



Trends in Printing Industry Consolidation – 2019

The obvious macro trend driving consolidation in printing and related industries over the last several years is the positive U.S. economy characterized by slow steady growth, low interest rates and abundant pools of private capital. In what is still a highly fragmented industry, the logic behind consolidation is inexorable, and buyers will seek to strengthen their position while times are good. However, some trends stand out as indicative of underlying shifts in the industry which transcend the moment.

The Roll Up is Back

In the commercial printing segment, the roll-up — the practice of acquiring, merging and consolidating multiple smaller companies in the same industry into a large company — has reemerged.

Unlike the prior group of consolidators that used a combination of cash from debt and issuance of public stock, along with

their own stock as currency, the current masters of the roll-up are privately held and rely on capital from debt and private equity funds to fuel their acquisition strategies. One of the most prominent of the new wave of consolidators in the commercial print segment is Iowa-based Mittera, which has effectively become a “roll-up of roll-ups,” having acquired New Jersey-based Earthcolor, which itself was a collection of at least five formerly independent printing companies. More recently, Mittera acquired the Henry Wurst company in Kansas City, Mo., which had acquired Universal Printing in St. Louis a year prior. The combination of all these companies now spans from Colorado to Florida to New York, with 10 manufacturing facilities.

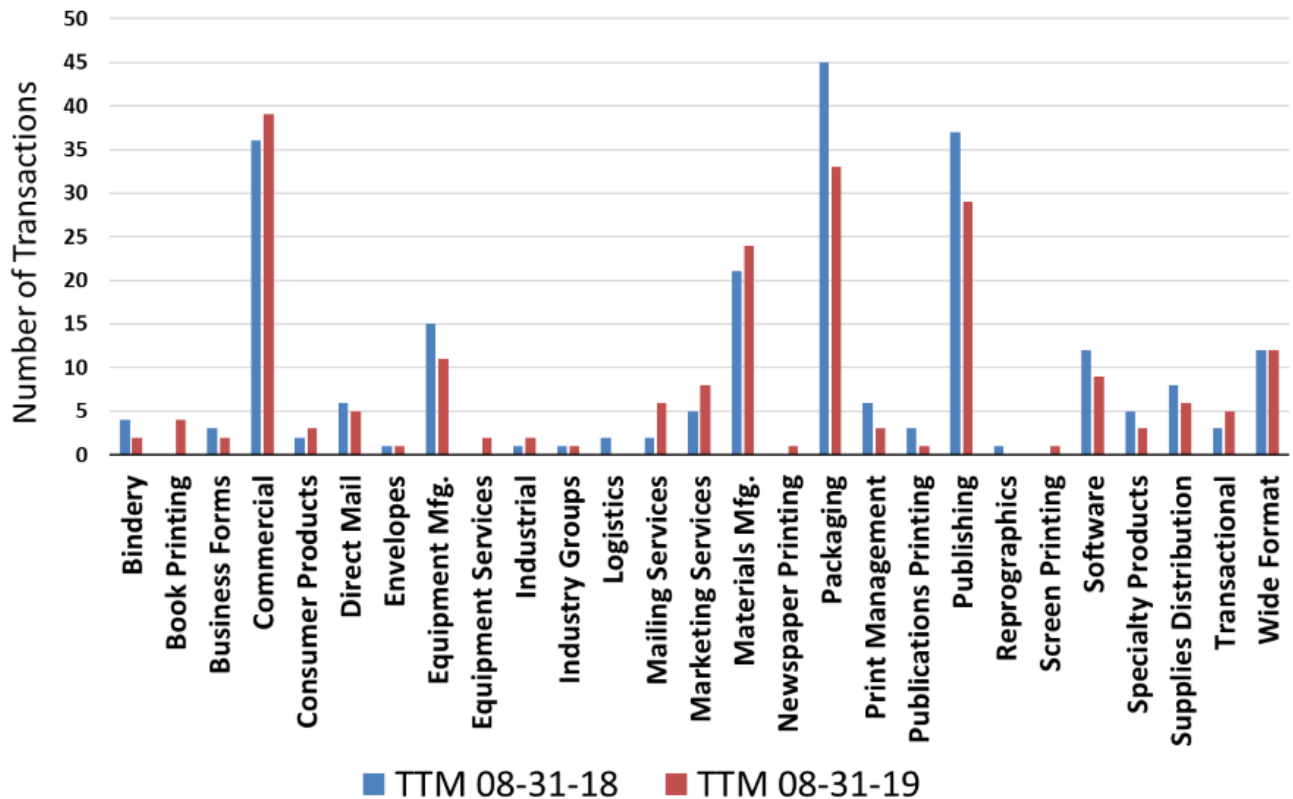
While Mittera is the clear leader right now to become the first truly national commercial printing roll-up since the demise of Consolidated Graphics and

