

PRINTING UNITED  PRESENTS:
ALLIANCE

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Wide-format Impressions

General Session:

Buy, Sell, or Merge...

Which is the Best Option for You?

Peter Schaefer
New Direction Partners



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Agenda

- ❖ M&A Trends Update
- ❖ Look at Earnings vs. Net Assets:
 - Will you transact based off EBITDA?
 - Or, will you transact based on Assets?
- ❖ Factors that Increase the Value of Your Business
- ❖ Who are the Buyers?
 - Strategic
 - Financial
- ❖ If a Seller, which Type of Buyer Fits Best with You?

The Print & Packaging Industry – Improvement but with Headwinds

- ❖ Growth in 2021 of 5.7%.
- ❖ Growth in 2022 of 12.8%.
- ❖ Growth in Q1 2023 of 2.9%.
- ❖ In 2022, operating cost inflation averaged 11.1% and price increases to offset inflation averaged 11.4%.
- ❖ Real sales grew in 2022 by 1.9% vs. GDP growth of 2.1%. **In Q1 2023, real sales declined by -2.0%.**
- ❖ The industry has certainly improved since the dark Covid days, but not all is rosy for the entire industry. Printing United Alliance survey results show the following concerns:
 - Confidence has moderated, with fewer expecting business to improve in the coming months.
 - Supply chain issues have moderated but labor shortage issues remain problematic.
 - Our industry will slow if the economy does.
 - “It’s tempting to think of a recession as a time to batten down the hatches and play it safe. However, downturns ...encourage the adoption of new technologies”

Walter Fricke, Harvard Business Review

Source: Printing United Alliance, State of the Industry Update, First Quarter 2023.

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

- ❖ The economy remains healthy (at least for now):
 - Financial institutions still lending, despite Silicon Valley & Signature earlier this year
 - Interest rates have been bumpy but are still historically low
 - Financial buyers still like us...(and many are invested and committed)
 - Public multiples are healthy
- ❖ New buyers still coming into the industry. **More buyers today than ever before.**
- ❖ Strategic buyers are looking to fill excess capacity...and financial buyers have \$ to spend!
- ❖ Still a great time to be a seller...but also a good time to be a buyer. When correctly implemented, acquisitions:
 - Create value for customers
 - Create value for shareholders
- ❖ **Bottom line: No slowdown yet in interest or multiples being paid for strong, differentiated printers and packaging converters.**

But For How Long?

