

MS Capital Market News:

Outlining Trends in the Direct Mail Advertising and Print Marketing Industry



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Direct Mail Advertising in the US

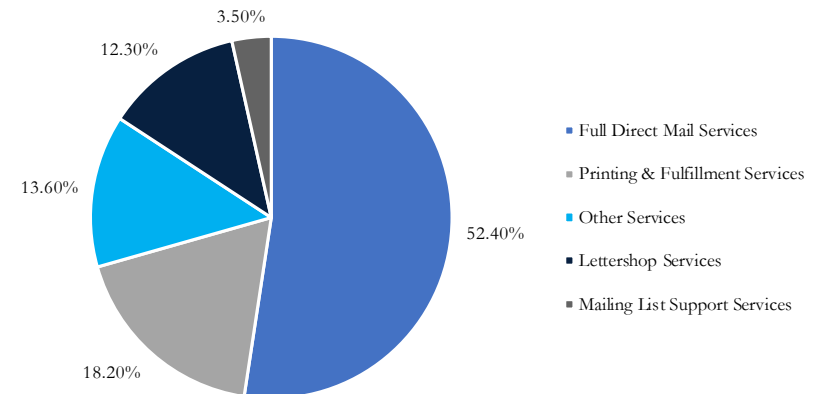
Direct Mail Advertising Highlights

- 2019 revenue: \$11.0 billion
- 2019 profit: \$473.2 million
- Annual growth 2014 – 2019: *-0.2%*
- Annual growth projected 2019 – 2024: *-1.8%*
- Businesses: 2,139
- Key industry drivers: total advertising expenditure, price of paper, demand from postal service, number of businesses, number of households, corporate profit, & the oil and natural gas price index.

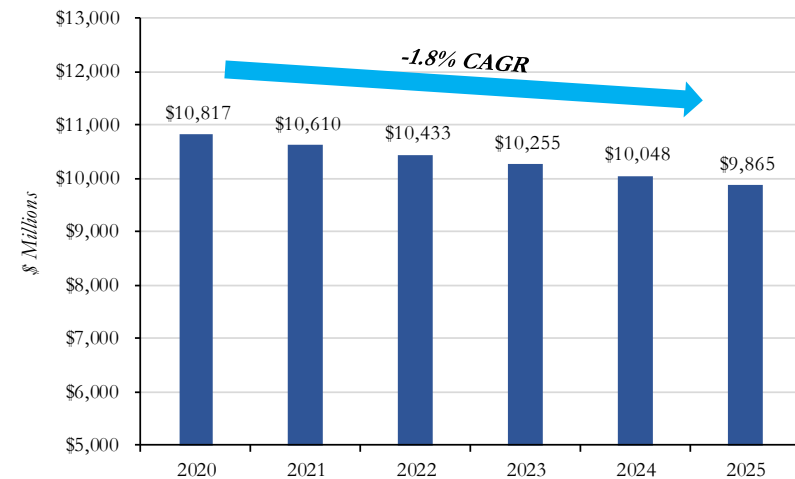
Industry Observations

- Largely due to increased consolidation and falling labor costs, profit margins in traditional direct mail companies will expand slightly, with the average industry profit expected to account for *4.4%* of revenue in 2024.
- Moreover, low comparative profit margins will be one of the motivating factors for mergers with companies in the digital marketing space.
- Profit margins in traditional direct mail companies will expand slightly.

