

# A Creative Approach to Selling Your Business...

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## Capitalizing on the Latest M&A Trends

Jim Russell & Peter Schaefer, New Direction Partners  
Mark Michelson, Editor-in-Chief, Printing Impressions  
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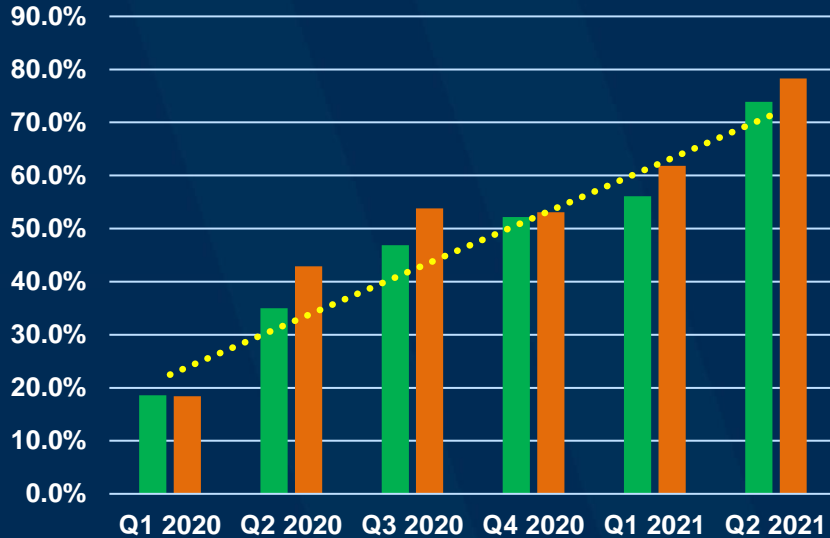
# Agenda

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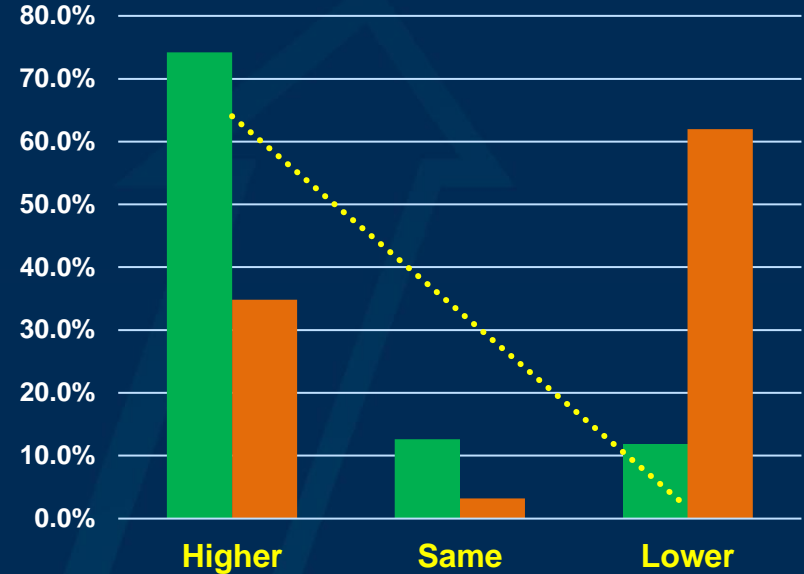
- Introduction
- Why it's a great time to be a seller
- Who are the buyers
- Where are you at in your Covid recovery and how that impacts valuation
- Look at Earnings:
  - Can you sell based off EBITDA.
  - Or are you going to sell based on Asset valuation
- Multiples by Segment
- Steps to take to get ready to sell