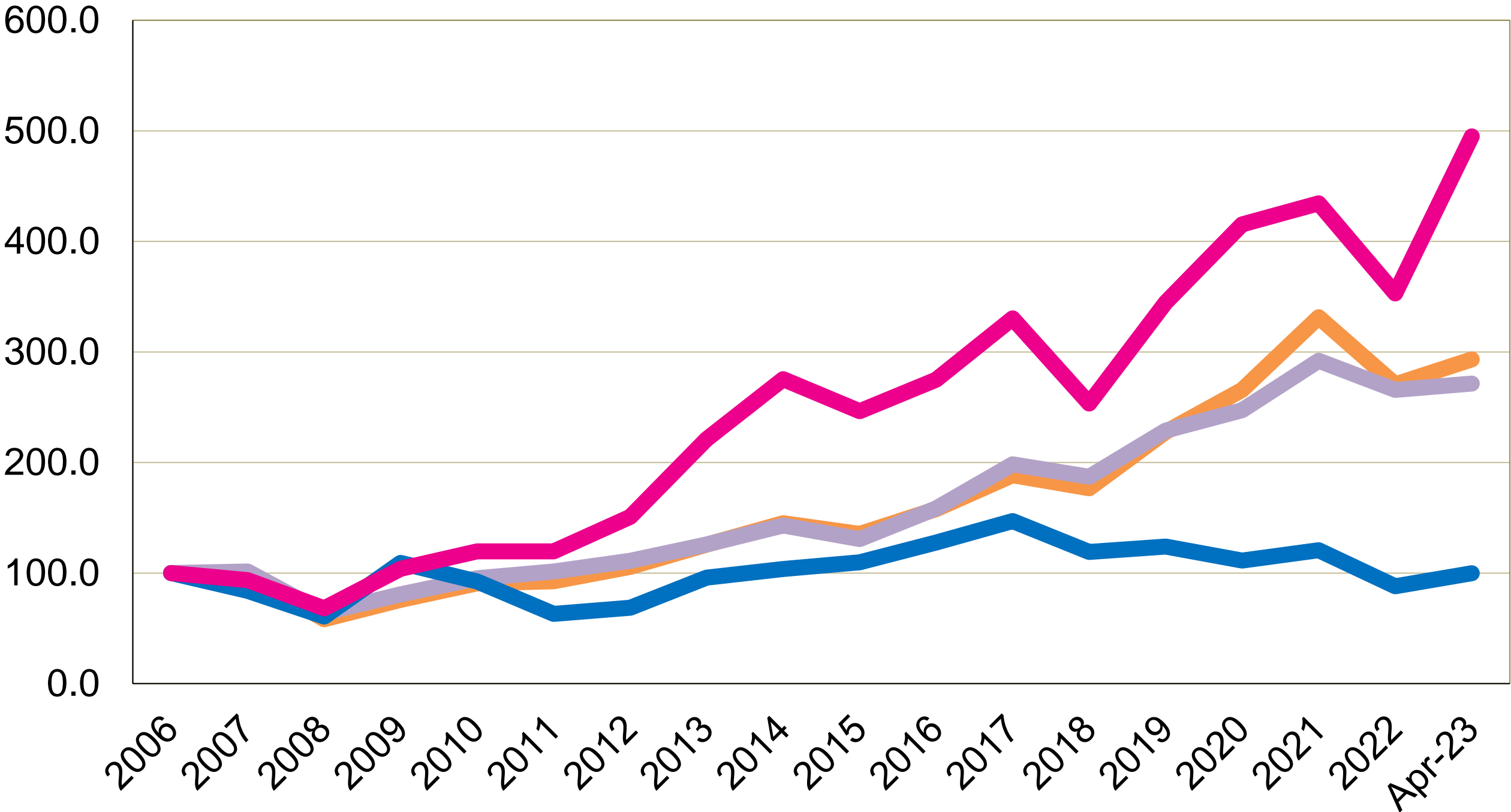
Shorter Horizon (2023)

- ❖ GDP grew a respectable 5.9% in 2021; however, the following is not as rosy:
 - 2022 growth of 2.1%;
 - 2023 projected growth of 0.1% -- decline in second half;
 - 2023 – 2027 projected growth of 2.4% per year.
- ❖ Fed needs to keep on top of inflation trends, potentially through higher interest rates. Perhaps becoming less worrisome?
- ❖ Taxes – the current administration keeps trying to raise them.
- ❖ Where will the economy be in 2023 and beyond?

Longer Horizon (2023 and Beyond)

- ❖ The printing / packaging industry continues to rank among the most highly fragmented industries in the United States. Fragmented industries inevitably consolidate.
- ❖ The industry is becoming a “have” and “have not” industry. All buyers are striving to become more “sticky” to customers through technology, specialization and proprietary IT.

The NDP Printing & Packaging Stock Price Index (Public)



— S&P 500 Index
— NDP Printing Index

— Dow Jones Industrial Average
— NDP Packaging Index



Are You a Buyer or a Seller?

Ultimately, the decision is yours to make based on your personal and professional goals. There are many factors to consider before selling or buying a business, such as your stage of life & motivation, vision, financial situation, risks, opportunities, and goals.

Buyer Objectives

- ❖ Replace sales from mature markets.
- ❖ Drive efficiencies to mitigate/enable lower pricing.
- ❖ Reposition into growing (less mature) markets and gain Critical Mass:
 - New markets
 - New products / services
 - Technologies
 - European firms expanding to North America

Seller Objectives

- ❖ Stage of life:
 - Are you holding back your business?
 - How long are you willing to stay engaged?
- ❖ Will you be able to grow faster by having a partner with more resources?
- ❖ Investment cycle of your business. Do you want to bet the farm (again)?
- ❖ What do you want to do after a sale?
- ❖ Realistically, what does the future look like for your business?

