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Industry Consolidation and The Rise of Private Equity

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PPAI EXPO 2020

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****Automatically Entered Into A Raffle To Win A Bulova Watch****

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Why talk about this?

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The promotional products industry has averaged more than two private equity sponsored transactions per week for the last two years.

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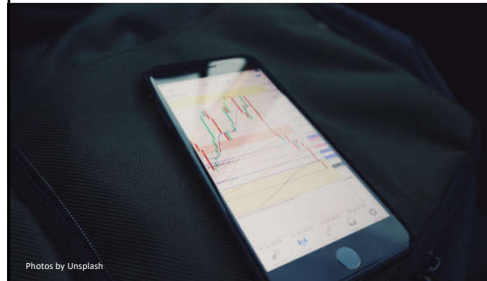
Source: PPAI, ASI news bulletins, Lincoln International

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That's over **100** transactions...



...and almost \$1 billion in invested capital!

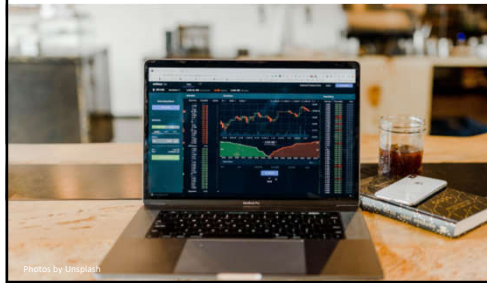


Why is private equity so interested in our industry?

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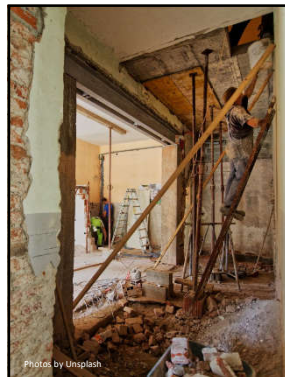
What is “private equity”?



Private Equity

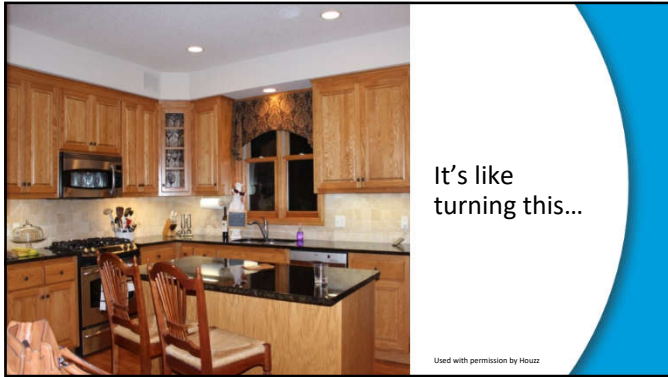
- Gathers money from wealthy individuals and families, pension funds, insurance companies, and other institutional investors
- Typically agrees to invest the money within five years and return it in ten years
- Invests the money in shares of (mostly) privately held companies
- (Most) investments give the private equity investors control of the company
- All investments are made with the intent of getting a return that is significantly greater than the returns in investments in bonds and publicly traded stocks
- To get the desired return on investment, changes are made to some combination of management, systems, processes, purchasing, and growth strategies

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Private Equity

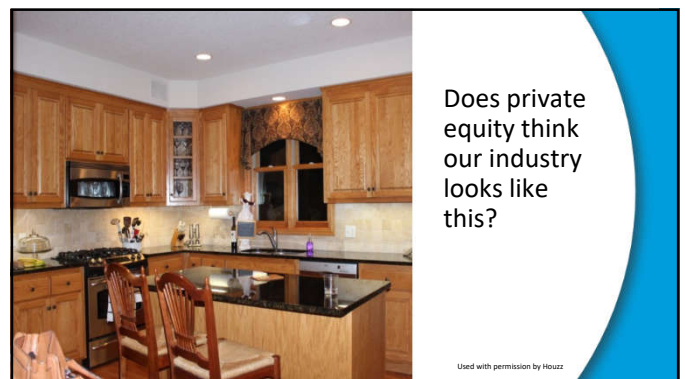
It's like “Flip This House” with companies rather than houses.



So why is private equity so interested in our industry?

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Sort of...

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\$24 Billion in 2019

\$29 Billion in 2024

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22,000 Distributors

Top **750** represent
more than **50%** of
industry sales

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Promotional products
are a highly valued
advertising medium.

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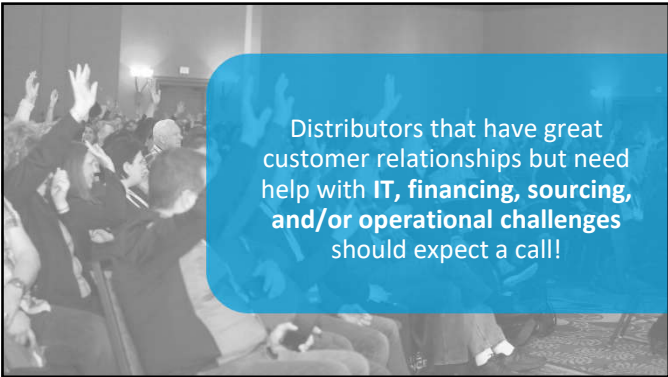
End customers are
changing how they buy.

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Promotional Products Distributors Are Compelling

- Critical role in creating and managing customer relationships and orders
- Need for consultative sales talent
- Increasing demands for IT integration and capability from end customers
- Harder to finance operations and working capital
- Need for streamlined sourcing, presentation, order entry, and order management
- Social and product safety compliance are must haves



Distributors that have great
customer relationships but need
help with **IT, financing, sourcing,
and/or operational challenges**
should expect a call!



The same is true for suppliers.

What does this have to do
with the industry
consolidation we're seeing?

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It's all about scale and
leverage.

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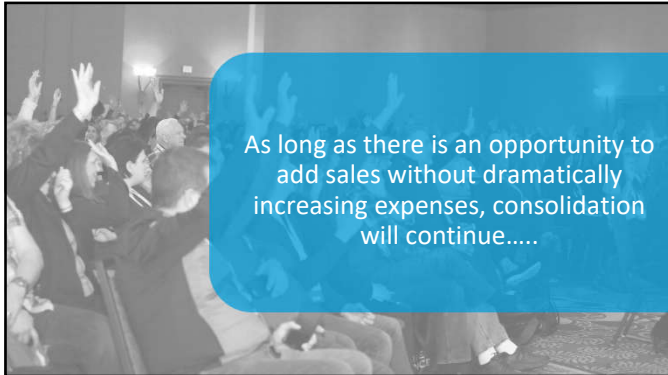
Sell more using the
same **IT, creative,
admin, purchasing,
financing and
management.**

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Scale and Leverage = More Profit

Sales	\$1,000,000		Sales	\$10,000,000
Expenses	<u>\$ 800,000</u>		Expenses	<u>\$ 6,000,000</u>
Profit	\$ 200,000		Profit	\$ 4,000,000

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Implications of Consolidation

- **Size matters**
 - Big will keep getting bigger
 - More capital, more talent, and more resources
 - Smaller will struggle to compete directly but will have a niche
- **Doing nothing is not an option**
 - Conscious choices should be made
- **Everyone thinks they're worth more than they are**
 - Be smart
 - The market is efficient and prices accordingly

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Thank you!

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