# The Industry (Micro) – Continued Improvement

## Index of Current vs. Leading Indicators



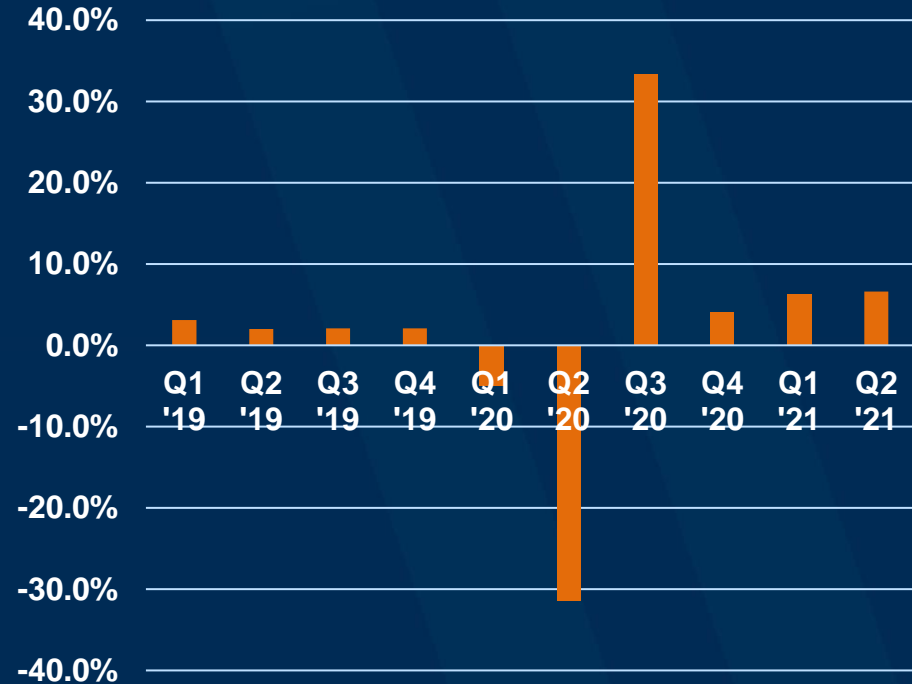
## Print Sales Pattern: Q2 '21 vs. Q1 '21



Source: Printing United Alliance, August, 2021

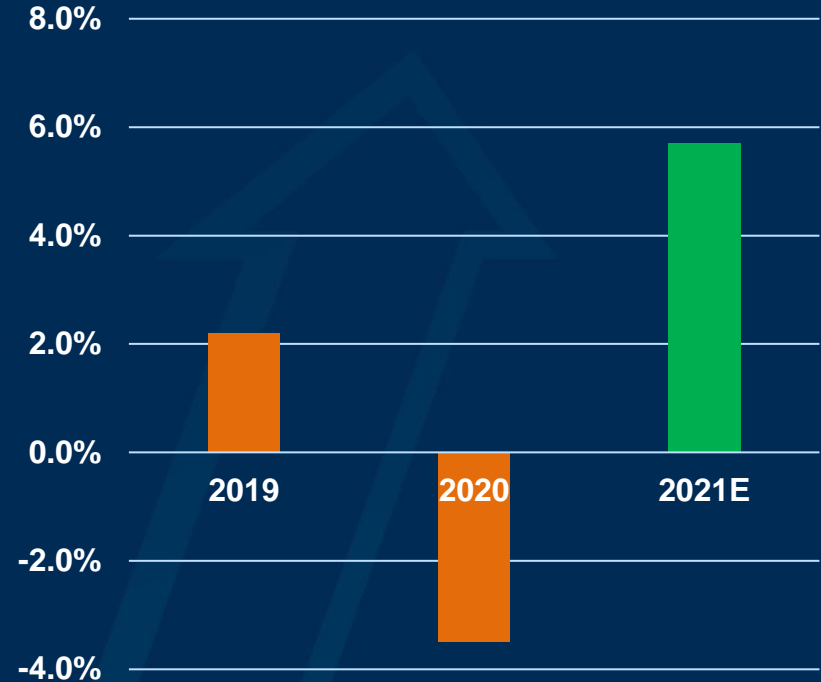
# The Economy (Macro) – Ditto!

## Quarterly GDP Change



Source: Congressional Budget Office

## Annual GDP Change



# Why it's a Great Time to be a Seller (or Buyer)

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- Strong economy, industry is recovering
  - Financial institutions lending at low interest rates
  - Financial buyers like printing again...(and they never disliked packaging)
  - Healthy public multiples
- New buyers are coming into the industry
- Strategic buyers are looking to fill excess capacity...and financial buyers have \$ to spend!
- It is also a good time to be a buyer. When correctly implemented, acquisitions:
  - Create value for customers
  - Create value for shareholders

# But For How Long?

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## Shorter Horizon

- Inflation on the horizon?
- Taxes
  - Proposed capital gains rate increase could reduce proceeds by 25%
- Where will the economy be in 2022 and beyond?

