Industry Consolidation and The Rise of Private Equity
Matt Gresge, President & CEO AIA Corporation

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**Automatically Entered Into A Raffle To Win A Bulova Watch**
Why talk about this?

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

Source: PPAI, ASI news bulletins, Lincoln International

That’s over 100 transactions...

…and almost $1 billion in invested capital!
Why is private equity so interested in our industry?

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

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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Does private equity think our industry looks like this?

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Sort of...

$24 Billion in 2019
$29 Billion in 2024

22,000 Distributors
Top 750 represent more than 50% of industry sales

Promotional products are a highly valued advertising medium.
End customers are changing how they buy.

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?

It’s all about scale and leverage.

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

Scale and Leverage = More Profit

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<th>Sales</th>
<th>Expenses</th>
<th>Profit</th>
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<tr>
<td>$1,000</td>
<td>$800,000</td>
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As long as there is an opportunity to add sales without dramatically increasing expenses, consolidation will continue.....


...for both distributors and suppliers.

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

Thank you!

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Matt Gresge
mgresge@aiacorporation.com