

Re-Imagining M&A...

in Today's Unprecedented Times

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Moderated by: Cary Sherburne

In partnership with PICA and PIAG

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Agenda

- Current Environment – Industry & Overall Economy
- M&A Trends and Pandemic Impact
- Premium Segments & Industries Served
- Valuations
- Key Factors For Success of Effective Acquirers
- Types of Transactions
 - Multiple of Earnings
 - Tuck-Ins

“Nobody in America’s ever seen anything else like this... Everybody talks as if they know what’s going to happen, and nobody knows what’s going to happen.”

CHARLIE MUNGER, VICE CHAIRMAN BERKSHIRE HATHAWAY

Current Environment – Industry All Over the Lot

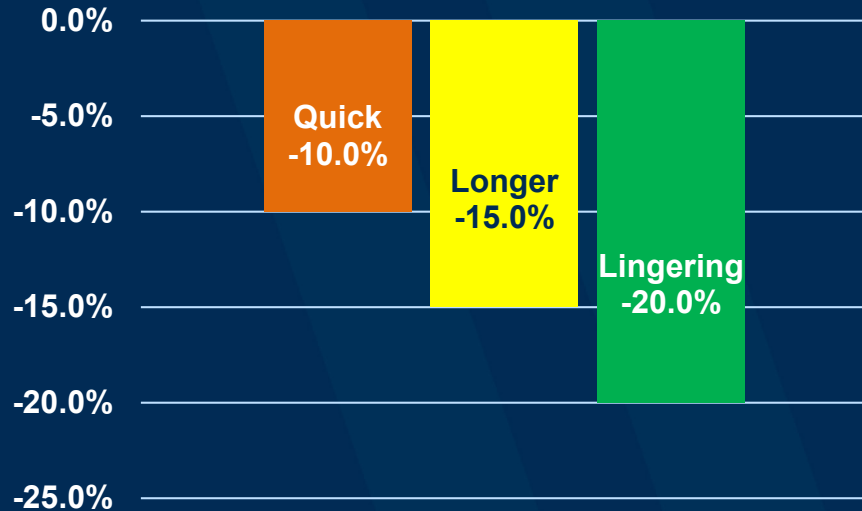
- “Our revenue is down by 30%.” **MAILING HOUSE**
- “Our sales volume is down by approximately 35%.” **WEB & SHEETFED PRINTER**
- “Our transactional offset print has decreased by 50%, but our personalized digital work is holding its own.” **GENERAL COMMERCIAL PRINTER**
- “Entered sales are down by about 50%.” **BOOKS**
- “Our sales are off by more than 50%.” **INSERTS PRINTER**
- “Our tradeshow and event business disappeared overnight. We are, however, surviving by producing PPE items”. **POP ENTITY**
- “Our revenues have increased by 45%.” **FLEXIBLE PACKAGING & LABELS**
- “We’re up by 30%.” **PHARMACEUTICAL PACKAGING**
- “Our revenues haven’t declined at all.” **STATEMENTS**
- “We had been doing great but, with everything at a standstill, some customers are holding back their mailing campaigns.” **1:1 DIRECT MARKETING**
- “We remained profitable in April and May will be in the black...but I’m worried about June and July. That said, our estimates have been picking up dramatically, so we be okay in the summer.” **RETAIL POP**
- “I’m busier than I have ever been since we opened in 2009.” **LABELS & PACKAGING**