## Longer Horizon

- The printing and packaging industries continue to rank among the most highly fragmented industries in the United States. Fragmented industries inevitably consolidate.
- 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.

# Who are the Buyers?

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- Strategic
- Financial
  - Private Equity & Family Office
  - Search Funds

# Active Strategic Transaction Partners

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# Active Private Equity Transaction Partners



# Active Search Fund Operators

SUN & MOON  
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CLEAR BRIDGE

 Carmel Hill  
Capital Partners, LLC

Carmel Hill Acquisitions, Inc.

WARRIOR CAPITAL GROUP

*Clear Springs Capital*



Weave Growth Partners

# Differences Between Types of Buyers

Question	Strategic Buyer	Financial Buyer
Will leverage (debt) be used?	Possibly, but not always.	Almost always. Sometimes up to 80% of the purchase price.
Will the seller remain after the transaction?	Possibly, but not always. One- to two-year standard transition period.	Yes. Financial buyers are investing in the management team, and they will need to remain with the company. 2-3 years at minimum is normal.
How long will the buyer own the acquired business?	Long-term to indefinitely.	Typically 3-7 years before seeking an exit to realize a return.
What is buyer's approach to valuation?	Look at return on investment (ROI) and synergy. Take into consideration if you are gaining access to a new market or buying a competitor.	Analyze free cash flow and EBITDA. Also consider the amount of leverage that can be used and resulting debt ratios.

## Differences Between Types of Buyers (cont.)

Question	Strategic Buyer	Financial Buyer
<b>Will buyer be involved on a day-to-day basis?</b>	Yes. Depending on the size of the acquired entity, buyer may integrate into its existing business promptly after close.	Typically no, as most are not interested in running day-to-day operations. Will take a seat on the Board of Directors and help guide growth plans.
<b>Will buyer retain the employees?</b>	Possibly. Eliminating redundancies may be part of strategy and may result in some positions being consolidated or eliminated.	Yes, unless buyer decides to eliminate specific employees.
<b>Will buyer relocate the business?</b>	Possibly. This will depend on whether buyer has a central headquarters or a desire to consolidate businesses.	No, unless a very strong business case can be made for the relocation.
<b>Will the seller retain ownership?</b>	Typically not. Some key members of management may be awarded equity in the parent company.	Generally yes. This allows management to retain an interest in the business and provides motivation for them to grow the company.

# Types of Transactions

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

# Where are you in your Covid Recovery...

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## and How does it impact your Valuation?

- Covid never impacted my revenue (Label Companies, Packaging Companies)
- Covid impacted 2020, but we're back to pre-Pandemic revenue
- Covid hurt our business and we are still in recovery mode

# How will the Pandemic Impact Valuations?

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

# 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

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## 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

