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Consolidated Graphics: The Buyer of Choice

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The last time my name appeared in this magazine was three years ago when I had recently joined CONSOLIDATED GRAPHICS to head up the mergers & acquisitions effort. At that time, the article described how we were closing in on the billion dollar revenue mark and had ambitious plans for even more growth. Well, since that time, we have been very busy in mergers & acquisitions. In the last 18 months alone we have acquired companies with combined sales in excess of \$320 million, representing a 33% increase in the revenues of CONSOLIDATED GRAPHICS. And what is most exciting about this activity is that we have acquired businesses that are widely recognized as some of the leading companies in our industry, such as:

The Hennegan Company

The Hennegan Company is one of the highest quality printing companies in the United States (500 line screen anyone?). One of the remarkable things about Hennegan is that aside from their stellar reputation and customer base (Tiffany's, Saks Fifth Avenue) was the fact that it was founded in 1886 and was being run by the fourth generation. Most of the companies that we buy are multigenerational family businesses, but this one was special. What is interesting to note about this company is that even today, almost two years after the acquisition, not only is Bob Ott, Jr., the fourth generation, still leading the company, but the third generation (Bob Ott, Sr. who is 85 years old) still works full time and sells several million dollars worth of printing. I think it says quite a lot about CONSOLIDATED GRAPHICS as well as the Otts that they continue to be just as fully engaged in the business post-acquisition as they were pre-acquisition. A love of the business, excitement about future growth and a commitment to stay engaged are key attributes we look for in sellers. The Otts are a great example of this.

The Cyril-Scott Company

The Cyril-Scott Company is quite simply the most sophisticated direct mail printer in the United States. Their 18 in-line webs can print, die cut, fold,

glue and personalize all in a single pass. In fact, Cyril-Scott has no finishing equipment because all of their product is finished in-line on the webs, in configurations that in many instances are patented. "Mac" McClelland, the 84 year old founder, still comes to work every day, continuing to help create innovative solutions to better serve our customers' direct mail needs.

PBM Graphics

This is our largest acquisition to date. Operating in approximately 600,000 square feet of space over three locations, PBM is one of the leading commercial printing companies in North America. PBM has also established itself as a worldwide leader in the niche business of collectible trading cards and is the world's largest producer of Pokemon cards and several other trading card games. In addition to this niche, they are very active in the pharmaceutical sector as well as general commercial packaging.

Annan & Bird

Annan & Bird does high quality packaging and point of purchase large format printing on five presses ranging from 57 inches all the way up to 81 inches. Interestingly for a CONSOLIDATED GRAPHICS company, they don't even own a 40 inch press, but of course they have plenty of sister companies to help them with that work. They do all of their sheeting in house on two sheeters, and they also own the largest laminator in North America. It isn't an M&A cliché to say that it's all about management. With Dave and John Bird, for example, I knew early on in our review that the cultural fit was ideal, despite their affinity for hockey and a different pronunciation for the word "about". The Birds brought new energy and resolve to the business when they took over from their father several years earlier, and they were excited about the prospect of joining a strong North American platform like CONSOLIDATED GRAPHICS to continue growing their business. They fit in very well with our 70 other presidents and have done a great deal of intercompany work since coming on board.

Pikes Peak Lithographing Company

We acquired this established company for two main reasons. First, to provide us with additional large format capabilities in the western part of the United States and second, because they were expert at map reproduction and dye sublimation.

Today, we remain as active as ever in mergers and acquisitions, although as usual we remain a very disciplined buyer, which has served us well over the last two decades. My goal has been to identify the best

companies and proactively approach them rather than waiting to see which companies come to us, although we still see a lot of companies through intermediaries such as bankers, brokers and lawyers. We also get contacted directly by owners. We are always having conversations with owners because acquiring leading printing companies has been a core component of our business strategy since CONSOLIDATED GRAPHICS was founded 23 years ago. My philosophy is that a conversation is always productive.

When I was approached about writing an article for this publication, I thought it might be useful to explain why, if you are a seller of a commercial printing business, CONSOLIDATED GRAPHICS is the best possible buyer in the marketplace today. This is a topic that always comes up in my conversations with printing company owners, and the answer says a lot about our culture, philosophy and why CONSOLIDATED GRAPHICS has been so successful. This subject is also something I covered recently with our shareholders at our Annual Meeting.

There are many reasons why CONSOLIDATED GRAPHICS is the buyer of choice if you are a seller of a commercial printing business. First, we have what is perhaps the strongest balance sheet in our industry and cash on hand to fund our acquisitions. What this means is that we can acquire virtually any company in our industry without having to worry about how we will finance the purchase. We have cash on hand to complete even the largest acquisitions and do not require any third party's approval to complete an acquisition. This means that when we sign a letter of intent, our offer is not contingent on obtaining bank approval. This is very unusual, especially in today's economic environment, and this gives us a competitive advantage. It also means we complete transactions faster than virtually anyone else, and on top of that when we reach agreement with a seller to buy his or her business, that seller knows that we will do what we say we are going to do.

