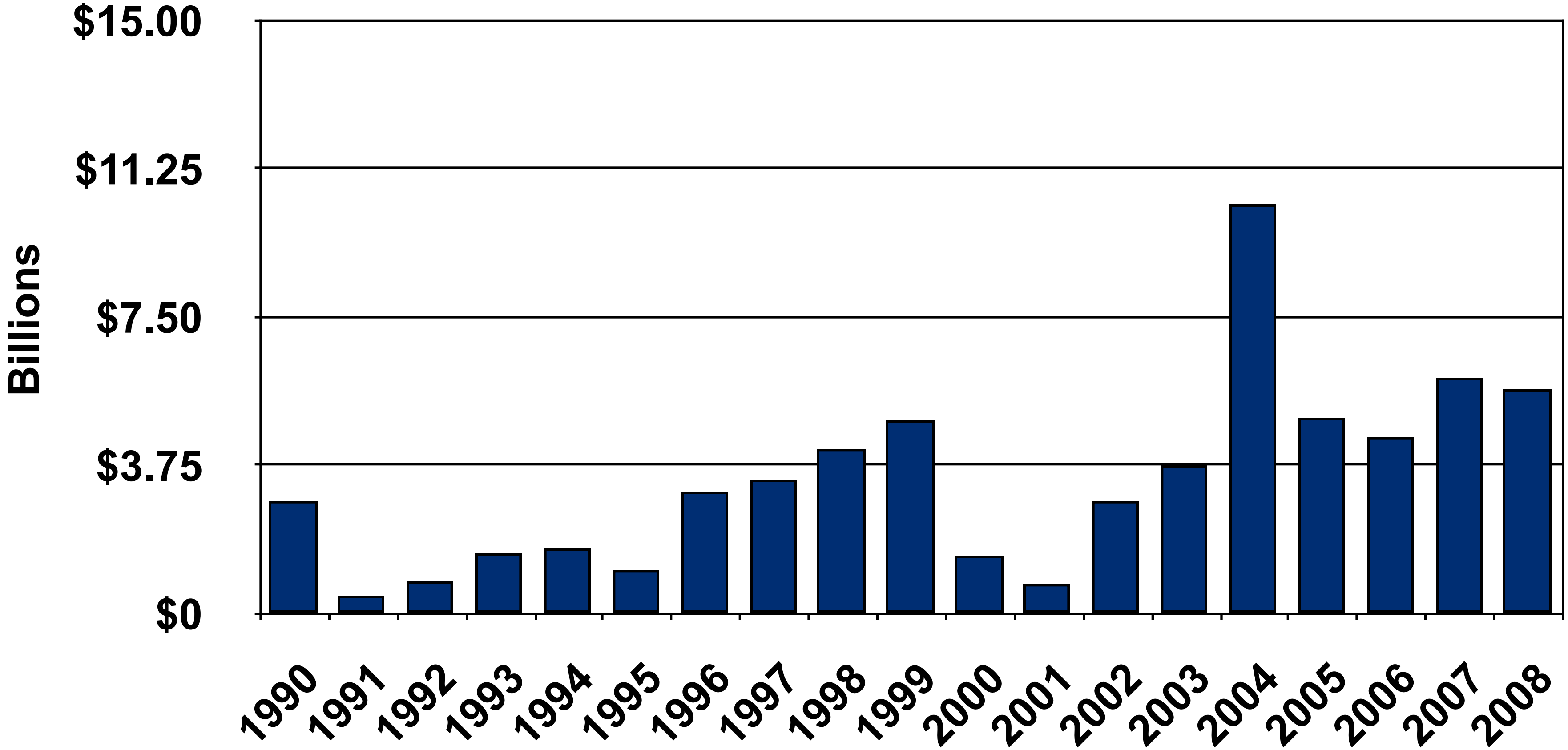
NEW DIRECTION PARTNERS

Number of Deals



NEW DIRECTION PARTNERS

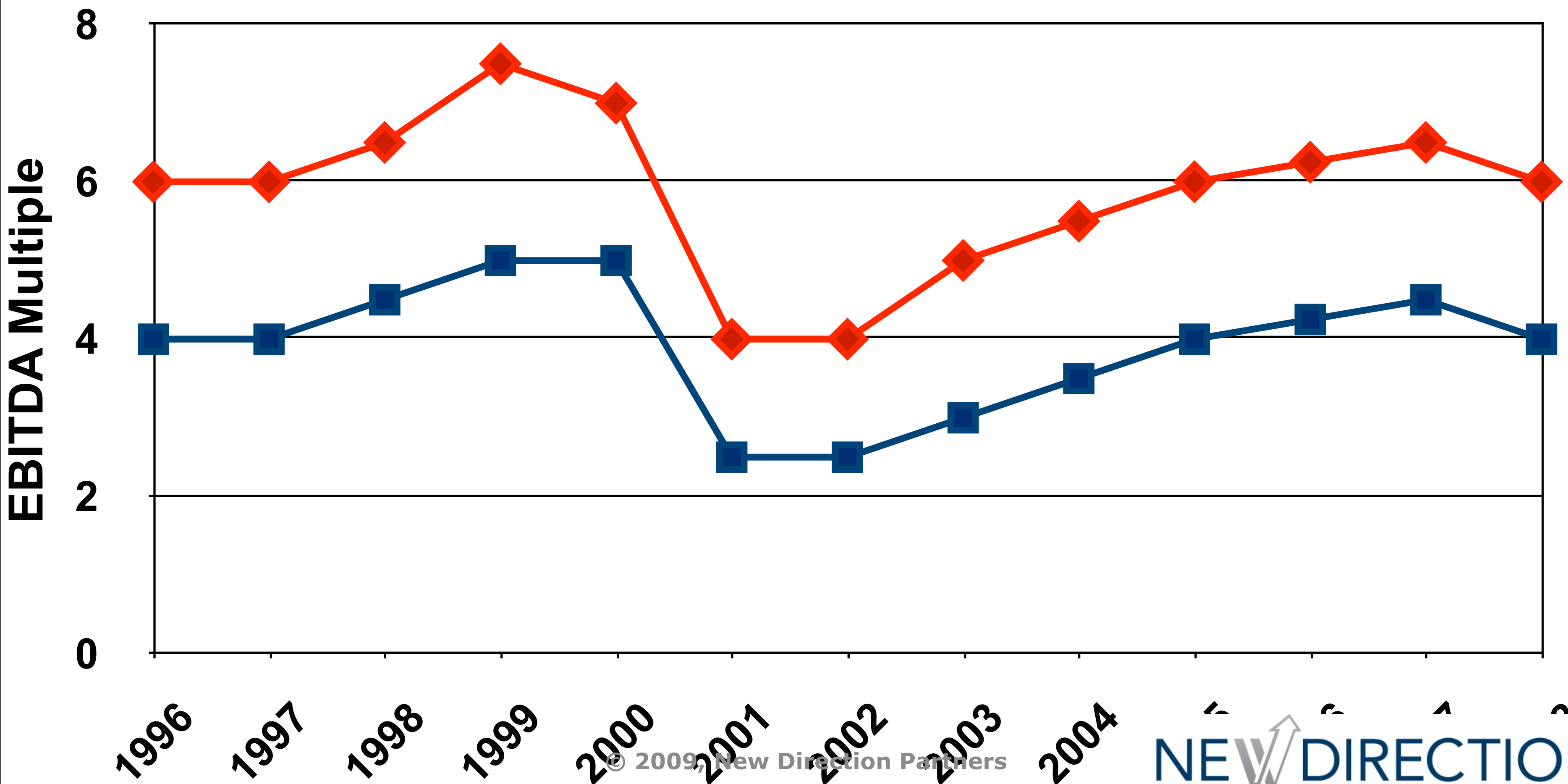
Sales Acquired



NEW DIRECTION PARTNERS

Historic Valuation Range

Valuation Multiples



NEW DIRECTION PARTNERS

How is Value Determined?

EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization)

Sales	$12,000,000
Pretax Income	$ 300,000
Add: Interest Expense	$ 200,000
Add: Depreciation	$ 600,000
EBITDA	$ 1,100,000

How is Value Determined?

EBITDA	$1,100,000
EBITDA MULTIPLE	4.0x
Enterprise Value	**$4,400,000**
Less: Debt	$2,000,000
Equity Value	**$2,400,000**

NEW DIRECTION PARTNERS

Tuck-Ins

- Purchasing a firm's sales and selected assets.
- Usually involves paying a commission (approximately 5%) on sales retained over 2 to 3 years.
- Also may include the purchase of Accounts Receivable, Inventory and certain equipment at FMV or OLV.

Benefits/Risks of Tuck-Ins - SELLER

- Seller Benefits
  - Sell what has most value – sales.
  - Compensation received even with operating losses.
  - Sellers can get higher price when sales return to normal levels.
  - Removes question of value of equipment.
- Seller Risks
  - Paid over time.
  - Buyer’s ability to stay in business.