Average Change from Mid-March through Mid-April: -57.0%

SOURCE: SGIA INDUSTRY-WIDE SURVEY

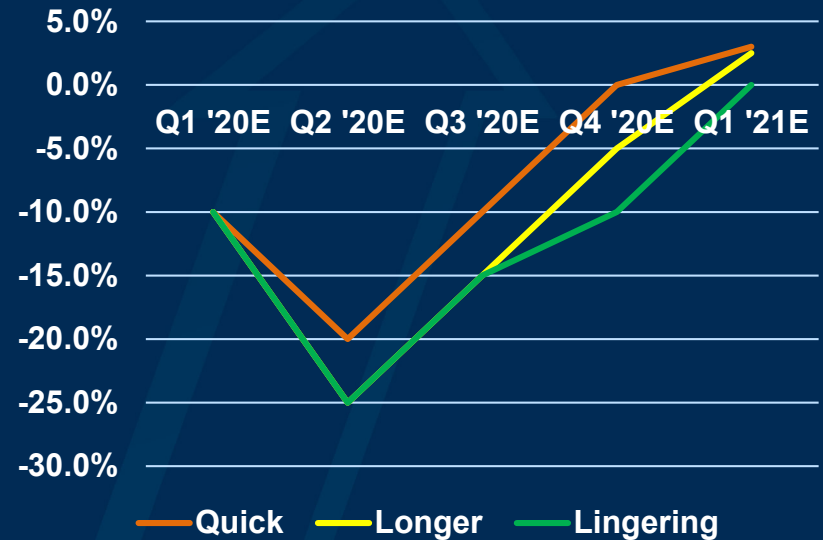
The Industry – Recovery Potentially Begins in Q3, 2019