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Be one or the other (or both)...
because organic growth is hard to achieve.

Types of Transactions

- ❖ Traditional Earnings-Based (Multiple of Earnings)
- ❖ Net Asset-Based (Tuck-In or Merger)

Will you Transact Based on Earnings, or Net Asset Value?

EARNINGS BASED APPROACH	
Sales	\$8,829,309
Net Income	\$844,305
<i>Add:</i> Dep'n & Amort'n	\$514,958
<i>Add:</i> Net Interest Expense	\$133,824
<i>Add:</i> Income Taxes	\$20,000
<i>Add:</i> Adjustments	
(Gain) on Sale of Assets	(\$37,246)
Shareholder Comp > Market	\$234,800
Shareholder Perqs	\$92,560
PPP Loan Forgiveness	<u>(\$500,000)</u>
Adjusted EBITDA	\$1,303,201
Multiplied by: EBITDA Multiple	<u>5.00</u>
Indicated Enterprise Value	<u><u>\$6,516,005</u></u>

ASSET BASED APPROACH	
Current Assets:	
Accounts Receivable	\$1,272,481
Inventory	\$599,591
Prepays	\$125,790
Current Liabilities:	
Accounts Payable	(\$634,269)
Accrued Expenses	(\$30,957)
Working Capital	\$1,332,636
<i>Add:</i> OLV of Equipment	<u>\$2,658,163</u>
Net at Closing	\$3,990,799
Royalty (5% of sales X 3 years)	<u>\$1,059,517</u>
Indicated Enterprise Value	<u><u>\$5,050,316</u></u>

Attributes that Increase the Value of a Business

Quantitative	ABC Co.	Qualitative	ABC Co.
Sustainable revenue growth/stability.	✓	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%.	✓	Proprietary technology.	✓
Critical mass within your segment.	—	Selling management willing to stay.	—
Healthy balance sheet.	✓	No significant capital expenditure needs.	✓
Robust sales process.	✓	Technology - have, or have not?	✓