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By Mark R. Hahn, Managing Director, Graphic Arts Advisors LLC

Printing, Packaging & Related Industries M&A Transactions by Primary Activity of Target Company (Source: The Target Report by GAA)



Commercial printing, packaging and publishing lead in the number of deals announced over the past two years, with no signs of letting up in the near future. This chart compares the trailing twelve months (TTM) ending August 31, 2018, and August 31, 2019. Source: Graphic Arts Advisors.

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Mail-Well's transformation into the beleaguered Cenveo, there are other companies acquiring local shops and building out significant regional platforms, often in competition with each other. For example, Intellicor and Alcom, both in the southeastern Pennsylvania market, have each acquired several companies. This consolidation of the commercial printing segment to create "super-regional" players will continue unabated for some time to come, and some may evolve to play on the national stage.

Book Manufacturing Consolidates

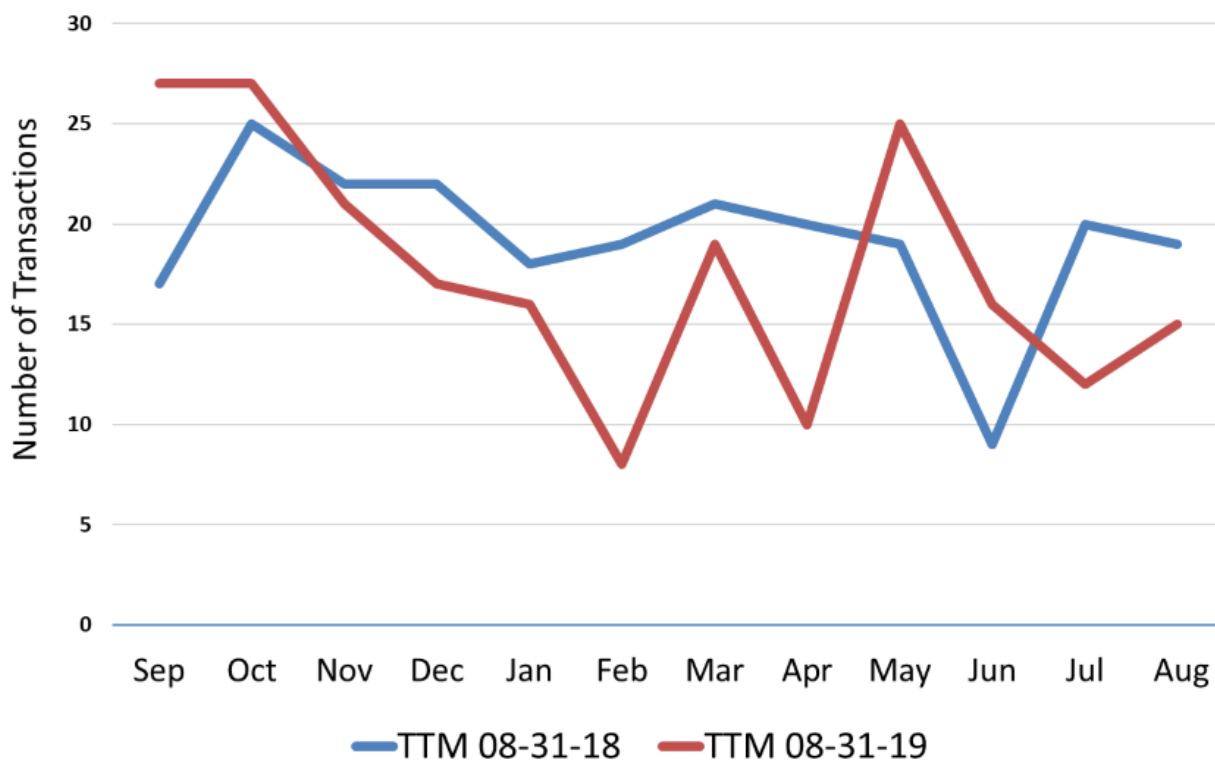
Book manufacturing, while not nearly as fragmented as commercial printing, has seen recent waves of consolidation, with the CJK Group being the primary player. Starting from its roots as Bang Printing in Minnesota, the CJK Group has grown via a steady, highly focused stream of acquisitions in the book printing segment, along with similar products such as academic journals and catalogs.