Print Sales Change: Next 12 Months



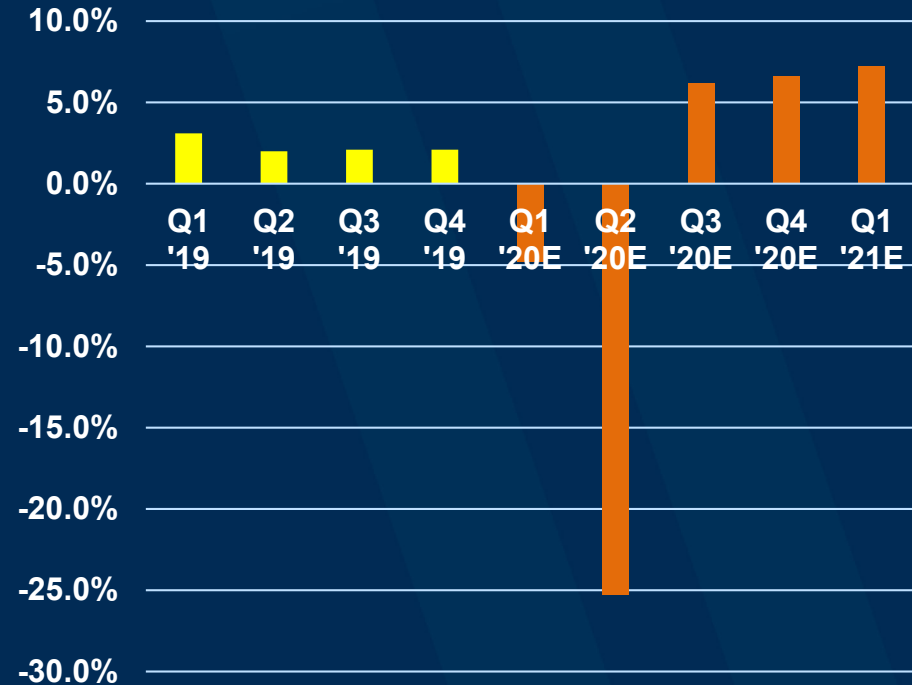
Source: PIA Flash Report

Print Sales Pattern: Q1 '20 – Q1 '21

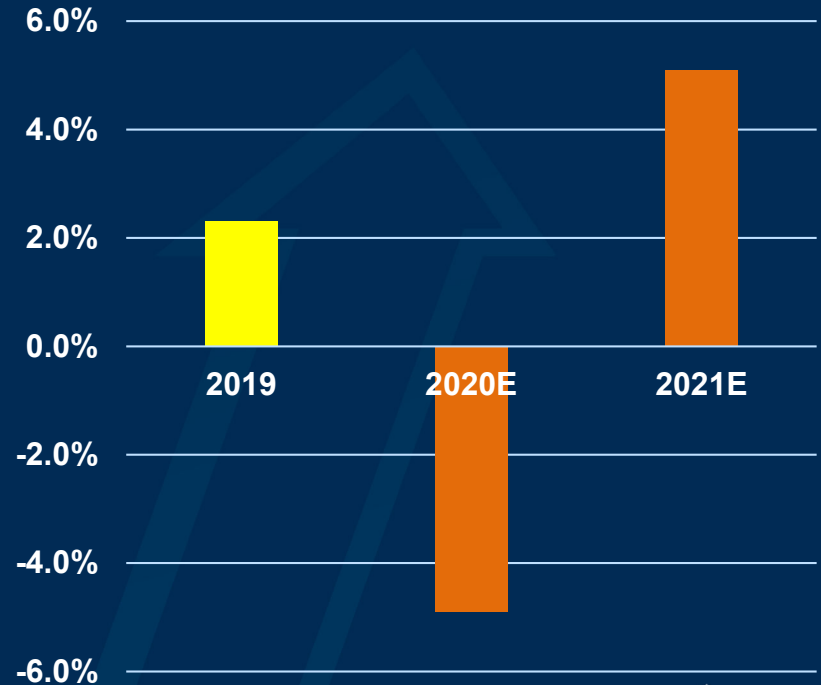


The Economy – Recovery Starts in Q3 and Strengthens in 2021

Quarterly GDP Change



Annual GDP Change



Source: The Wall Street Journal (reprinted from SGIA)

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Takeaways

- The U.S. has the strongest, most viable economy in the world. We will recover and thrive once again.
- A recent survey confirmed that most owners are short-term worried and long-term optimistic.
- Print will also recover, but it will take time, and it is a likely reality that many printers won't survive the historic drop in revenue.
- Economists anticipate the recovery to begin next quarter (Q3, 2020) and strengthen in 2021.
- That said, with an anticipated decline in GDP of -4.9% in 2020, economists believe that this year will show the biggest GDP decline since 1946.
- Economists also expect that 2021 will be a year of great growth – fastest growth in 36 years and much more than our average of 2.5%.
- Some still predict a V-shaped recovery, most however are calling for more U-shaped where we'll bounce around at the bottom a bit before the uptick.
- Most anticipate that inflation will remain low until at least 2022; however, interest rates will likely increase beginning in 2021.

Overview of the M&A Market (Pre-Pandemic)

- In 2019 into early 2020, it was a great time to be a seller. Multiples were attractive for several reasons:
 - Strong economy, improved industry
 - Financial institutions lending at low interest rates
 - Financial buyers like printing again...(and they never disliked packaging)
 - Healthy public multiples
- It was also a good time to be a buyer. When correctly implemented, acquisitions:
 - Create value for customers
 - Create value for shareholders

Overview of the M&A Market (During Pandemic)

- Printers are naturally focusing on their business and doing what needs to be done to protect and care for their employees and their businesses.
- In these uncharted waters, deal closings will likely be paused but not cancelled. We fully expect that this is temporary only as corporate, strategic and financial buyers are putting things on hold to see what the recovery looks like and assess changes in the lending environment.
- It is difficult to determine valuations given that nobody knows what the other side looks like yet.
- Many sellers are choosing to put their processes on hold until normalcy returns. In some situations, the buyers have been anxious to keep the process moving, which is an encouraging sign.
- Most companies in our industry are struggling during this time. This has already led to an uptick in tuck-in or cashless merger opportunities. When done correctly, this will create value for the buyer and seller, even if the seller is struggling financially.

Overview of the M&A Market (Post-Pandemic)

- When this is over and a favorable economic climate returns, we expect to see a return to strong M&A trends in our industry. The printing and packaging industries continue to rank among the most highly fragmented industries in the United States. Fragmented industries inevitably consolidate.
- Achieving growth through acquisition has proven to often be easier than organic growth or recreating technologies / workflows or market niches.
- Strategic buyers have excess capacity to fill...and PE buyers have a lot of money to spend!
- Valuable businesses exist that need liquidity, and owners are still aging...or lack the will to slog through another recovery.
- Certain segments remain highly price competitive and are experiencing profound shifts as a result of global market forces, labor trends, environmental regulations, the growth of digital technology, and the prevalence of electronic/social media. Time to reinvest or sell?
- Both industries are becoming “have” and “have not” industries. All buyers are striving to become more “sticky” to customers through technology, specialization and proprietary IT.

How will the Pandemic Impact Valuations?

