

The logo for Print CEO Forum is a blue speech bubble with a white outline. Inside the bubble, the text "Print CEO" is written in white, bold, sans-serif font, and "FORUM" is written in a smaller, white, all-caps, sans-serif font below it.

Print CEO
FORUM

M&A in the Printing Industry

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Session Agenda

- Preparing to Buy – From a CEO Perspective
- Current Trends in Printing M&A.
 - What is happening and what will happen?
 - What Determines Value?
 - Consolidation – Why it's Attractive to Buyers.

Acquiring A Company





Strategy For The Acquisition

- Grow Revenue
- Increase equipment utilization
- Increase profitability through scale
- Reduce dependence on a few top customers
- Expand service offering
- Penetrate additional verticals
- Add a new technology
- Show customers you are in growth mode



Identify Target Companies

- Strategic Fit
- Fill management gaps
- Can you work with the owner and management team?





Preliminary Review

- Identify deal breaking issues before time and money is committed
 - Can the personalities mesh?
 - Do you understand what the seller wants?
 - Professionally
 - Personally
 - Do they have loyal customers or is there significant risk?
 - Are the financials in order?
 - Can you get a good indication of profitability and cost structure?
 - Will you be able to integrate the companies successfully?
- **The purchase price is not the first thing to focus on.....**

- Can the owners get value from their company if you do not do a deal?
- Are they losing money and are unable to stop the losses?
- Do they have significant debt?
- Do they have personal guarantees?
- Are they making significant profit?
- Are they lacking a succession plan?
- Do they have customers, services or technology that you want?
- Letter of Intent (LOI) provides the basic terms of your offer, pending due diligence.

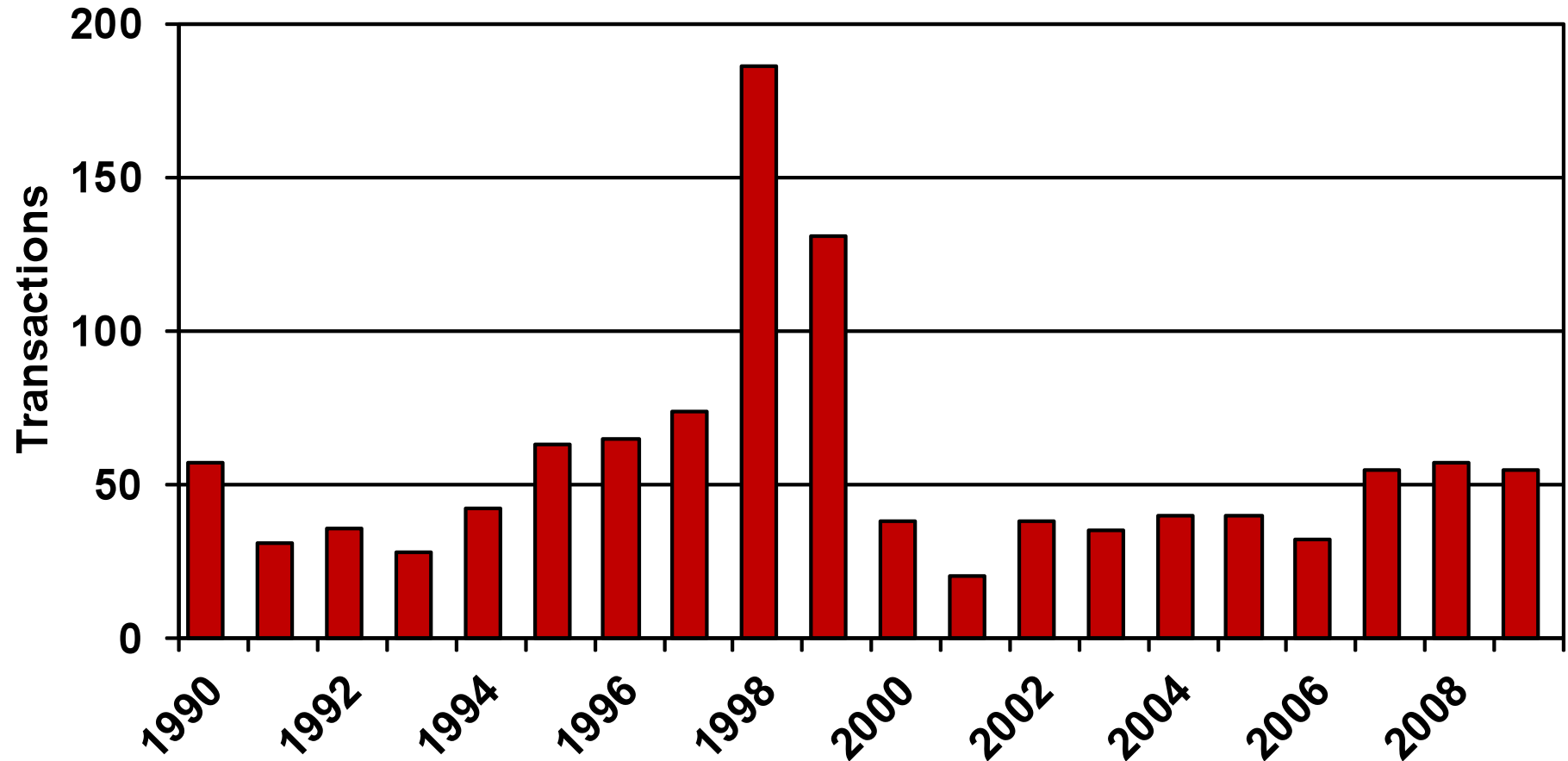
- Detailed investigation to support the purchase:
 - Finances
 - Assets
 - Intellectual property
 - Talent (employees and benefits)
 - Sales
 - Pricing
 - Contracts
 - Customer information
 - Risks
 - Trends

