M&A in the Printing Industry

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Session Agenda

- Growth.
- Current Trends in Printing M&A.
  - What is happening and what will happen?
  - What Determines Value?
  - Consolidation – Why it's Attractive to Buyers.
- What's Hot (and What's Not) with Buyers.

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Two Ways to Grow

- **How are You Going to Grow?**
  - Organic/Internal Growth
  - Product/Service Expansion
  - Wait for the Others to Go Out-Of-Business
  - Merge with another Printing Company
  - Purchase a Printing Company

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You Need to Grow

- **If You Don't Grow, What are You Doing?**
  - Let My Heirs Worry About the Future
  - Be a Survivor and Figure it out Later
  - Wait for the Next Financial Scare and File for $1.9 billion in Relief under GARP
    (Graphic Arts Relief Program)
  - Become a Seller

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Survival of the Fittest

- Consolidation is Going to Occur
- Are you a Buyer or a Seller?
- What will the Future ROI's or Profit's be?
- You Better Focus on Something

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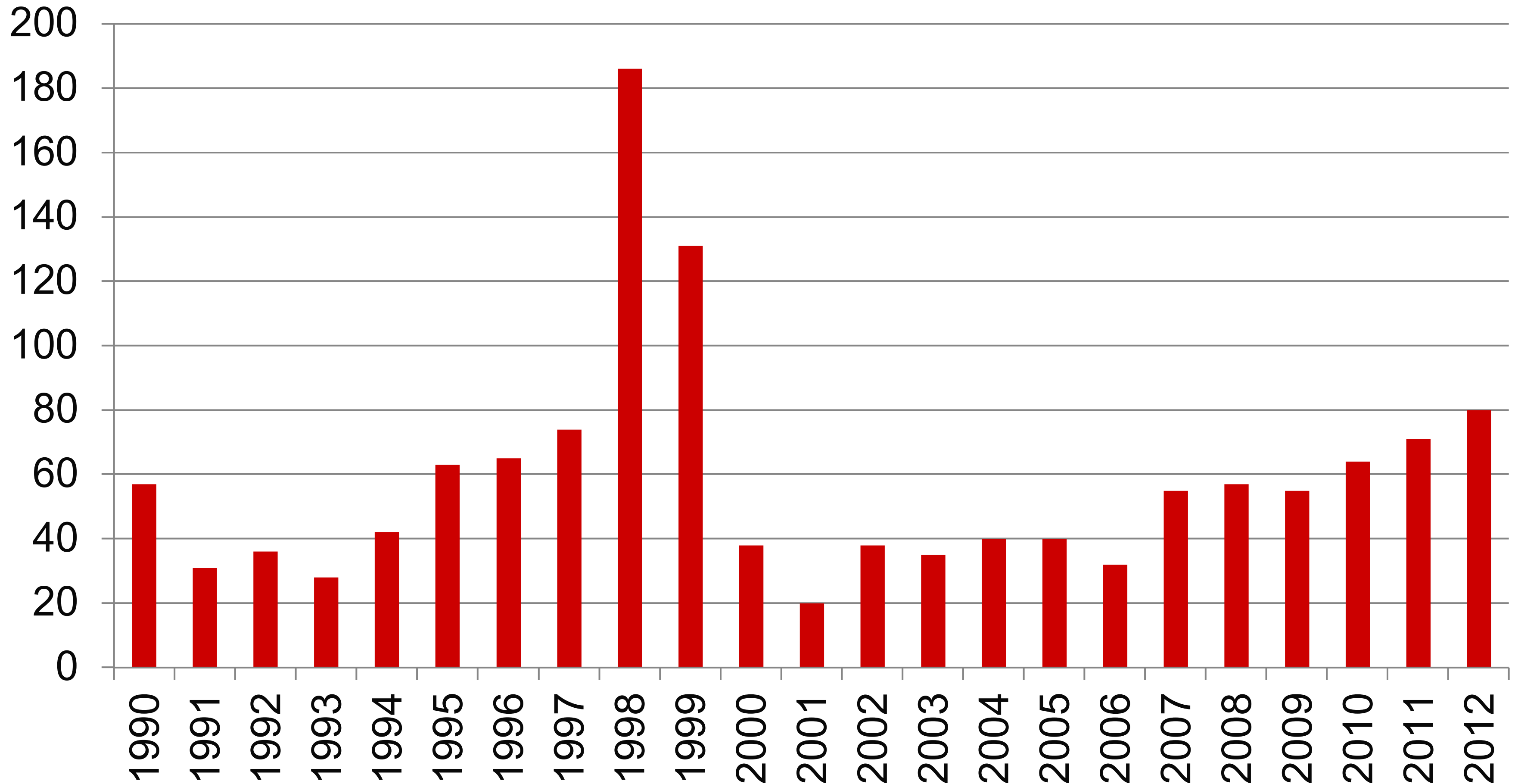
Number of Deals