Buyer Concerns	Ways to Mitigate Concerns
Embedded Risks	<ul style="list-style-type: none">• COVID-19 had little to no impact on Seller's revenues• Seller has a quick recovery• Seller has demonstrated ability to right size and maximize efficiencies
Future Confidence	<ul style="list-style-type: none">• COVID-19 had little to no impact on Seller's revenues• Seller has a quick recovery• Seller has demonstrated ability to right size and maximize efficiencies
Solvency & Cash Reserves	<ul style="list-style-type: none">• COVID-19 had little to no impact on profitability• Seller has a quick recovery
Credit Constraints	<ul style="list-style-type: none">• Banks start lending• Interest rates remain low

How will the Pandemic Impact Valuations?

- The pandemic is a result of natural causes, not changes to the economy. As a result, many feel that buyers shouldn't penalize sellers.
- That said, because of perceived risks, buyers likely won't proceed unless they are confident that the seller has demonstrated a return to normalcy.
- If a seller quickly recovers, one way is for the buyer to remove the 2 -3 months of poor results and substitute in the same three months from last year – EBITDAC (Earnings Before Depreciation, Amortization and Coronavirus)!

Successful Acquisition Strategies

Successful Acquirers Have Been Implementing Solutions to Three Strategic Imperatives Confronting Printers:

- Replace sales from shrinking markets
- Drive efficiencies to mitigate lower pricing
- Reposition into growing markets.
 - New markets
 - New products / services
 - Technologies
 - European firms expanding to North America

Types of Transactions

- Traditional Earnings-Based Acquisitions
- Asset-Based Transactions (Tuck-Ins & Cashless Mergers)


Earnings Based - How is value determined?

EBITDA(C) Earnings Before Interest, Taxes, Depreciation, Amortization & Coronavirus Impact

Adjusted Pretax Income	\$ 800,000
Add: Interest Expense	\$ 200,000
Add: Depreciation	\$ 1,000,000
Add: Coronavirus Impact	???
Adjusted EBITDA	\$ 2,000,000

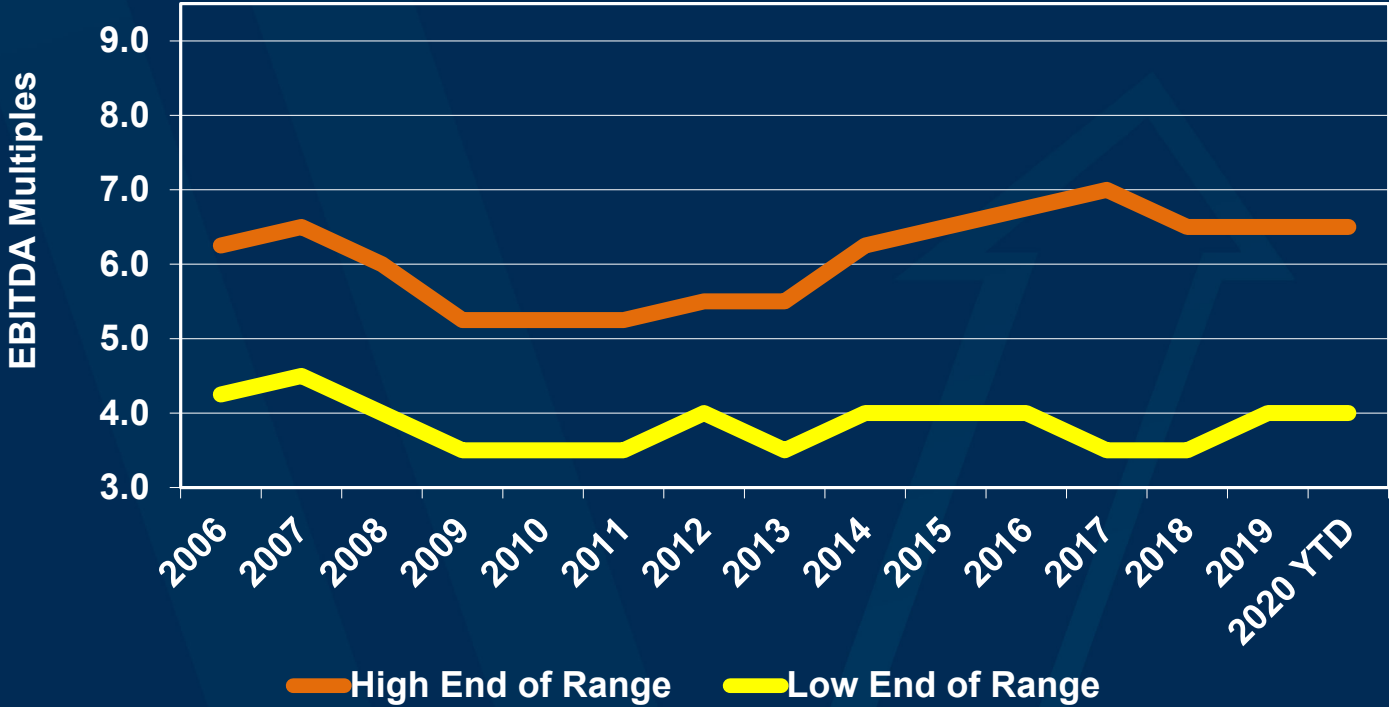
How do we maximize value?