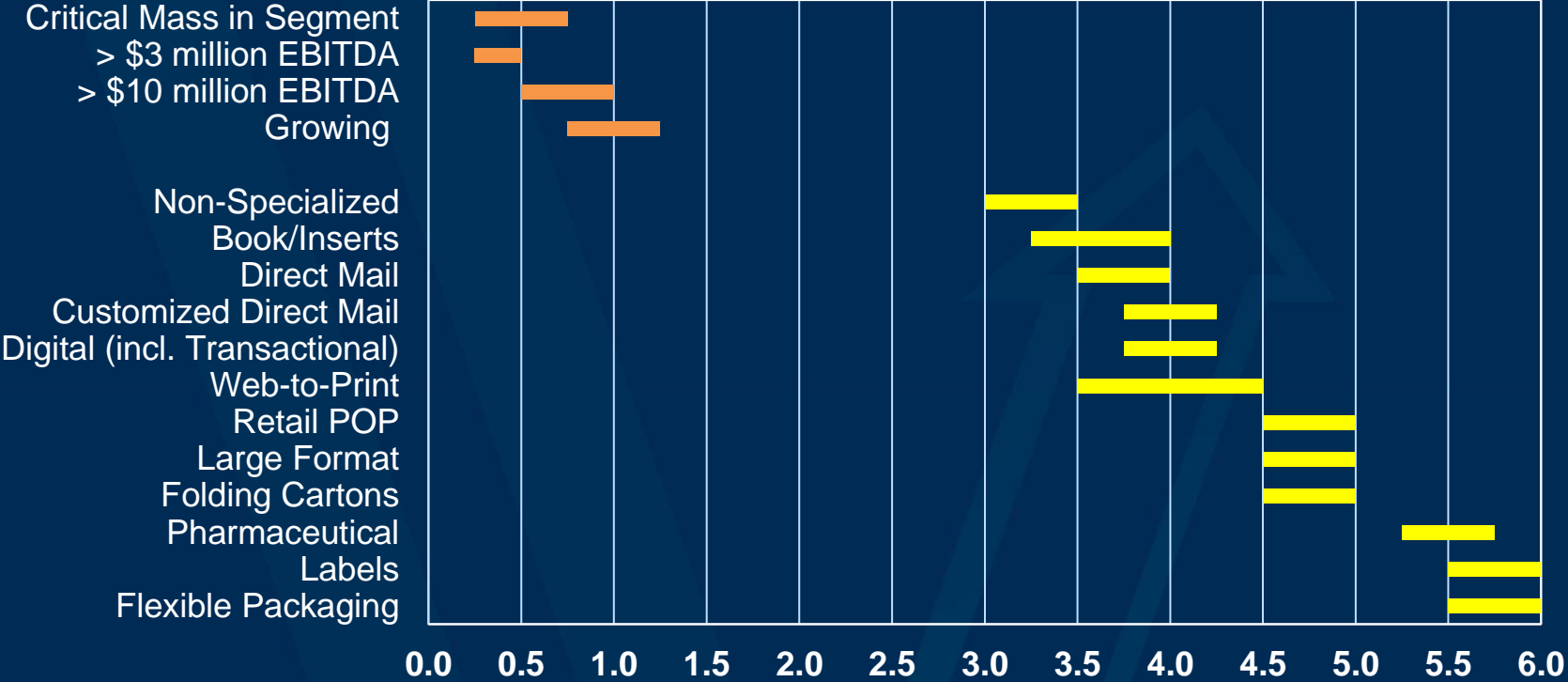
- Flexible Packaging
- Food & Beverage Labels
- Cosmetic Labels
- Pharmaceutical Packaging
- Folding Cartons
- Corrugated

# Premium Industries Served

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

# EBITDA Value Ranges



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

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## 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 rate / earn-out on retained sales for 2 to 5 years (Avg. 3 years) at 3% to 7%.
  - Actual terms are what seller can negotiate, and royalty 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

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## 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

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## 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?

**Jim Russell, *New Direction Partners***

**Tel: (248) 891-6992**

**Email: [JRussell@NewDirectionPartners.com](mailto:JRussell@NewDirectionPartners.com)**

**Peter Schaefer, *New Direction Partners***

**Tel: (610) 935-1000**

**Email: [PSchaefer@NewDirectionPartners.com](mailto:PSchaefer@NewDirectionPartners.com)**

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# Jim Russell

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Prior to New Direction Partners, Jim Russell was President and CEO of Arbor Press in Royal Oak (Detroit), Michigan. During his tenure at Arbor Press, the company was recognized as an eight-time winner of the National Association for Printing Leadership's (NAPL) prestigious Management Plus Awards program that recognizes the best managed graphic arts companies in the country. Arbor Press was also recognized twice during Jim's leadership as one of the 50 fastest growing printers in the country.



While serving as President of Arbor Press, Jim simultaneously served as President and CEO of RBF, Inc., of Lansing, Michigan, an industry leader in the document management industry.

Jim has hands on experience as both of buyer and seller, having completed many different acquisitions and sales during the time he served as CEO of the family owned businesses. He earned a degree in Business Administration from Hope College in 1983. Jim also has served on the Board of Directors for the Michigan Chamber of Commerce, NAPL, and currently serves on the Board of the Printing Industries of Michigan, and Boards of numerous non-profit and faith-based organizations.

# Peter Schaefer

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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.