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PRINTICOMM'S PROPOSED ACQUISITION OF DIGITECH: NEGOTIATING PRICE AND FORM OF PAYMENT

In December 1998, Jay Risher sat in his office at Printicomm seeking to structure the price and form of payment for the acquisition of Digitech. Risher was the vice president and controller of Printicomm, a communications company that offered "end-to-end" printing service by combining production capabilities with the ability to create finished copy and distribute the printed materials. He had identified Digitech as an attractive acquisition candidate and negotiated a letter of intent granting Printicomm the exclusive right to negotiate the purchase of Digitech. That exclusivity period would expire in two weeks. Recently completed due diligence research revealed that the value of Digitech depended crucially on the managerial know-how of the two leaders of the firm. Risher had gained the agreement of these two individuals to remain with Printicomm for five years to manage the Digitech operations. With the benefit of their leadership, Risher concluded that the value of Digitech would be no greater than $30 million. These individuals believed, however that Digitech was worth $40 million. Since the closing of the transaction was approaching, Risher needed to decide on the appropriate deal structure to use given the existing disparity in the valuation of Digitech and the importance of retaining key Digitech personnel after the acquisition.

Risher was impressed with the recent growth of Digitech and the likely prospects for growth in the future. Digitech's revenues had grown from $7 million in 1995 to $24 million in 1998 (see **Exhibit 1** for historical income statements). This rapid growth was attributable to the addition of several key large corporate accounts, which represented almost 40 percent of total revenue in 1997. Printicomm's acquisition of Digitech made strategic sense because of the complementarity of the company's products and markets and offered the prospect of significant growth potential. In addition, Risher thought that significant cost and revenue synergies might be realized after the acquisition.

Frank Greene, the founder and owner of Digitech was 60 years old and wanted to sell the firm to achieve some investment liquidity before retirement. He was quite proud of the fact that the success of Digitech was totally a function of the hard work, knowledge, and expertise displayed by himself and his chief operating officer, Jepson ("Jep") Buckingham. Greene wanted to retire within the next few years to spend more time with his grandchildren. But

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walking away from Digitech would be difficult for Greene because he had a rather strong emotional bond with his enterprise and the welfare of its loyal employees. He had chosen to sell the business at this time because he had felt that the current marketplace was offering attractive valuations for companies like Digitech. Greene mentioned to Risher that he had recently seen several other firms like his sell for 10-12 times EBITDA. Although Greene was ready to recognize a return on his investment in Digitech by selling, he told Risher that he was willing to continue to run the day-to-day operations of Digitech until he retired.

Negotiations for this acquisition began in August of 1998 when Printicomm made a tentative offer of $11 million for Digitech.[1] Since Digitech's value was so strongly a function of the owner's continued involvement, Risher did not initially feel comfortable employing a financial forecast in excess of five years. Given Greene and Buckingham's continued involvement for a period of five years and effective conveyance of their know-how to Printicomm, Risher was prepared to pay a maximum going concern enterprise value of approximately $30 million. This valuation was based on both a discounted-cash-flow analysis (see **Exhibit 1**) and a review of comparable public companies (see **Exhibit 2**) that were prepared by Risher in his valuation analysis (see also **Exhibit 3** for yields on U.S. Treasury securities). Greene was firmly convinced that his business was worth at least 10 times EBITDA for an enterprise value of $40 million.

The last negotiation between the two parties ended with Printicomm bidding $28 million and Digitech holding firmly at a price of $40 million. Given the strategic importance of this acquisition, Risher did not want the deal to fall apart over valuation, yet he was not willing to bid in excess of his estimate of $30 million as the maximum estimate of the enterprise value of Digitech. Risher also knew that other competitors would move quickly to acquire Digitech if Printicomm failed in its attempt. Printicomm's exclusive right to negotiate the acquisition of Digitech ended in two weeks. Greene appeared unwilling to budge from his latest asking price.