EBITDA	\$2,000,000	\$2,000,000	\$2,000,000
EBITDA Multiple	4.0	5.0	6.0
<i>% Increase</i>		25%	20%
Enterprise Value	\$8,000,000	\$10,000,000	\$12,000,000
Less: Net Debt	\$3,000,000	\$3,000,000	\$3,000,000
Equity Value	\$5,000,000	\$7,000,000	\$9,000,000
<i>% Increase</i>		40%	29%

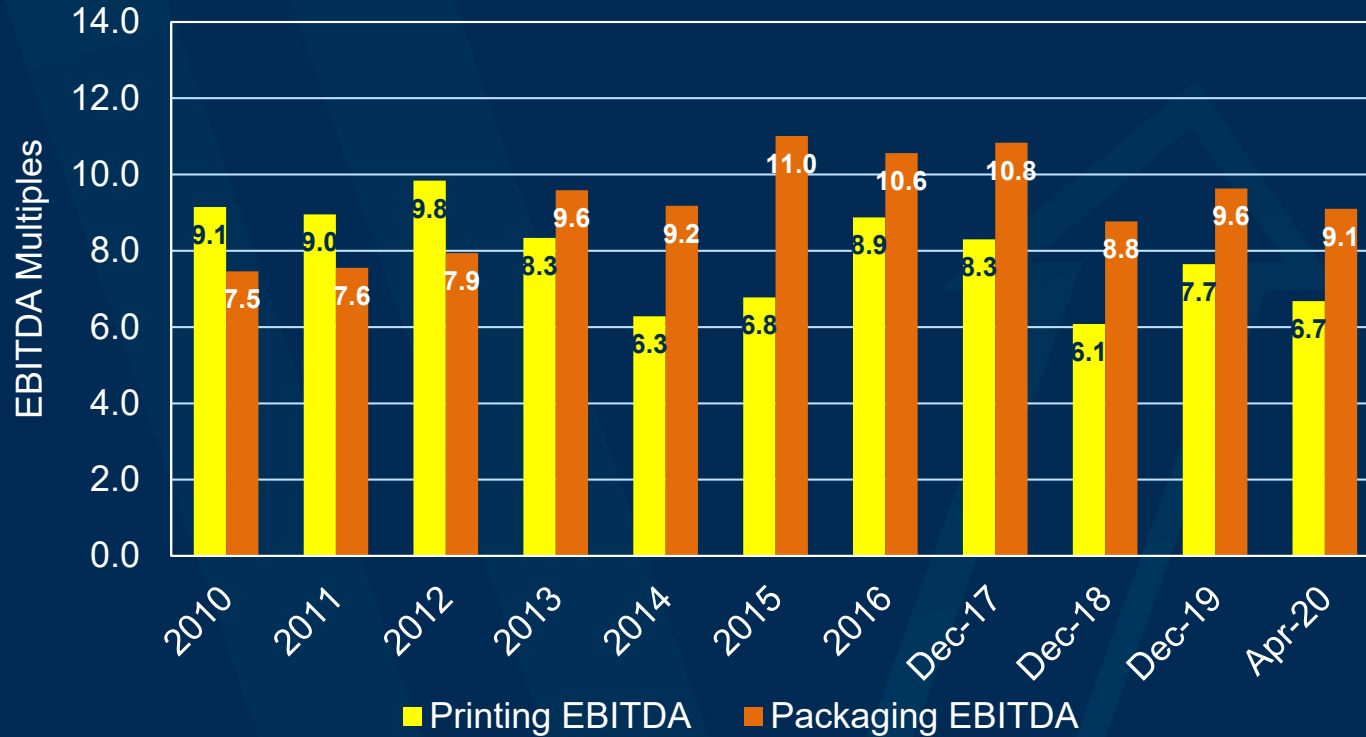


The power of the multiple!

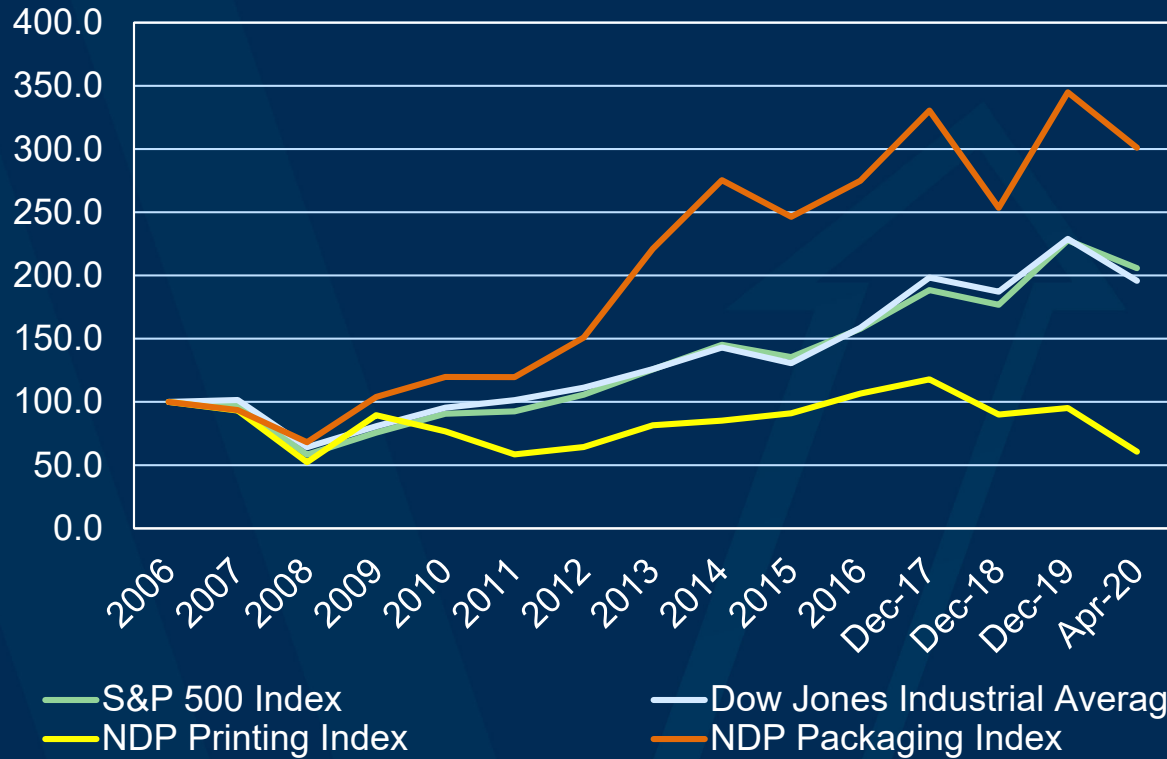
Historical Multiples Being Paid (Private)



The NDP Printing & Packaging EBITDA Trend (Public)



The NDP Printing & Packaging Stock Price Index (Public)



What warrants higher multiples?

Quantitative	Qualitative
Trend demonstrating revenue growth/stability through Pandemic.	Identifiable, defensible specialties.
Earnings growth/stability through Pandemic.	Growing customer loyalty.
EBITDA margins of 12% or more.	Non-union workforce.
No account concentration above 20%.	Energetic and capable management.
Critical mass within your segment.	Seller willing to stay.
Healthy balance sheet.	No significant capital expenditure needs.
Non-lifestyle business.	Technology - have, or have-not?