Premium Segments

Printing

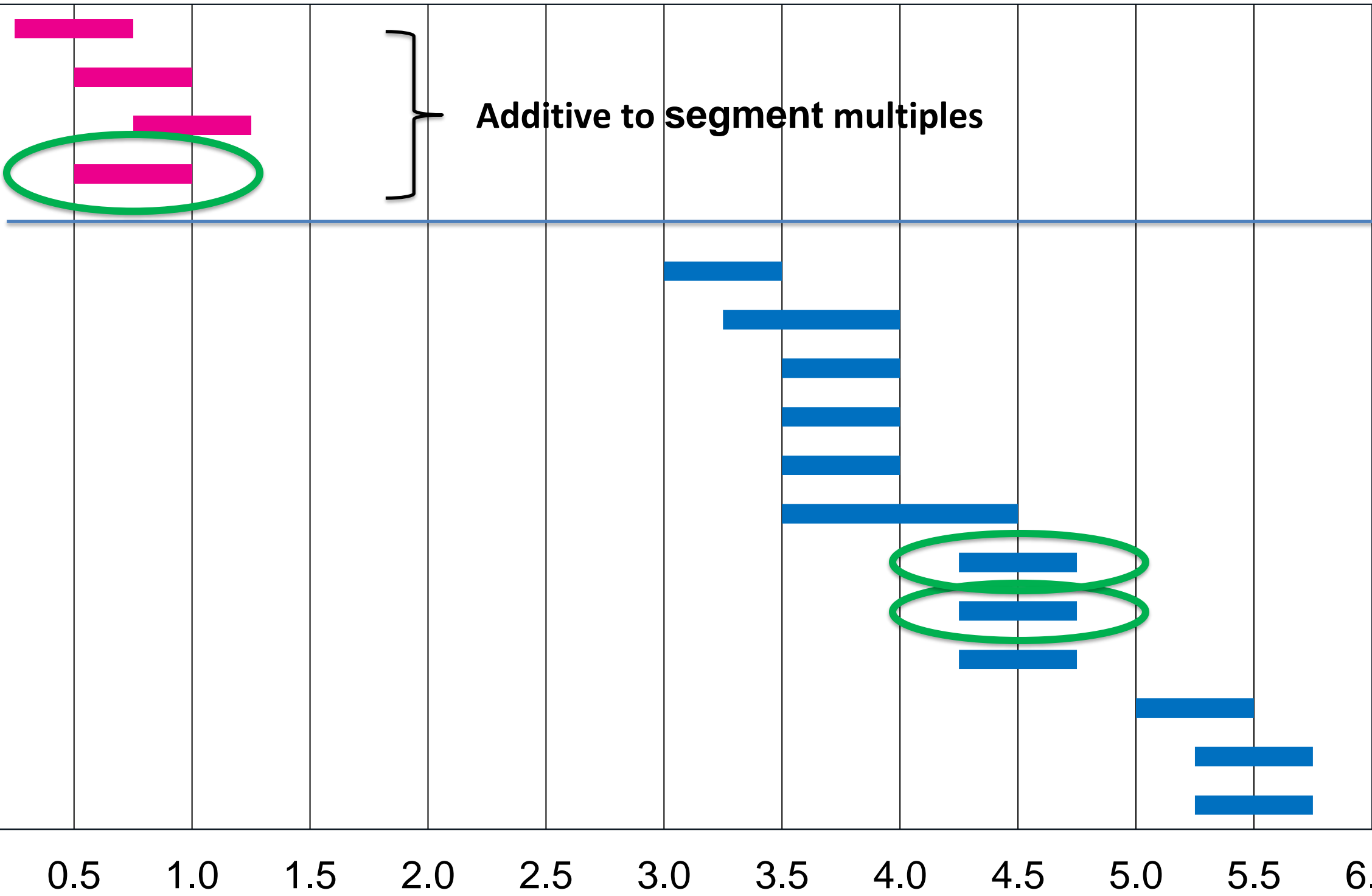
- ❖ Large Format, Grand Format, POP
- ❖ Program vs. Transactional
- ❖ Web-to-Print
- ❖ Customized 1:1 Direct Marketing
- ❖ Produce , POP, Sales Kits & Other Materials, Customized by Location
- ❖ Statements
- ❖ Digital
- ❖ Data Analytics/Creative/Cross Media
- ❖ Fulfillment
- ❖ Brand/Document Management