2018 Products and Services Segmentation



Direct Mail Advertising Industry Revenue Outlook



Direct Mail Advertising in the US

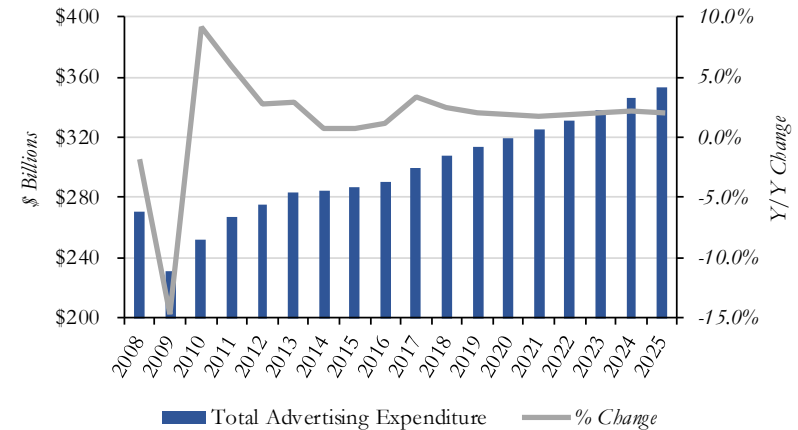
Total Advertising Expenditure

- Growth in the total amount spent on advertising will increase spending on industry activities. Therefore, when total advertising expenditure increases, industry revenue rises. Total advertising expenditure is expected to increase in 2019, presenting a potential opportunity for the industry.
- Estimated value in 2019: \$313.50 billion
- Forecast value in 2024: \$345.65 billion
- 2014-2019 Compound Growth: 1.9%
- 2019-2024 Compound Growth: 2.0%

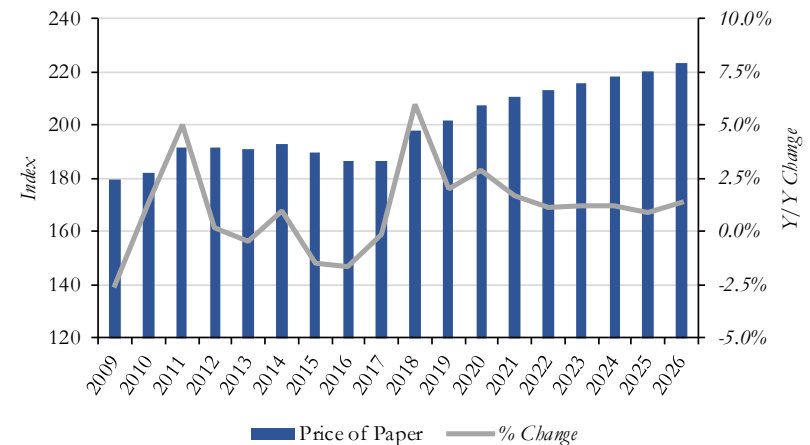
Price of Paper

- The price of paper is represented by a Bureau of Labor Statistics index that measures the prices received by paper manufacturers for their products. The price of paper is an essential input cost for the industry, as nearly all industry products are made of paper due to its low cost and versatility. The price of paper is expected to decrease in 2019.
- Estimated Value in 2019: 195.3 index points
- Forecast value in 2024: 205.9 index points
- 2014 – 2019 Compound Growth: 0.3%
- 2019 -2024 Compound Growth: 1.1%