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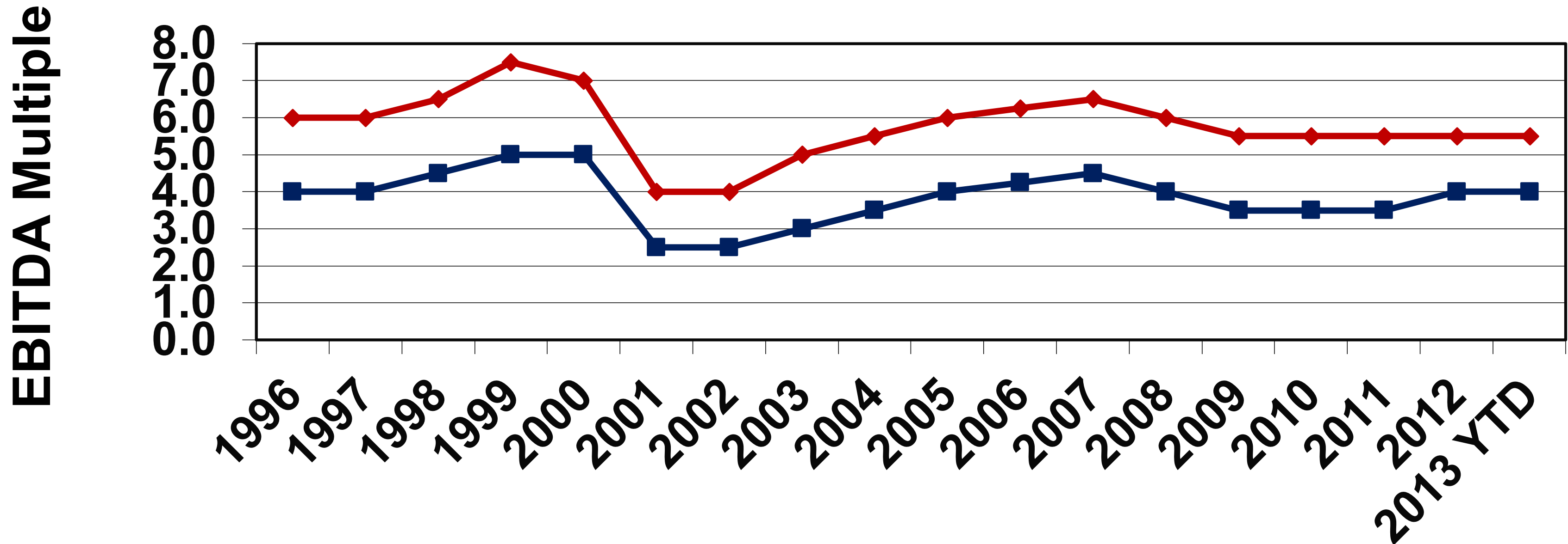
Historic Valuation Range



NOTE: Only very specialized (non-general commercial) printers that are growing rapidly will attract the upper end of this range.