- Did you find a company that fits your strategy?
- Do you understand the personal issues and needs of the seller?
- Have you addressed those personal issues to the seller's satisfaction?
- Does the Due Diligence support doing the deal?
- If yes...make an offer



What has been Happening?

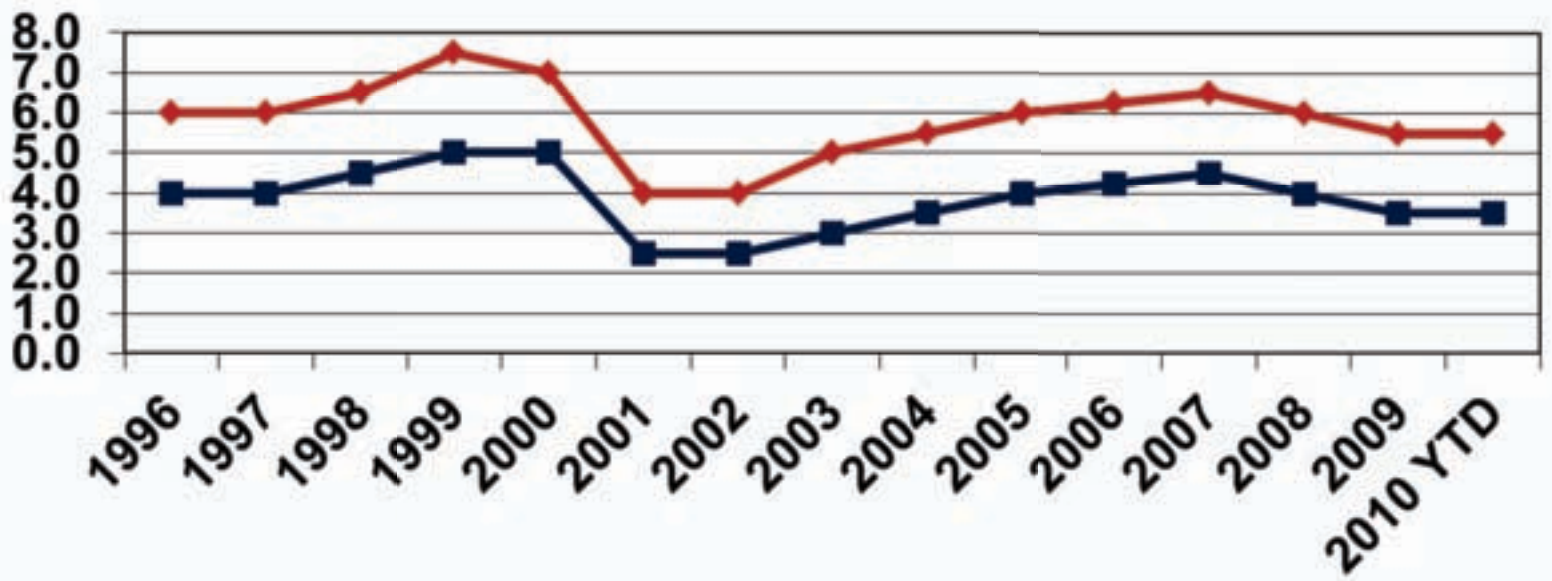
Number of Deals



Historic Valuation Range

EBITDA Multiple

Valuation Multiples



Note: In 2010, only very specialized (non-general commercial) printers that are growing rapidly will attract the upper end of this range.