Total Advertising Expenditure



Price of Paper

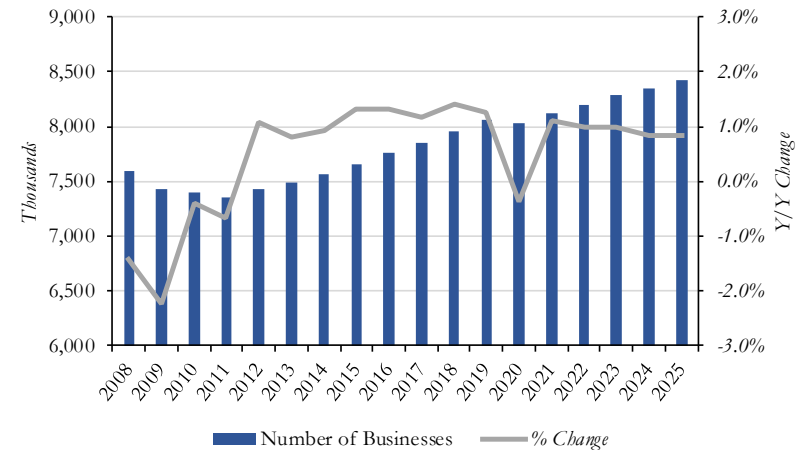


Direct Mail Advertising in the US

Number of Businesses

- The number of businesses in the United States represents an upstream supplier of demand for direct mail advertising. As the number of businesses increases, demand for direct mail advertising is expected to follow suit to a minimal extent. The number of businesses is expected to increase in 2019.
- Estimated value in 2020: 8.0 Million
- Forecast value in 2025: 8.4 Million
- 2015-2020 Compound Growth: 0.93%
- 2020-2025 Compound Growth: 0.96%

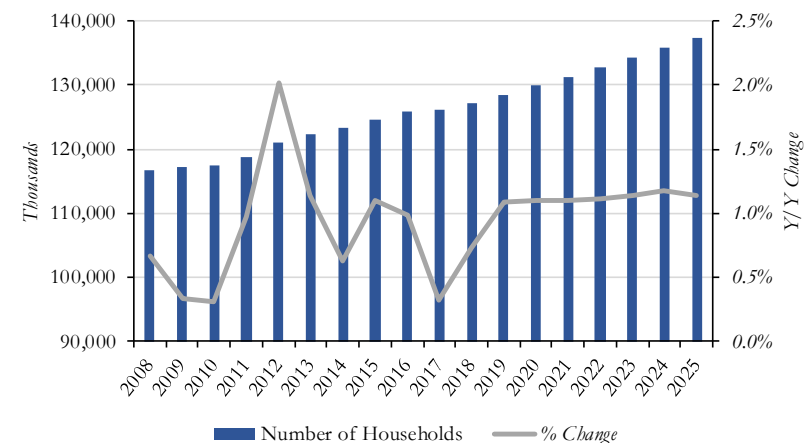
Number of Businesses



Number of Households

- Households are the primary downstream consumer of direct mail advertisements. Therefore, an increase in the number of households in the United States typically benefits the Direct Mail Advertising industry. The number of households is expected to increase in 2019.
- Estimated value in 2019: 128.5 Million
- Forecast value in 2024: 135.9 Million
- 2014-2019 Compound Growth: 0.8%
- 2019-2024 Compound Growth: 1.1%

Number of Households

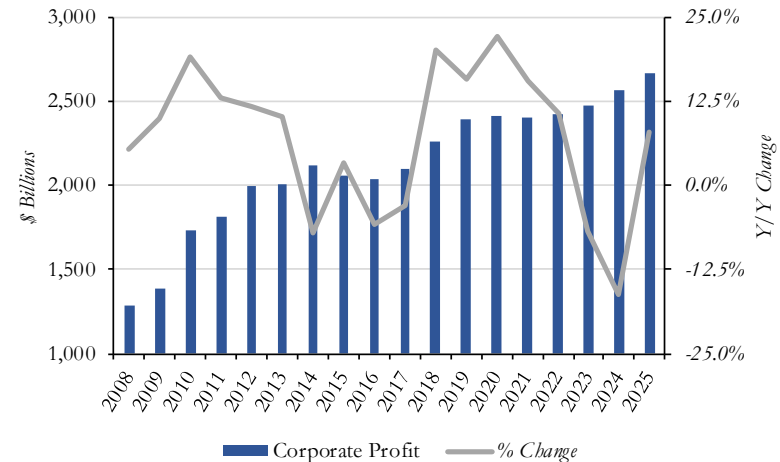


Direct Mail Advertising in the US

Corporate Profit

- Corporate profit measures profit earned across the entire US economy. A rise in corporate profit generally increases the number of businesses that are able to afford consulting services. Therefore, an increase in corporate profit precipitates an increase in industry revenue. Corporate profit is expected to increase in 2018.
- Estimated value in 2019: \$2,395.45 billion
- Forecast value in 2024: \$2,567.46 billion
- 2014-2019 Compound Growth: 2.5%
- 2019-2024 Compound Growth: 1.4%