Public Company EBITDA Multiples

Company	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012	Mar. 20, 2013
Cenveo	11.1	12.2	6.3	9.7	9.2	8.1	6.5	6.1
Champion	6.2	8.9	5.8	9.4	8.9	5.8	6.5	6.6
Cons. Graphics	6.6	5.9	4.2	5.6	5.6	5.6	4.3	4.5
Quad/Graphics	NA	NA	NA	NA	5.1	3.5	3.9	4.0
R.R. Donnelley	7.3	7.5	3.9	5.8	5.6	5.0	4.3	4.3
Standard Register	9.2	12.4	8.1	6.5	4.1	5.3	4.3	4.1
Transcontinental	4.8	7.8	4.4	5.4	5.2	4.0	3.7	4.0
Averages	**7.5**	**9.1**	**5.5**	**7.1**	**6.2**	**5.0**	**4.3**	**4.3**

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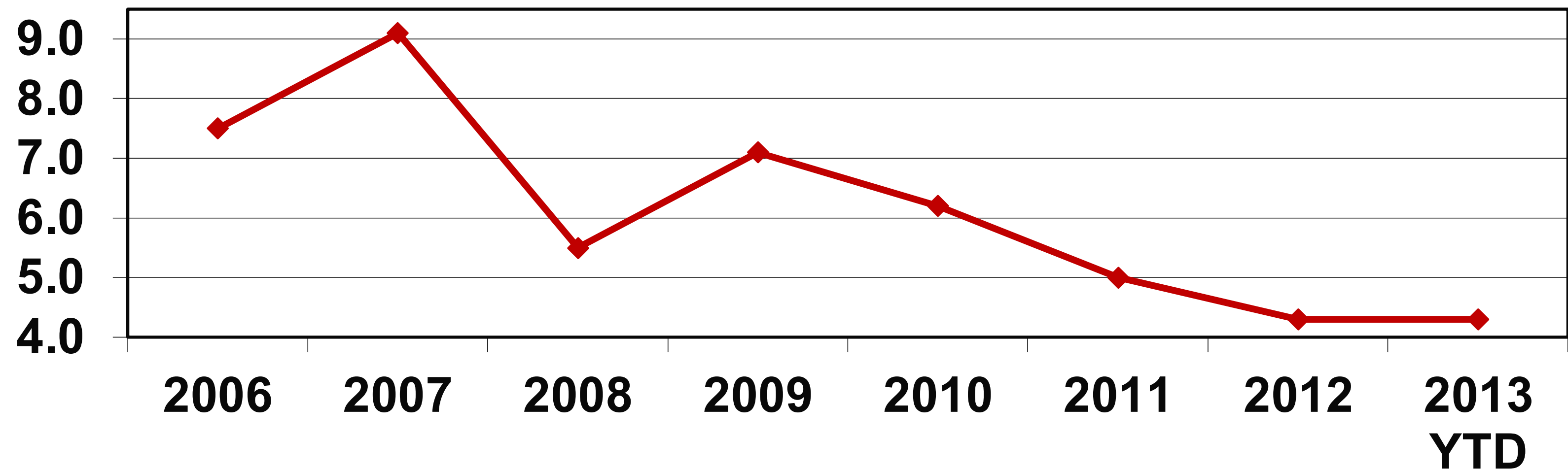
EBITDA Multiples Trend

Public Companies



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How is Value Determined?

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

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

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How is Value Determined?

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

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Tuck-Ins

- Purchasing a firm's sales and selected assets.
- Usually involves paying a commission (3 – 7%) on sales retained over 2 to 4 years.
- Also may include the purchase of Accounts Receivable, Inventory and certain equipment at OLV or even FLV.

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Benefits/Risks of Tuck-Ins - SELLER

- **Seller Benefits**
  - The royalty rate makes it more attractive than an outright liquidation.
  - Sell what has most value – sales.
  - Compensation received even with operating losses.
  - Sellers can get higher price when sales return to normal levels.