Premium Segments

Printing

- Large Format / POP
- Program vs. Transactional
- Web-to-Print
- Customized 1:1 Direct Marketing
- Statements
- Digital
- Data Analytics/Creative/Cross Media
- Fulfillment
- Brand/Document Management

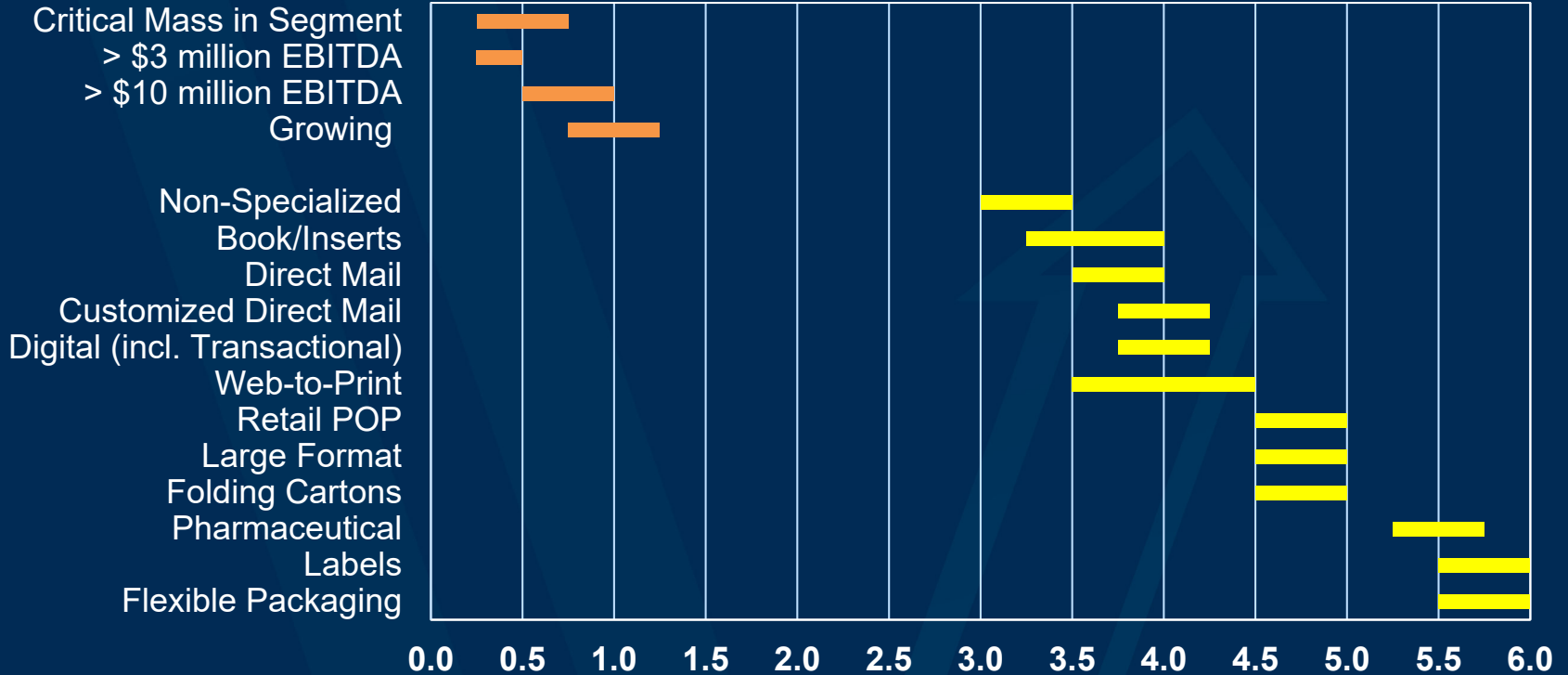
Packaging

- Flexible Packaging
- Food & Beverage Labels
- Cosmetic Labels
- Pharmaceutical Packaging
- Folding Cartons
- Corrugated