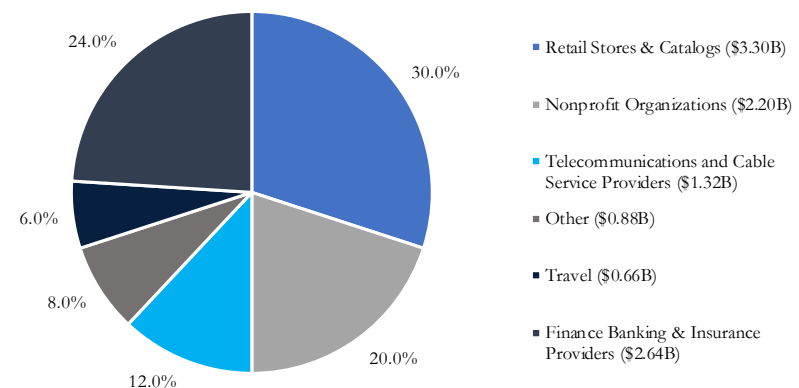
Corporate Profit



Major Market Segmentation

- The Direct Mail Advertising Industry relies heavily on commercial markets with nearly 80.0% of all revenue being derived from such markets.
- Nonprofit organizations, household consumers and local and state governments represent secondary markets for the industry.
- Direct mail advertising is more often employed on a local level as opposed to a national level as local businesses primarily use this form of advertising due to its low-cost and accessibility.

Major Market Segmentation



Public Comparable Companies

\$ in millions except stock price

Guideline Public Companies

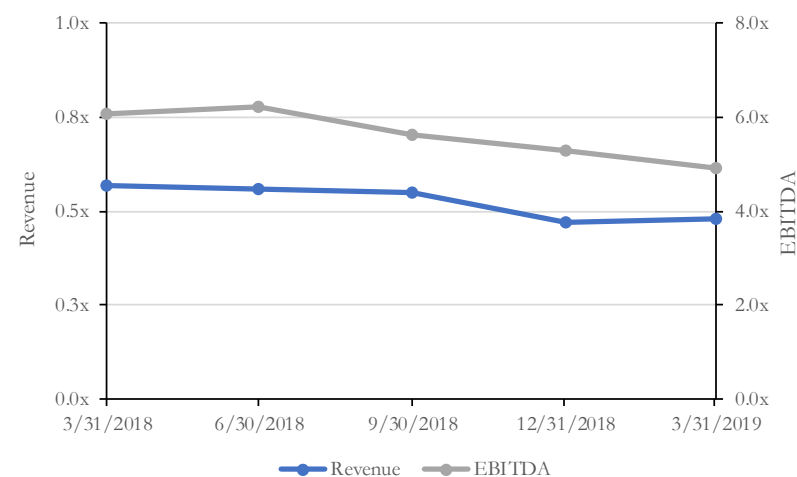
Company Name	Stock Price	Market Capitalization	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Revenue Multiple	LTM EBITDA Multiple	LTM Revenue Multiple - Adjusted	LTM EBITDA Multiple - Adjusted
<i>Data as of 3/31/19</i>									
SPAR GROUP INC	\$ 0.63	\$ 13	\$ 31	\$ 232	\$ 7	0.1x	4.6x	0.1x	4.6x
MDC PARTNERS INC	\$ 2.25	\$ 136	\$ 1,269	\$ 1,478	\$ 161	0.9x	7.9x	0.7x	6.6x
OMNICOM GROUP INC	\$ 72.99	\$ 16,364	\$ 19,361	\$ 15,130	\$ 2,366	1.3x	8.2x	0.7x	4.7x
QUAD / GRAPHICS INC	\$ 11.90	\$ 590	\$ 1,739	\$ 4,231	\$ 372	0.4x	4.7x	0.3x	3.8x
Average								0.5x	4.9x
Median								0.5x	4.7x