The game changer in the CJK roll-up was clearly the acquisition of The Sheridan Group, which itself was a roll-up that floundered. Most recently, CJK acquired the assets of employee-owned Thompson-Shore in a 363 sale under the supervision of the U.S. Bankruptcy Court in a Chapter 11 proceeding.

Photobooks are Big Business

The recently announced acquisition of Shutterfly and Snapfish by Apollo Global Management may signal the end of the "salad days" for the heady growth of personalized photobooks and related products. Before selling out to Apollo, Snapfish had only recently acquired CafePress, a publicly traded company, in a deal that was by any measure a bargain compared to prior valuations, a sure sign that growth in this segment is slowing down. As the bigger players in the direct-to-consumer printing space have now merged and staked out the high ground, the smaller remaining companies are

Printing, Packaging & Related Industries M&A Activity by Date of Announcement (Source: The Target Report by GAA)



M&A activity in the printing, packaging and related industries typically pick up in the early autumn and drop off toward the beginning of the year. This chart compares the trailing twelve months (TTM) ending August 31, 2018, and August 31, 2019. Source: Graphic Arts Advisors.

likely takeover candidates. Two exceptions for rapid growth in direct-to-consumer printing are the custom one-of-a-kind apparel business and the personalized décor segment. Both segments are just now gaining traction and likely will be ripe for consolidation plays over the next several years.

Cracks Begin to Appear in Wide Format

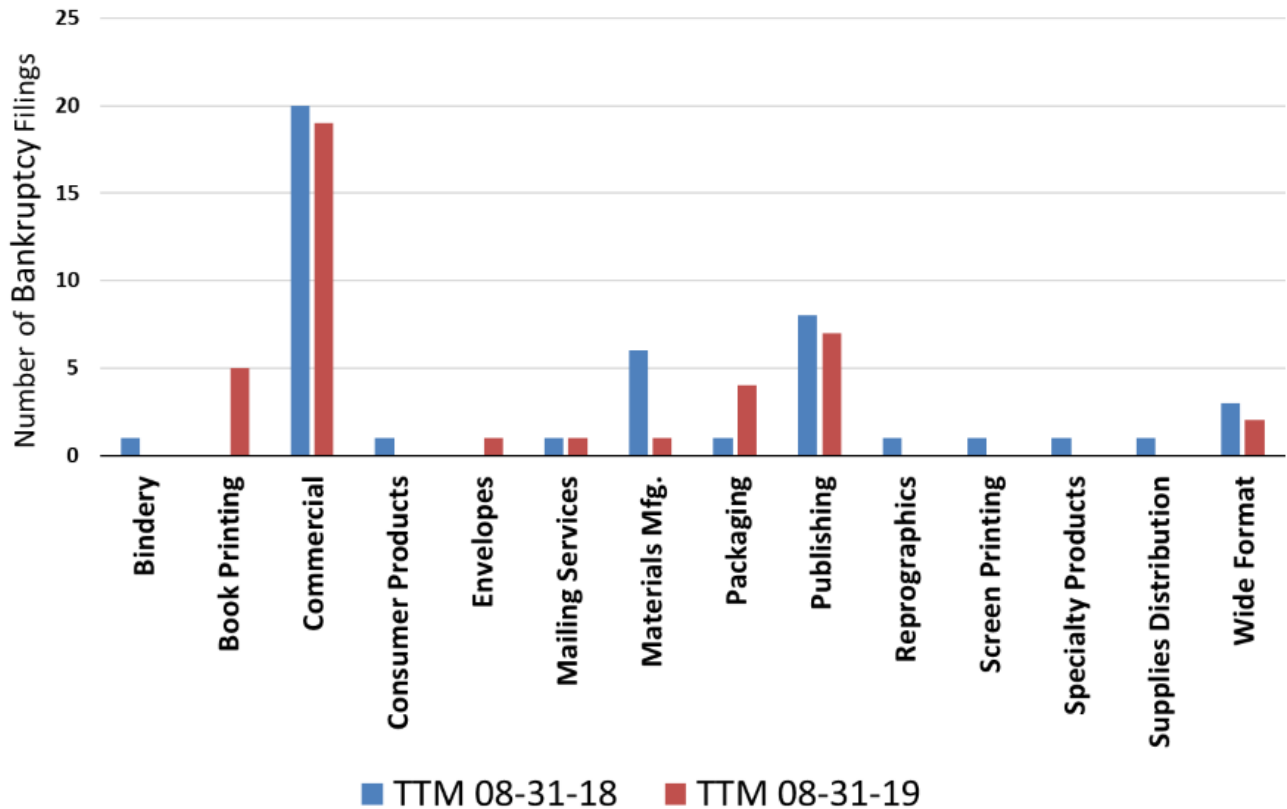
The wide-format segment has matured and is beginning to signal more consolidations in the future. The integration of digital wide-format printing equipment into the graphics industry is now ubiquitous, with many commercial printing companies offering wide-format printing. The barriers to entry have been lowered and margins have compressed, especially at the lower end of the market, where companies compete on price without any significant differentiation.