Packaging

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

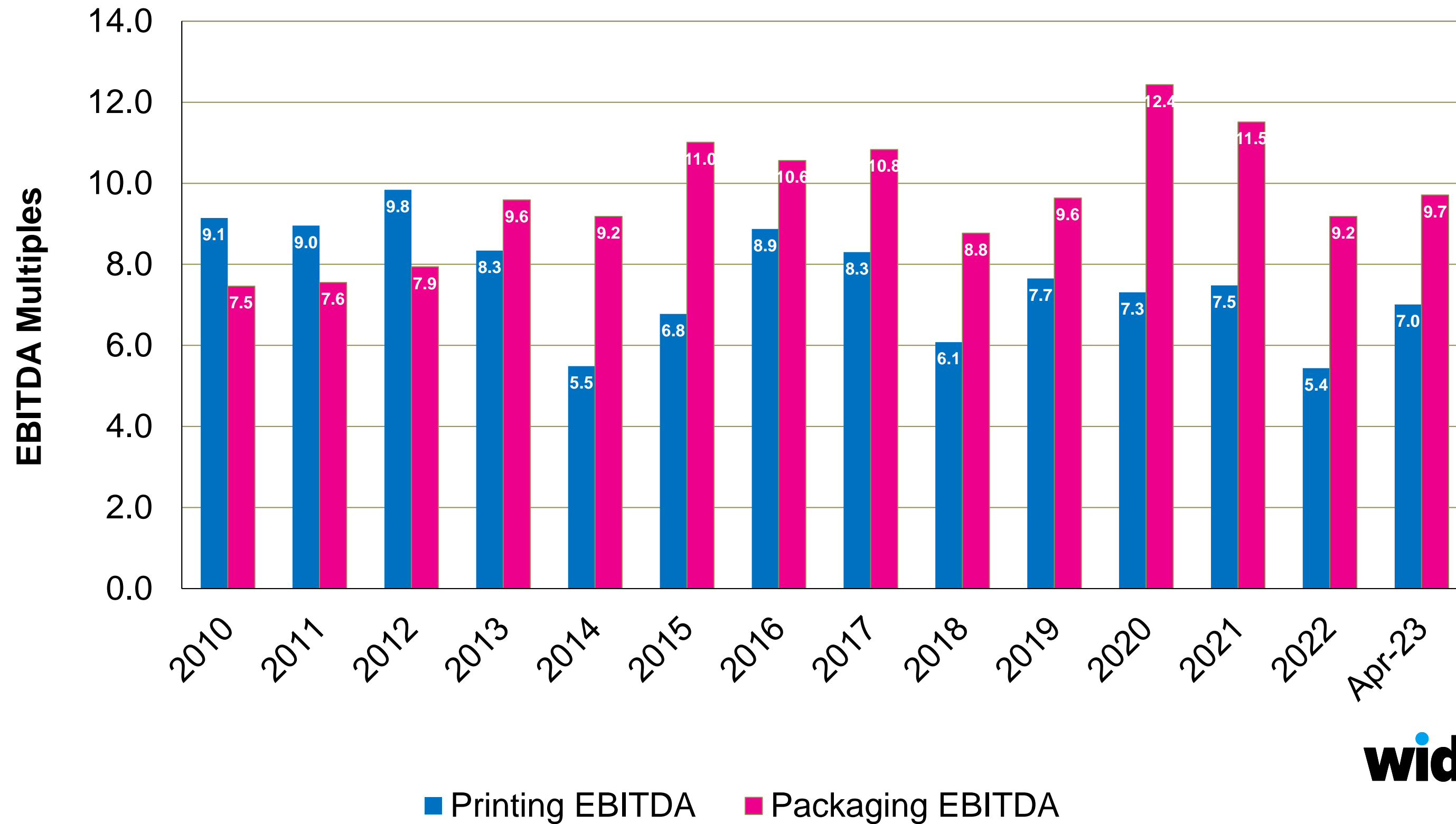
EBITDA Value Ranges

Critical Mass in Segment
 > \$3 million EBITDA
 > \$10 million EBITDA
 Growing



ABC Company Indicated Range: 4.75 – 5.75

The NDP Printing & Packaging EBITDA Trend (Public)



Who are the Buyers?