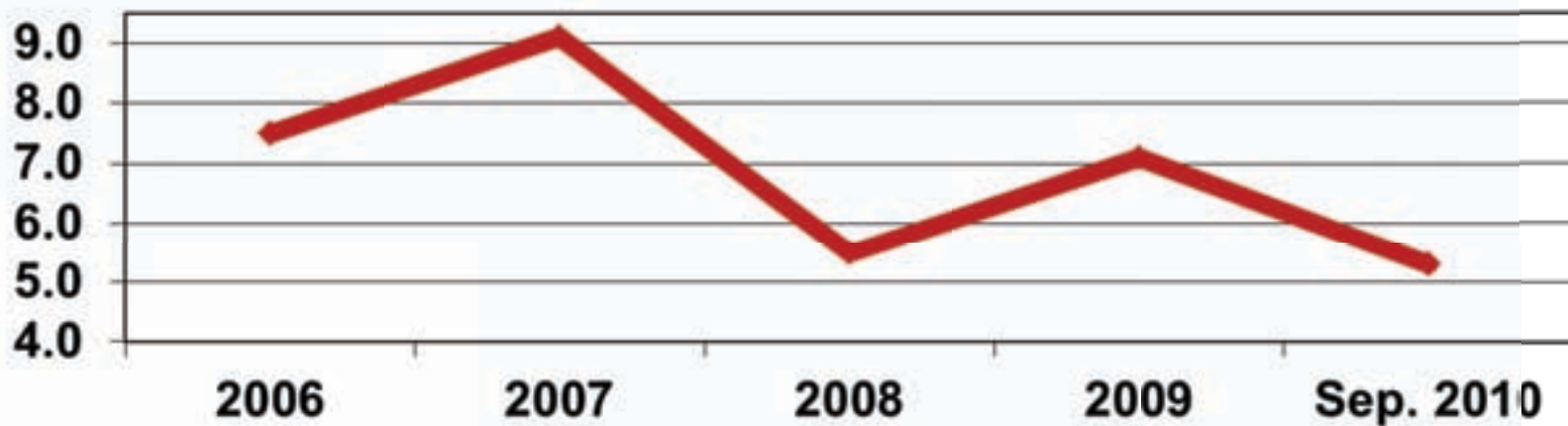


Public Company EBITDA Multiples

	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Sept. 16, 2010
Cenveo	11.1	12.2	6.3	9.7	9.0
Champion	6.2	8.9	5.8	9.4	6.8
Cons. Graphics	6.6	5.9	4.2	5.6	5.6
Quad/Graphics	NA	NA	NA	NA	5.1
R.R. Donnelley	7.3	7.5	3.9	5.8	5.3
Standard Register	9.2	12.4	8.1	6.5	3.0
Transcontinental	4.8	7.8	4.4	5.4	4.8
Averages	7.5	9.1	5.5	7.1	5.3

EBITDA Multiples Trend

EBITDA Multiples





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	<u>\$ 600,000</u>
EBITDA	\$ 1,100,000



How is Value Determined?

EBITDA	\$1,100,000
EBITDA MULTIPLE	<u>4.0x</u>
Enterprise Value	\$4,400,000
Less: Debt	<u>\$2,000,000</u>
Equity Value	\$2,400,000

Tuck-Ins

- Purchasing a firm's sales and selected assets.
- Usually involves paying a commission (4 – 7%) on sales retained over 2 to 4 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

- 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.
- 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.



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 FMV or OLV.



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.



Consolidation Benefits

PRO-FORMA ACQUISITION RESULTS (\$ million)

	YOUR FIRM	TARGET FIRM	ADJUSTMENTS \$ NOTES	PRO-FORMA RESULTS
SALES	15.0	12.0	(3.0) A	24.0
MATERIALS	5.0	4.0	(1.0)	8.0
FIXED FACTORY	4.5	3.6	(3.6) B	4.5
VARIABLE FACTORY	1.9	1.6	(0.4)	3.1
GROSS PROFIT	3.5	2.8		8.3
FIXED SG&A	1.5	1.2	(1.2) C	1.5
VARIABLE SG&A	1.4	1.2	(0.3)	2.3
OPERATING INCOME	0.6	0.5		4.5
NON-OPERATING	0.2	0.2	0.5 D	0.9
PRE-TAX INCOME	0.3	0.3		3.7
%	2.3%	2.3%		15.2%

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 administrative functions
- D) assumes Royalty Rate of 5% on Transferred Sales.



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.
- 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.
- Today, virtually everyone is either a buyer or a seller.



Why will consolidation continue?

- 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.

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Questions?

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