If there is any doubt that the market is changing, look no further than the

acquisition of BuildASign by Cimpress, the great low-price disrupter in the market that forever changed the business of short-run stationery products for micro businesses. In another telling sign of change, the Dallas-based wide-format printer and retail display company Performance POP recently shut down and auctioned off all its equipment.

Almost unheard of in the past, several wide-format printing companies have recently filed bankruptcy or simply closed up shop without maximizing the value of their customer relationships in a merger and acquisition (M&A) transaction before an orderly wind-down of retained assets and liabilities. The ongoing maturation of the wide-format segment is leading to the development of “haves” and the “have nots,” similar to what occurred in the commercial offset printing market. As the “haves” strengthen their position with the latest up-to-date automated printing and finishing equipment, the gap will widen.

Printing, Packaging & Related Industries Bankruptcy Filings (Ch. 11 & Ch. 7 by Primary Activity of Filing Company) (Source: The Target Report by GAA)



Commercial printing leads the pack by a wide margin in the number of bankruptcy filings over the past two years. Rather than be acquired, many of these companies closed down operations. This chart compares the trailing twelve months (TTM) ending August 31, 2018, and August 31, 2019. Source: Graphic Arts Advisors.

Despite relatively low valuation expectations for printing companies sold in place, owners who made it through the Great Recession — especially those now in their 60s and 70s — do not want to work through another down cycle.

An increase in mergers, acquisitions, tuck-ins and closures is sure to follow.