- **Seller Risks**
  - Paid over time.
  - Buyer's ability to stay in business.

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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.

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Cashless Merger

- Purchasing a firm's sales and selected assets.
- In lieu of a royalty arrangement, the seller receives stock in the new entity.
- Figure out together which equipment ought to stay, which plant to move into, etc.
- Still may include the purchase of Accounts Receivable, Inventory and certain equipment at OLV.

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Benefits of a Cashless Merger

- Compelling economics.
- The buyer has a true partner going forward with the same motivations.
- Keep the best of the best and eliminate duplications.
- Seller can receive greater upside if the new entity is successful.

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Consolidation Benefits

	YOUR FIRM	% OF SALES	TARGET FIRM	% OF SALES	ADJUSTMENTS $	NOTES	PRO-FORMA RESULTS	% OF SALES
SALES	$5,000,000		$2,000,000		($500,000)	A	$6,500,000	
MATERIALS	$1,700,000		$900,000		($225,000)		$2,375,000	
VALUE ADDED	$3,300,000	66.0%	$1,100,000	55.0%	($275,000)		$4,125,000	63.5%
FIXED FACTORY	$1,500,000		$600,000		($500,000)	B	$1,600,000	
VARIABLE FACTORY	$500,000		$200,000		($100,000)	B	$600,000	
GROSS PROFIT	$1,300,000	26.0%	$300,000	15.0%	$325,000		$1,925,000	29.6%
FIXED SG&A	$700,000		$200,000	10.0%	($150,000)	C	$750,000	
VARIABLE SG&A	$500,000		$200,000	10.0%	($50,000)	C	$650,000	
OPERATING INCOME	$100,000	2.0%	($100,000)	-5.0%	$525,000		$525,000	8.1%
NON-OPERATING	$25,000		$0		($75,000)	D	($50,000)	
PRE-TAX INCOME	$125,000	2.5%	($100,000)	-5.0%	$450,000		$475,000	7.3%

Purchase Price	5% Royalty Rate for Three Years.

A) Assume only 75% of target sales are retained

B) Benefits of combining facilities

C) Benefits of combining SG&A functions

D) Assumes Royalty Rate of 5% on Transferred Sales.

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What is happening?

M&A has become a Mode of Survival in the Printing Industry!

- The printing industry is in a period of contraction. A declining economy will amplify printing declines. **However, this doesn't mean there won't be strong printing companies going forward.**
- A declining market will hurt the smaller, general commercial printers the most. As a result, there will be more tuck-ins and liquidations of many of these companies.
- Today, virtually everyone is either a buyer or a seller.

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Why will consolidation continue?

- The printing industry is fragmented and fragmented industries inevitably consolidate.
- Growth by Acquisition is the easiest way to achieve growth today!
- Buyers have excess capacity to fill.
- Today, growth by acquisition is easier than organic growth.
- Owners/Investors inevitably seek liquidity.

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What's Hot (and What's Not)

From a Buyer's Perspective…

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Positive Attributes

- Non-union workforce.
- Advanced Technology (web-to-print, logistics).
- Digital print capabilities.
- Specialization (large format, labels, web-to-print, data analytics, creative, fulfillment, etc).
- Trend demonstrating revenue growth.
- Sustained EBITDA margins of 10%+.
- Audited or reviewed 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.

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More Positive

- 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.

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More Positive

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

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Negative Attributes

- Unionized.
- Need to spend millions for new equipment.
- Recent revenue declining.
- No specialization.
- Declining or “peak and valley” EBITDA.
- Only internally prepared financials.
- Too little or too much excess capacity.
- Tight plant. No room for growth.
- Plant cannot be expanded.

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More Negative

- Late stage or undesirable real estate lease.
- Owner, CEO wishes to retire imminently.
- 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.
- If selling on a going concern basis, revenues less than $10.0 million.

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More Negative

- 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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