GPC Income Statement Comparison

LTM Ended 3/31/2019

	Average	Median
Total Revenue	100.0%	100.0%
Total Cost of Goods Sold	80.4%	82.2%
Gross Profit	19.6%	17.8%
Total Operating Expenses	12.8%	12.9%
EBIT	6.8%	5.7%
Net Interest Expense	-2.1%	-1.7%
Other Income (Expense)	-2.0%	-1.0%
Income Tax Expense	-1.6%	-1.8%
Extra. Items / Disc. Ops. / Minority Interest	-0.7%	-0.7%
Net Income	0.4%	-0.3%
EBITDA	9.6%	9.9%
Capital Expenditures	1.5%	1.3%

Latest Twelve Months Multiples Trends



Select Comparable Transaction

Date	Target	Buyer(s)	Target Business Description
6/12/19	Sprint-Denver, Inc.	Mittera Group, Inc.	Sprint-Denver, Inc. engages in printing and direct mailing services. It offers commercial printing services to advertising agencies, corporations, and large non-profit customers. The company was founded on August 10, 1995 and is headquartered in Denver, CO.
4/11/19	David J. Thompson Mailing Corp.	Mailing Services of Pittsburgh, Inc.	David J. Thompson Mailing Corp. provides printing, mailing, database development and management services. Its services include direct mail, data processing, postal optimization and lettershop. The company was founded by Gordon Thompson in 1949 and is headquartered in
3/15/19	Integrated Print & Graphics, Inc.	Ennis, Inc.	Integrated Print & Graphics, Inc. provides graphics and printing services. It offers prepress, direct mail, laser cut sheets, envelopes, warehousing and business forms. The company was founded in 1970 and is headquartered in South Elgin, IL.
1/29/19	GET1FREE, Inc.	Valassis Communications, Inc.	GET1FREE, Inc. operates as a direct mail company, which provides coupons, deals and promotion services. The company helps businesses to succeed through targeted, consumer-driven advertising. Its monthly, direct mail community publication helps consumers save money on all things in life, from dining out to home improvement. The company was founded by Ryan Green in 2002 and is headquartered in San Diego,
1/3/19	Avant Imaging & Integrated Media, Inc.	Canadian Oil Recovery & Remediation Enterprises Ltd.	Avant Imaging & Integrated Media, Inc. engages providing print, data driven digital print communications and digital cross media. Its products include Print collateral, Data-Driven Direct mail, aim Social, and Integrated Marketing. The company was founded by Frank Giorgio and Mario Giorgio in 1990 and is headquartered in Aurora, Canada.
12/17/18	One To One Group	Allegiance Fundraising Group, LLC	One To One Group provides digital print and media marketing services. It offers variable data print, direct mail, digital and cross media and creative services. The company was founded in 2003 and is headquartered in Sarasota, FL.
12/14/18	RSVP Publications, Inc.	Allegra Network LLC	RSVP Publications, Inc. provides specializes in direct mail postcard advertising, postcard printing and direct mail advertising franchise services. The company was founded by Dave Trof in 1985 and is headquartered in Tampa, FL.
11/30/18	St. Joseph Ad-Venture, Inc.	MailSouth, Inc.; Court Square Capital Partners	St. Joseph Ad-Venture, Inc. engages in the provision of direct mail advertising services. It offers publication that mails St. Joseph and Midland Empire mailboxes. The company was founded in July 1991 and is headquartered in St. Joseph, MO.
10/24/18	Direct Response Marketing Solutions, Inc.	Valassis Communications, Inc.; Harland Clarke Holdings Corp.	Direct Response Marketing Solutions, Inc. distributes and publishes direct mail magazines. The company is headquartered in Canfield, OH.
9/27/18	The Oklahoman Media Co.	GateHouse Media LLC	The Oklahoman Media Co. engages in publishing daily newspaper. The firm also specializes in print advertising, online advertising, website development and design, direct mail, commercial printing, and video production. The company is headquartered in Oklahoma, OK.
5/10/18	Direct Mail Solutions LLC	Envision Graphics LLC	Direct Mail Solutions LLC engages in the provision of mailing and variable printing services. The company is headquartered in Carol Stream,
4/2/18	Universal Mailing Service, Inc.	Prompt Direct, Inc.	Universal Mailing Service, Inc. provides mailing services. Its services include direct mail advertising, such as creating, producing, and mailing of direct mail advertising. The company was founded in 1977 and is headquartered in Piscataway Township, NJ.
2/14/18	Mudlick Mail LLC	Clearview Capital LLC; Mudlick Mail LLC /Private Group/	Mudlick Mail LLC provides direct mail advertising services. Its products and services include direct mail design, turnaround times, custom gift cards, specialty products, loyalty - reward cards, automotive shop boards, key tags, shared mail and franchise marketing. The company was founded by Greg Sands and Sherri Sands in 2008 and is headquartered in Acworth, GA.
1/23/18	Pennysaver, Inc.	Valassis Communications, Inc.	Pennysaver, Inc. operates as an independent shopping and direct mail publication company. It features includes classifieds, job listings, and lifestyle. The company was founded in 1979 and is headquartered in Hanover, MD.
12/18/17	IWCO Direct, Inc.	ModusLink Global Solutions, Inc.	IWCO Direct, Inc. provides direct mail marketing services. The firm offers integrated direct mail supply chain solution encompassing form, insert printing, envelope manufacturing, personalization, mail sorting, and postal optimization. Its products Mail-Gard engages in business continuity and disaster recovery services, and Recovery Builder assists planning and consulting services. The company was founded in 1969 and is headquartered in Chanhassen, MN.