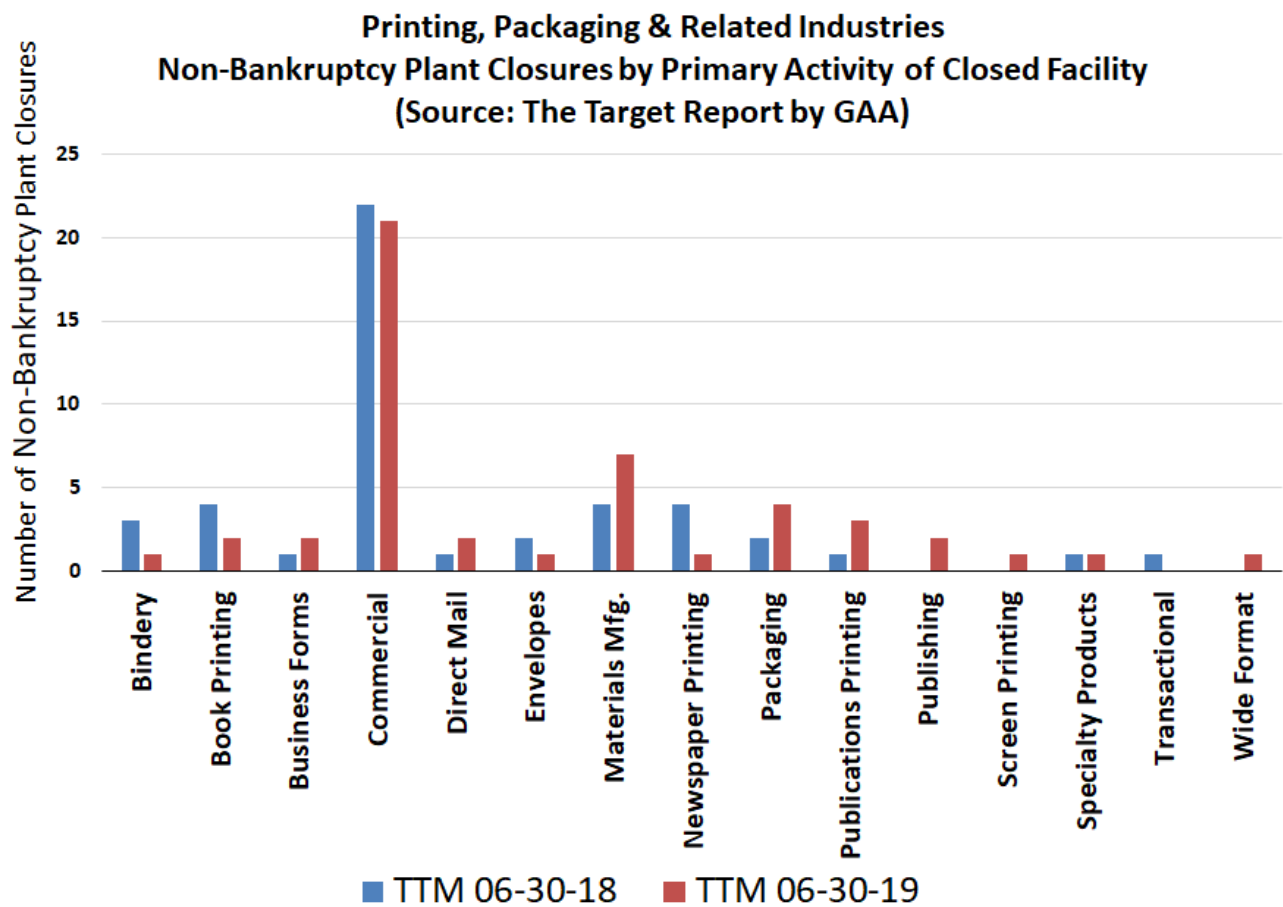
Radical Transformation of Direct Mail and Mailing Services

Direct mail printers are going strong — if they have adapted the new continuous-form inkjet printing technology. The move to a white paper-based workflow is nothing less than transformative for huge swaths of print volume formerly produced by imprinting variable information on static pre-printed offset printed forms. The opportunity in the midst of this change is so attractive that large private equity investment firms that shied away from print for years have returned to the print industry. H.I.G. Capital, one of the largest global private equity funds, voted with its wallet and expressed confidence in the future of print, announcing the acquisition of Vision Integrated Graphics. Vision, as the company is now known, is a Chicago-area data-driven direct mail powerhouse,

with ancillary marketing services, retail display print and fulfillment services.

There has been a noticeable increase in the number of deals involving mailing services companies. For example, MSP in Pittsburgh recently purchased the David J. Thompson Mailing Corporation in central Pennsylvania, with plans announced to maintain production at the acquired facility.