Second, mergers and acquisitions has been a staple of our business strategy since day one, and we think we are pretty good at it. Why is this relevant to sellers? We know what we're doing, know the business and therefore can complete due diligence faster than anyone else. We don't need to bring in consultants to help us learn about the industry. We also don't get sidetracked by little bumps in the road because we know what we're looking at. Chances are if there is an issue at a company, we've seen it at one of our 70 companies. In addition, because we don't need any third party approvals or bank consents, there is no need for any third party to conduct due diligence alongside us (which is customary for pri-

vate equity and other financial buyers as well as for most industry buyers who need financing). Extra people doing due diligence takes more time because they all have different concerns, and it increases the risk of getting the acquisition completed. With CGX, we do all of our own due diligence ourselves.

Third, our philosophy is one of decentralized operations. We do not have a "1+1=3" strategy, meaning we do not combine facilities and look to extract value by eliminating "redundant" operations and people. When we make an acquisition, the business remains a stand-alone entity managed by the seller and his or her management team. The name stays the same as well because the brand equity associated with that company in the local marketplace is one of the most important assets that we buy. I often tell sellers that if we didn't issue a press release announcing the transaction, most people would never know an acquisition had even taken place. Selling to CONSOLIDATED GRAPHICS allows the seller to take his chips off the table and diversify his investment while continuing to run the business with our powerful resources behind him. To many sellers looking for a new challenge, being part of the CONSOLIDATED GRAPHICS network is an exciting next phase of their career.

Fourth, selling to CONSOLIDATED GRAPHICS is hands down the absolute best result for the seller's employees. When a business is sold, employees are naturally concerned about the unknown. In many cases, the businesses are bought by unknown individuals or thinly capitalized (and overleveraged) "newcos" with no assets behind them. In addition, many buyers come in looking to fix something that isn't broken. With CONSOLIDATED GRAPHICS, we are a known entity, a stable employer and a leader in our industry. We invest in our people and give them abundant career opportunities and training. We also don't buy companies to improve them and then flip them (as is the strategy of financial buyers) or to "rationalize" them and combine them with another one of our facilities (as is the strategy of some of our competition). We invest for the long term and hold onto the companies we buy. This is a great comfort to employees. With respect to the seller's salespeople specifically, they now have the opportunity to make more money. They can now offer their existing customers all the product offerings available at CONSOLIDATED GRAPHICS' 70 printing plants (web, sheetfed, digital, direct mail, large format, POP, packaging, flexo, scratch off and scented products to name a few) They also now have the ability to offer their customers our national footprint and can convert local accounts into national accounts (and make

more money). They can also offer their customers our full range of digital solutions (electronic storefronts, cross media, personalize urls, variable print and one to one marketing solutions). Their customers will also inevitably be relieved when they hear the acquiror of the seller's business is CONSOLIDATED GRAPHICS because they know we are a financially stable industry leader and that there will be no disruption in the level of service provided. Finally, we invest in our salespeople's training, and this is something that the best salespeople really care about.

Fifth, from the seller's perspective, it is exciting to think about the growth potential that comes with our 650 salespeople offering his company's products to our 22,000 customers.

Sixth, because we have a corporate headquarters the sole purpose of which is to support and serve the operating companies we acquire, sellers are relieved of many of the administrative burdens that they were responsible for in their own companies (risk management, human resources, tax, legal, treasury and IT). Sellers are able to get back to what they enjoy – growing the business and satisfying customers.

Seventh, sellers now have access to capital to help their businesses grow and no longer have to negotiate with lenders or personally guarantee their debt. Last year alone, for example, we invested \$82 million in new equipment purchases for our companies.

Eighth, all of our new companies are encouraged to participate in our Leadership Development Program. We hire approximately 100 college graduates each year and put them through a rigorous three year training program which involves rotating through departments at our individual printing companies every six months. This is a great way to get new blood and energy into our companies while ensuring that we have highly trained professionals running our businesses and selling to our customers in the future. Today, 21 of our company presidents are graduates of this training program. Our CEO often says that starting the Leadership Development Program is the best decision he has ever made. Sellers like that we will bring this new energy into their organizations.

Ninth, many buyers use the seller's balance sheet to take on as much debt as banks will allow when they are making an acquisition. This means the newly acquired company can often find itself saddled with more debt than it can handle. This then means that the company cannot afford to invest in its people or in its growth. In fact, most financial buyers have no intention of investing in capex (new equipment) because they view capex as diluting their potential return on investment when they flip the company a few years down the road (usually 5-7 years). Our companies have no such baggage. As mentioned earlier, we invested \$82 million last year in new equipment.

Tenth, sellers know who we are. We are well known in the industry, and our track record speaks for itself. In addition, because we are a public company, we are an open book. Sellers know exactly who we are and have ample opportunity to ask questions of us (and of prior sellers) before committing to a transaction. Similarly, their employees inevitably know someone at one of our other companies and can learn what to expect from them. This helps ensure a seamless transition.

Finally, we also offer sellers the opportunity to become a part of the best peer group in our industry. We get our 70 company presidents together several times a year to share best practices and new ideas. This is a remarkable group of men and women who work together on a daily basis, and their energy and excitement is obvious whenever they get together. All of our salespeople also come together at least once per year so that they can learn from each other and also appreciate that they are a part of something much bigger than their individual company.

In light of all of these reasons why CONSOLIDATED GRAPHICS is the buyer of choice, it should be no surprise that we expect the pace of merger and acquisitions to continue, and I am hopeful to be writing another article 18 months from now describing another group of great companies.

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