



PIAMS Weekly News

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May 14, 2010

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New Info on the Paper

The U.S. Commerce Department imposed preliminary antidumping duties on \$260 million of coated paper imported from China and Indonesia. The duties will average 60.27 percent for China and 10.62 percent for Indonesia. U.S. Customs will start collecting deposits of those duties on the paper, while the case proceeds to a conclusion this year.

NewPage Corp., Appleton Coated LLC and a unit of Sappi Ltd. have been seeking antidumping and countervailing duties of more than 100 percent, citing Chinese and Indonesian policies of debt forgiveness, cheap electricity and low-cost access to timber for domestic producers. Commerce imposed the duties to counter subsidies in March.

"There are no merits to the petitioners' accusations and restricting competition in the paper industry is un-American and will hurt U.S. printers and all consumers of coated paper products," Terry Hunley, acting president of Asia Pulp & Paper Americas, said in a statement.

DOL Launches Enforcement Initiative Aimed at Unpaid Internships

By Leslie Stout-Tabackman Fortney & Scott, LLC

The U.S. Department of Labor (DOL) has launched a new enforcement initiative to crack down on employers that provide unpaid internships in violation of the federal Fair Labor Standards Act (FLSA). The FLSA defines an employee as "any individual employed by an employer." Similarly, the FLSA definition of "employ" includes "to suffer or permit to work." However, more than 60 years ago, the U.S. Supreme Court held in *Walling v. Portland Terminal Co.* that the Act's definition of "employ" obviously didn't intend to "include all employees who, without any express or implied compensation agreement, might work for their own advantage on the premises of another." At issue was whether unpaid interns — typically students — are considered employees and therefore must be paid minimum wage and overtime under the FLSA.

Congratulations Best of Show Winners!!

Congratulations to our Best of Show winners who were honored at last night's PRIDE Reception.

Division I – McConnell Design & Printing

Division II – Gran Farnum Printing - Tie

Division II – Hampden Press - Tie

Division III – Peczuh Printing

Division IV - Publication Printers

In next week's news we will have a list of all the winners and don't forget to visit the PIAMS website where we will post all the photo's in the PRIDE photo gallery.



Summer Postage Sale

The United States Postal Service (USPS) announced another Summer Sale on postage for this year. The sale offers a 30% credit to Standard Mail customers with an increased

volume of letters and flats over a predetermined threshold (5% volume increase over the same period in 2009).

The sale period is from July 1 through Sept. 30.

Participation in this sale is limited to Standard Mail letters and flats (both regular and nonprofit prices), and the USPS will be issuing invitations to eligible customers by May 1, 2010. Customers not receiving invitations, but who believe they may be eligible by meeting the minimum volume criteria of 350,000 pieces during the sale period, may request a review of their eligibility by sending an email to summersale@usps.gov. The application for eligibility review must be submitted no later than May 15, 2010.

Details of the summer postage sale may be found in the [April 8 Federal Register notice](#). The USPS will be updating the Domestic Mail Manual (DMM) section 709.2 to reflect this new sale. The incentives are offered in the form of a postage credit, issued to the customer's permit account once the sale period is over. The credit will reflect 30% of the average price per piece on the increased mail volume (over the same period in 2009) mailed during the sale period. Customers must be able to document the mail volumes in order to be eligible for the postage credit. Eligible permits include advance accounts, postage stamp permits, and postage meter permits. Customers using the permits of mail service providers may also participate in the sale as long as they can document their mail volumes mailed under the mail service providers permits. Mail service providers are not eligible to participate in the sale.



Trends in Mergers & Acquisitions

By Paul Reilly
of New Directions Partners

I am frequently asked, “What is happening today with Merger and Acquisitions”. My answer is “More than you think and very different from prior industry downturns!” If you research merger activity in the last recession of 2001-02, you will see two prevalent statistics – a greater than 50% reduction in number of transactions and a 50% reduction in EBITDA multiples from 6x to around 3x. NEITHER IS HAPPENING TODAY!

“Today the number of merger and acquisition transactions approach historically high levels and EBITDA multiples are falling from a much lower peak but in today’s market, EBITDA multiples are just not that relavent.”

In the prior recession, which followed the most robust merger and acquisition activity period in history, merger and acquisition activity came to a halt as the gap between seller expectations driven by then recent multiples and buyer reluctance driven by fear of falling sales was too wide to bridge.

This is also happening today but the need to be more efficient is driving two merger and acquisition strategies – *Cashless Mergers* and *Tuck-Ins*.

Cashless Mergers

Cashless Mergers are not new. They have been around for many years; they are prevalent in many industries but have occurred only infrequently in the printing industry. In a *Cashless Merger* the owners of two firms share ownership in the combined firm. Sometimes the ownership is equal but many times they are not. *Cashless Mergers* allow the synergies of combining two operations to be realized but without the implication of one owner being bought out. Agreeing on relative value is often easier as the agreed valuation methodology (or methodologies) is applied to both firms. For example, if the owners agree to use EBITDA as a valuation method, what EBITDA multiple is used is less important since the same EBITDA multiple is used for both firms.

Conversely, the joint owners must agree in advance as to how the new firm will be operating. These rules are usually evidenced in a shareholder agreement.

Cashless Merger Benefits:

- Affords realization of synergies
- Requires no incremental cash
- Less complex valuation discussions
- Banks’ approval readily available

In addition for the need to be more efficient, the lack of the need for incremental cash is a major driver of *Cashless Mergers*. The pre-merger banks will need to approve a

Cashless Merger. However, because of the savings generated by a *Cashless Merger*, this approval is easily granted. In fact it is not unusual for the bank of one of the merged firms to request funding the combined firm. This situation is preferable as it facilitates integration and the requirements to co-mingle assets to implement synergies.

A very interesting variation that we see with *Cashless Mergers* involves the combining of two plants into one and the new owners continue to use two distinct brand names in the marketplace. We know of two such transactions under negotiation that mirror the joint production of two newspapers that have occurred in several North American cities.

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The steps for completing a *Cashless Merger* (in order of recommended completion) are:

1. **Agree Merger Benefits.** When both parties understand merger benefits it is much easier to surmount the obstacles of a merger. **THIS IS THE MOST IMPORTANT STEP.**
2. **Agree Relative Valuation.** One methodology or multiple methodologies can be used. Ultimately, the desired relative value can be achieved by manipulation of closing balance sheets through dividends or debt adjustments.
3. **Agree Social Issues.** Both parties need to agree on ongoing management, brand, operating philosophy, operating procedures, location etc. It is highly recommended to hire an experienced independent party to assist in identifying and addressing social issues. **THIS IS THE MOST DIFFICULT STEP.**
4. **Agree Communication Plan.** This step is often overlooked but how and what you communicate to employees, customers, banks and suppliers is imperative for a successful merger.
5. **Document and Close.** This step should be completed in conjunction with competent legal counsel. Hire lawyers who understand mergers and acquisitions. Real estate lawyer and friends should be avoided.

If you would like to learn more about this type of solution, contact Paul Reilly with New Direction Partners at (303) 520-7803 or via email at preilly@newdirectionpartners.com. Or attend the session in Denver on June 22 with Paul Reilly and PIAMS. More details to come.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners’ website at www.newdirectionpartners.com.