Benefits/Risks of Tuck-Ins - BUYER

- Buyer Benefits
  - – Only pays for value received – sales retained.
  - – Only purchases equipment needed.
  - – Compelling economics by filling excess capacity (see next table).
- Buyer Risks
  - – Implementation resources.

NEW DIRECTION PARTNERS

Consolidation Benefits

PRO-FORMA ACQUISITION RESULTS ($ million)

	YOUR FIRM	TARGET FIRM	ADJUSTMENTS $	NOTES	PRO-FORMA RESULTS
SALES	15.0	12.0	(1.2)	A	25.8
MATERIALS	5.0	4.0	(0.4)		8.6
FIXED FACTORY	4.5	3.6	(3.6)	B	4.5
VARIABLE FACTORY	1.9	1.6	(0.2)		3.4
GROSS PROFIT	3.5	2.8			9.3
FIXED SG&A	1.5	1.2	(1.2)	C	1.5
VARIABLE SG&A	1.4	1.2	(0.1)		2.5
OPERATING INCOME	0.6	0.5			5.3
INTEREST	0.2	0.2	0.3	D	0.7
PRE-TAX INCOME	0.3	0.3			4.6
%	2.3%	2.3%			17.7%
EBITDA		1.1			
Purchase Price		4.2			

A) Assume only 90% of target sales are retained
B) Benefits of combining facilities
C) Benefits of combining administrative functions
D) Interest at 8% on purchase price of 5x EBITDA