Premium Industries Served

- Healthcare / Pharmaceuticals
- Government
- Food
- Games & Home Entertainment
- Home Fitness
- Children's Entertainment

EBITDA Value Ranges



Asset Market Valuations – Tuck-In and/or Cashless Merger

Three Elements

1. Net Working Capital at book value – realization usually warranted; plus
2. Production Equipment at OLV or FLV – either purchased by buyer or realized post closing by seller; plus
3. Royalty commission on retained sales for 2 to 5 years (Avg. 3 years) at 3% to 7%.
 - Actual terms are what seller can negotiate, and commission rate is normally a function of VA and variable operating expenses.

If 1 plus 2 doesn't satisfy funded debt, then 3 (commissions) may be prepaid at closing.

Benefits/Risks - 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.

Benefits/Risks - BUYER

Buyer Benefits

- Only pays for value received – sales retained.
- Little cash required!
- Only purchases equipment needed.
- Compelling economics by filling excess capacity.

Buyer Risks

- Implementation resources.
- Fewer happening today.

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	<u>\$1,700,000</u>		<u>\$900,000</u>		(\$225,000)		<u>\$2,375,000</u>	
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	<u>\$500,000</u>		<u>\$200,000</u>		(\$100,000)	B	<u>\$600,000</u>	
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	<u>\$500,000</u>		<u>\$200,000</u>	10.0%	(\$50,000)	C	<u>\$650,000</u>	
OPERATING INCOME	\$100,000	2.0%	(\$100,000)	-5.0%	\$525,000		\$525,000	8.1%
NON-OPERATING	<u>\$25,000</u>		<u>\$0</u>		(\$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.

Questions?



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Peter Schaefer

Peter Schaefer is a Partner with New Direction Partners. Peter is an experienced dealmaker with twenty years of investment banking and valuation experience. He has closed more than one hundred transactions in virtually every segment of the printing and packaging industries as well as the sale of a \$75 million helicopter company and a \$10 million bread manufacturer. In addition, Peter has performed hundreds of valuations for ESOPs, estate and gift tax planning and strategic planning purposes.



Other recent transactions have included the sale of Custom Color to GSP Retail, Midnight Oil to Oak Hill Partners, Popular Ink to Highlander Partners, Classic Graphics to Imagine! Print Solutions, the divestiture of Transcontinental's Rastar division to Sun Litho, the sale of Meisel to R.R. Donnelley, the sale of Vectra Corporation to Taylor Corporation, the sale of Express Label to Cenveo, the purchase of Journal Communications' IPC Print Services by Walsworth Publishing, and the purchase of National Graphic Supply by Pitman.

Prior to New Direction Partners, Peter worked for fifteen years at Compass Capital Partners having served most recently as its President. Prior to that, he worked in the investment banking departments of KPMG Peat Marwick and Coopers & Lybrand. He received a BS in Economics and Political Science from Trinity College and an MBA from Villanova University. He is a Candidate Member of the American Society of Appraisers and is a member of the printing industry's prestigious Soderstrom and Ben Franklin Societies. He serves on the Board of directors of the Print and Graphics Scholarship Foundation and on several Advisory Boards within the printing/packaging industries. Peter is married to Kathleen and they have six children.

Tom Williams

Tom Williams concentrates on Investment Banking Services and providing client companies with management, turnaround and restructuring support. He brings substantial management and financial services experience to New Direction Partners, based on his history of success as President of P.C. Leasing Corp., Executive Vice President of PhoenixCor, Inc., Vice President and Portfolio Manager at GE Commercial Finance and Vice President, Sales and Marketing for U.S. Concord, Inc.

Most recently, Tom was Managing Director of DoveBid Valuation Consultants. Earlier in his career, he held positions of increasing responsibility in sales, marketing and product planning with the Graphic Systems Division of Rockwell International Corporation.

Tom holds an MBA from the University of Chicago and a B.S. in Graphic Arts Management from Rochester Institute of Technology. He is a member of NAPL's Soderstrom Society and a past President of the International Printer's Supply Salesmen's Guild. He is active in community affairs, charitable organizations and trade associations and is a speaker and lecturer at association meetings, industry seminars and universities.

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