Former lettershops that processed mail have now become full-fledged printing operations capable of managing increasingly sophisticated data processing tasks, taking on responsibility for the entire print production. At the same time, as printers adopt fully variable printing technologies, they must learn and manage the mail processing functions or risk losing control of the client's work to mailers moving onto the printer's territory. In no other segment of our industry is the concept of "convergence" more evident and impactful. While high-



Commercial printing also accounts for the largest number of non-bankruptcy closures over the past two years. These companies are often acquired in a tuck-in transaction, so closure does not necessarily mean a total failure of the enterprise. Instead, these transactions often are a sign of the continued consolidation occurring with the industry. This chart compares the trailing twelve months (TTM) ending June 30, 2018, and June 30, 2019. Source: Graphic Arts Advisors.

volume direct mail printers have long bridged the two disciplines of print and mail, the smaller companies in both print and mail processing are joining forces. This convergence will lead to many more mergers and acquisitions in the print and mailing segments.

This change to a white paper workflow will be another of the great disruptions that have occurred in the printing industry, right alongside the switch from letterpress to offset printing and the evolution from manual image preparation to computer-based prepress. Companies wedded to the preprint-and-imprint model will fall by the wayside if they don't adapt. Witness the recent sudden closure of direct mail component printer Colortree Group in Virginia. While complicating factors were reported in the press, the underlying trend is clear: A big shakeup is coming in the direct mail printing segment.

Why are Sellers Coming to Market?

At the lower end of the market, within

the universe of thousands of family-owned companies that characterize much of the printing and related businesses, three factors are currently driving sellers of healthy companies to bring their companies to market. The No. 1 factor is simply demographics, i.e., the age of the owners. Baby boomers founded many companies to fulfill the American dream of owning a business, or they acquired the business from their parents. Now 55 to 75 years old, the 76 million baby boomers are aging out, and those that own printing companies are seeking a buyer. Oftentimes, the next generation is either not involved in the business or have no interest in or ability to take over the family enterprise.

The second factor driving sellers to market in 2019 is the fear of an economic downturn. Despite relatively low valuation expectations for printing companies sold in place, owners who made it through the Great Recession — especially those now in their 60s and 70s — do not want



For printing company owners that have wisely invested in the facility that supports the business, the need to monetize the real estate asset is the key driver in the decision to sell.

to work through another down cycle. A modest and reasonable return for all their hard work is preferable to seeing profits and business values plummet as they did in 2008. These owners are not rushing to sell, however, as they are typically enjoying ownership profits and perks while the businesses remain viable.

Real estate is the third factor driving the sale of printing companies. With commercial real estate values booming in many industrial regions, owners need to find a home for their printing company to enable a sale of the real estate. For printing company owners that have wisely invested in the facility that supports the business, the need to monetize the real estate asset is the key driver in the decision to sell. Combine these three factors — age, fear of economic downturn and ownership of a facility in a hot real estate market — and the stage is set for super-motivated sellers to bring more companies to market in the near future.

Financial Stress in the Market

There is a subset of buyers that only seek out troubled companies with the goal of “tucking-in” the acquired company’s sales while cherry-picking some key pieces of equipment at a favorable price. This dynamic has been especially prevalent in the commercial printing segment, as there has been no shortage of companies that have reached the end of their useful life as independent entities. Companies may become candidates for a tuck-in transaction at the point when the

company needs to reinvest in new, more efficient equipment. Beginning a new capital expense cycle can be the catalyst for initiating a sale of business process if the company does not have sufficient capital to modernize or simply does not want to renew the financial commitments that often come with personal guarantees.

In some situations, the level of financial distress reaches the point where the company is no longer sustainable, and it’s just a matter of time before its assets are sold off or it’s closed down without finding a home for customers and employees. The difference will be if the owner starts the process soon enough to find a buyer interested in a tuck-in of the book-of-business before the cash runs out.

The supply of tuck-ins due to financial distress is certainly less over the past couple years than in the several years following the Great Recession. If the economy falters, expect a rush of new tuck-in candidates to come on the market.

Mark Hahn is a Managing Director and the founder of Graphic Arts Advisors, a boutique strategic financial advisory and consulting firm focused exclusively on the printing, packaging and related industries. The firm assists company owners and management, as well as their lenders, investors and other stakeholders in the following areas: mergers & acquisitions, business valuations, challenging situations and financing, strategic counsel and advisory, and expert analysis and opinions. Mark is the author of The Target Report and is regularly published and quoted in printing industry trade and management journals.