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

Active Strategic Buyers



TAYLOR

CJK
GROUP



GSP

rrd

tc • TRANSCONTINENTAL



Walsworth



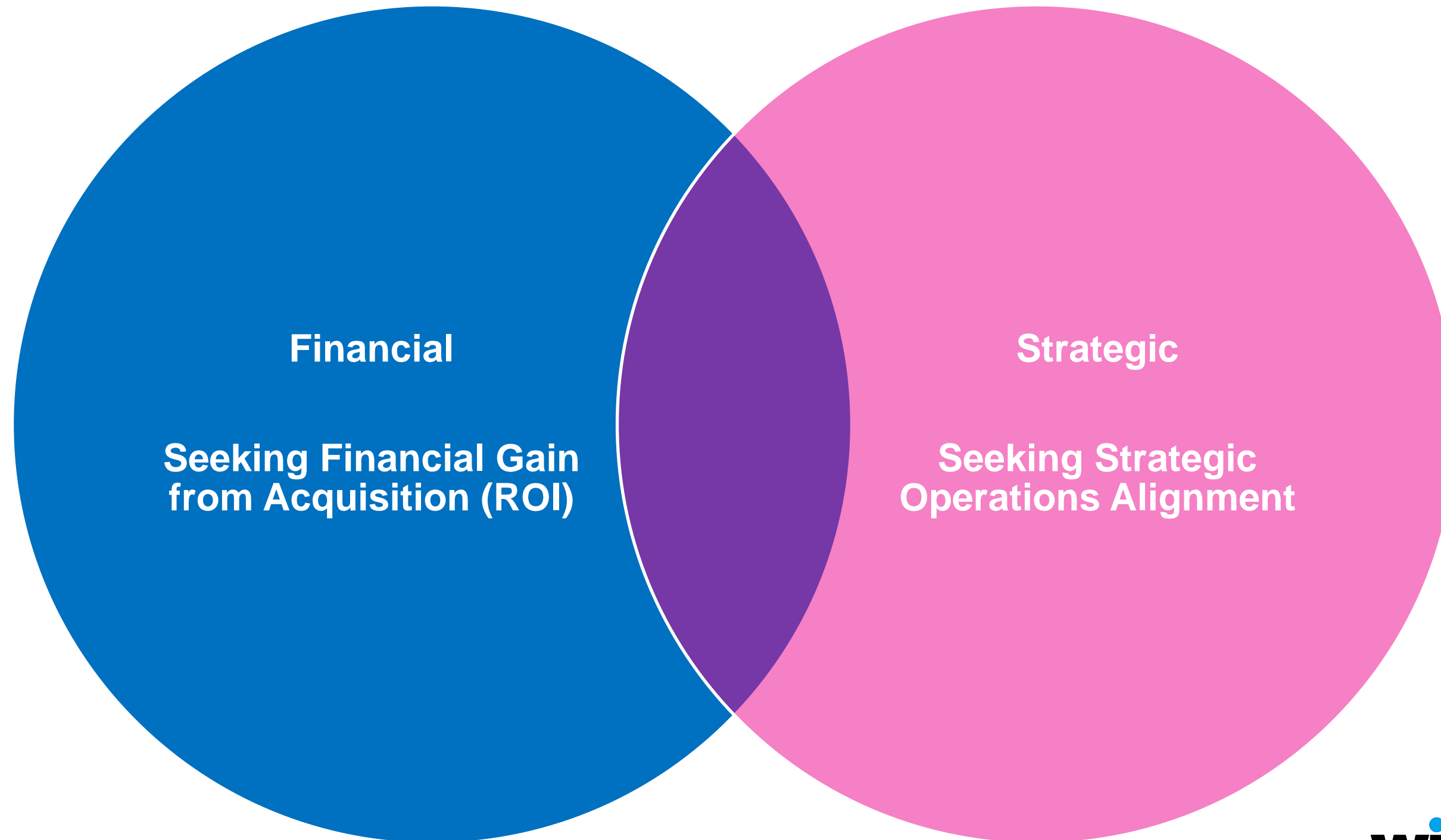
Marketing.com

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Active Financial Buyers



Types of Buyers



If a Seller, Which Type of Buyer Fits Best with You?

	Financial	Strategic
Goals	Achieve ROI (~35%). Increase profits through acquisitions & expense reductions.	Focused on alignment with long-term business plans. Seeking to enhance capabilities, improve cross selling opportunities and distribution.
Investment Horizon	3 – 7 years. Always focused on exit strategy.	Indefinite.
Views on Management	Critical and will want management to have skin in the game. Will rely on management for growth.	Less critical. Typically a 1–2 year transition at a minimum.
Cap Ex Philosophy	Will it improve EBITDA? If so, let's purchase it!	How fast can we pay down debt?

If a Seller, Which Type of Buyer Fits Best with You? (cont.)

	Financial	Strategic
How Involved will Buyer be?	Typically, not much. Won't run the day to day but will sit on the Board and help guide growth initiatives.	Typically, quite a bit. May integrate management into its existing operations.
Employees	Will typically retain all employees but might eliminate a few.	Depends, but will often eliminate redundancies.
Relocate the Business?	Typically not.	Possibly, especially if the book of business is portable.
Retain Ownership?	Almost always, as the buyers wants you to have same motivations.	Typically not.

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.