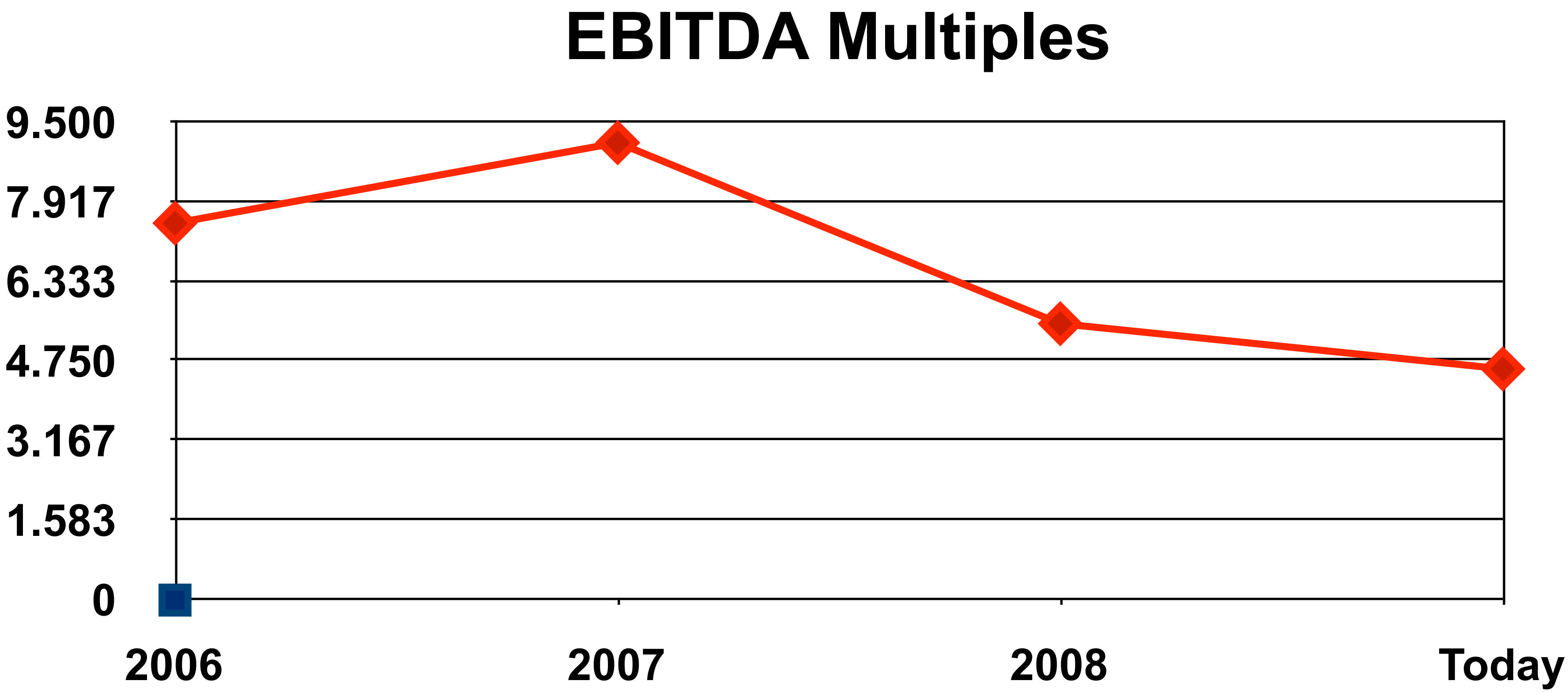
NEW DIRECTION PARTNERS

Public Company Multiples

	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Feb. 25, 2009
Cenveo	11.1	12.2	6.3	6.0
Champion	6.2	8.9	5.8	5.3
Cons. Graphics	6.6	5.9	4.2	3.6
R.R. Donnelley	7.3	7.5	3.9	3.4
Standard Register	9.2	12.4	8.1	5.0
Transcontinental	4.8	7.8	4.4	4.0
Averages	**7.5**	**9.1**	**5.5**	**4.6**

NEW DIRECTION PARTNERS

Public Company Multiples (Trend)



NEW DIRECTION PARTNERS

National Buyers (Sometimes)

- Consolidated Graphics
- Cenveo, Inc.
- R.R. Donnelley & Sons
- Taylor Corporation
- Transcontinental (“TCL” TSX)
- Earth Color (Allied Capital)
- Transactional Print Rollup (Huron Capital)
- Touchpoint Solutions (Huron Capital)
- Outlook Group (John Hancock)

What is happening?

- The printing industry is in a period of contraction. A declining economy will amplify printing declines.
- A declining market will hurt the smaller, general commercial printers the most. As a result, there will be more liquidations and disappearance of many of these companies.
- There are many motivated sellers of general commercial companies with revenues of $10 million or below.

NEW DIRECTION PARTNERS

What is going to happen?

- M&A activity will continue to grow, perhaps differently.
- More mega-deals and regional rollups.
- More “new” buyers will emerge.
- Buyers will be smarter -- no more valuation “craziness”.
- There is a wide open market for buyers of companies with revenues less than $10 million.
- Consolidation of specialty companies will continue with only limited interest in general commercial.

NEW DIRECTION PARTNERS

Why will consolidation continue to happen?

- The printing industry is fragmented and fragmented industries inevitably consolidate.
- Mega deals have begun (will begin) to exert margin pressure on suppliers and independents.
- Buyers have excess capacity to fill!
- Owners/Investors inevitably seek liquidity.

NEW DIRECTION PARTNERS

Good Attributes

- Non-union workforce.
- Advanced Technology (logistics, MIS and web site).
- Print on Demand capabilities.
- 3-5 years of revenue growth.
- 3-5 years of sustained EBITDA of 10%+.
- Audited financial statements.
- 25% - 35% excess equipment capacity.
- 35% - 50% additional plant facility capacity.
- Plant is not landlocked.
- Early stages of market based long-term lease.

NEW DIRECTION PARTNERS

More Good Stuff

- Good, youthful management willing to stay.
- No account concentration beyond 20%.
- Well-documented environmental compliance.
- No significant pending litigation.
- Well-engineered throughput.
- Clean well-maintained facilities.
- No major facility maintenance problems.
- Revenues in excess of $10.0 million.
- Number one or two position in market.
- Identifiable, defensible specialties.

NEW DIRECTION PARTNERS

A Few More Good Attributes

- 60%+ value-added.
- No salesperson concentration above 20%.
- Strong ethics. No payoffs to print buyers.
- Evidence of a tenured happy workforce.

Bad, Ugly Characteristics

- Unionized.
- Need to spend millions for new equipment.
- Recent revenue declining.
- Declining or "peak and valley" EBITDA.
- Reviewed or compiled financials.
- Too little or too much excess capacity.
- Tight plant. No room for growth.
- Plant cannot be expanded.

NEW DIRECTION PARTNERS

More Ugliness

- Late stage or undesirable real estate lease.
- Owner, CEO will retire.
- Severe account concentration 20%+.
- History of environmental problems.
- Company is being sued for big dollars.
- Haphazard layout.
- Sloppy, dirty facilities.
- Bad roof, poor ventilation, etc.
- Revenues less than $10.0 million.

NEW DIRECTION PARTNERS

Ugly, ugly

- Way down the list in market share.
- No differentiation. The "low price spread."
- Low value-added.
- One key salesperson selling 25%+.
- Loose and fast with print buyers.
- Suppliers wish company would go away.
- Potential Federal or state tax liability.
- Revolving door.

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Questions?

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