Median EBITDA Multiples Trend

Average Number of Months to Close Deals

2017	2018
8.7	9.3

Breakdown of Cash at Close

	2017		2018	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
Cash*	82%	86%	78%	85%
Seller Financing	10%	17%	10%	11%
Earn Out	0%	4%	1%	3%
Retained Equity	0%	4%	0%	4%

* Combination of buyers equity and senior debt

Advisor, Investor, and Executive Surveys

- 79% expect increased average number of deals in 2019 (up from 70% a year ago)
- 83% expect strong market to expire within the next 24 months (33% say its within 12)
- 19% of transactions valued below \$2M were business services – highest proportion
- 27% of transactions valued above \$2M were in manufacturing – highest proportion
- 66% of investors/buyers use adjusted EBITDA multiple when valuing privately-held businesses
- Top 3 reasons deals didn't close were valuation gap (36%), unreasonable seller/buyer demand (20%) and no market for business (11%)

EBITDA	Manufacturing	Construction & Engineering	Consumer Goods & Services	Wholesale & Distribution	Business Services	Basic Materials & Energy	Healthcare & Biotech	Information Technology	Financial Services	Media & Entertainment	Average
< \$1M	5.0x	3.5x	4.3x	5.5x	3.0x	5.0x	4.3x	7.0x	5.5x	4.0x	4.7x
\$1M - \$5M	5.5x	4.5x	5.5x	5.5x	4.8x	5.5x	5.5x	7.5x	6.0x	5.5x	5.6x
\$5M - \$10M	6.5x	5.0x	5.8x	5.8x	5.3x	6.0x	7.3x	8.0x	7.5x	6.0x	6.3x
\$10M - \$25M	7.5x	6.5x	6.5x	7.5x	6.0x	6.0x	7.5x	8.5x	7.8x	6.5x	7.0x

Sources: Pepperdine Private Capital Markets Report, PitchBook Data, GF Data M&A Report November 2018, Market Pulse