In an effort to continue negotiating, Risher considered the possibility of proposing an earnout for the transaction. For simplicity, Risher had decided to propose two different earnout structures to Greene at the next meeting. The first earnout structure would extend payments to Greene and Buckingham over the next five years based on Digitech achieving certain operating income targets. Since this five-year plan left Printicomm exposed for a long time, Risher planned to incorporate high earnout targets into this structure. The second earnout structure would only provide for contingent payments over the following three years. Risher felt that the earnout targets should be lower for this structure since there was less uncertainty about the future in the shorter time frame. The key would be setting the earnout targets in each structure such that Risher and Greene could each arrive at an acceptable enterprise valuation based on their views of the future.

[1]This value is based on the present value of cash flows over the next five years excluding a terminal value. Printicomm typically opens with a bid based on this type of valuation for companies such as Digitech that have a major component of value that is intellectual property.

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Printicomm

Printicomm was headquartered in Palo Alto, California, with key production facilities in Georgia, Massachusetts, North Carolina, Colorado, Maryland, New York, and Texas. The company was capable of handling electronic submissions of print copy throughout the United States and from 70 major cities abroad. Printicomm provided customers with integrated, "end-to-end" information and communication solutions. These involved a full range of creative, production, and distribution services.

The company was organized around two business units: Professional Communications, serving customers who published information, and Marketing Communications, serving customers who created and conveyed marketing messages. To these two markets, Printicomm offered services ranging across message creation, production, distribution, and fulfillment for well-defined market niches. Printicomm's services included: corporate identity marketing, advertising, custom publishing, direct marketing, financial communication, interactive media, point-of-purchase marketing, promotional marketing, specialty packaging, software duplication, catalog production, magazine and journal production and general commercial printing.

Professional Communications

Printicomm Journal Services

PrinticommJS was one of the world's largest producers of scientific, technical, and medical journals. This business unit provided traditional composition, printing and distribution services, as well as a full complement of digital services, reprint, archiving and content management for commercial and not-for-profit associations and special interest publishers. PrinticommJS offered a full range of solutions for publishers of journals, magazines, and other time-sensitive information. In order for PrinticommJS to remain an industry leader in journal services, it was going to be critical to stay focused on the rapid technological advances within the industry. The vision for PrinticommJS was to create a "Total Digital Pathway" that would enable complete digital workflows and the creation of a flexible digital content database.

Marketing Communications

PrinticommCom

PrinticommCom was a major integrated marketing firm that, in addition to its creative capabilities, offered in-house printing, production, and distribution. PrinticommCom's tactical capabilities included print and broadcast advertising, direct marketing, catalog and collateral design, publication development and new media. The integrative approach of PrinticommCom had proven to be attractive to customers who were interested in dealing with a one-stop shop that could be held accountable for all aspects of a communications program.

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Printicomm Financial Communications

Among the top five financial printers in the nation, PrinticommFC specialized in the creation, production and distribution of documents (electronic and traditional) to regulatory agencies and the investing community in over 70 cities worldwide. In addition to the private and public business sectors, PrinticommFC's primary markets included commercial and investment banking institutions, mutual fund companies, legal firms and insurance companies.

Printicomm Graphic Solutions

PrinticommGS was in the business of integrating printing solutions with a wide variety of high-quality graphic communications services and consultation. Through its Corporate Partnership initiative, PrinticommGS offered analysis that reduced overhead, streamlined procurement systems and provided innovative solutions to graphic communications challenges. It provided state-of-the-art commercial pre-press and printing, data archiving and management for repurposing content for electronic applications, finishing and binding, and a full array of mailing services. PrinticommGS also was the home of Printicomm Catalog Services, which specialized in providing end-to-end solutions in the catalog industry.

Printicomm Point of Purchase

PrinticommPOP focused on merchandising strategies and creative development, primarily for the quick-service-restaurant, beverage, retail, motor-sports, hospitality, and travel industries. PrinticommPOP handled in-house design, print production and assembly, on-demand production services, kit packing, fulfillment, and database management.

Printicomm Specialty Packaging & Promotional Printing

Printicomm Specialty Packaging and Promotional Printing produced CDs and floppy disks that served as distinguishable advertising vehicles as well as collateral materials that communicated marketing messages. Its services included structural design, production and distribution of high-quality, full-color external and internal packaging, dimensional mailers, corporate identity materials, product literature, computer documentation and catalogs.

Printicomm Technology Solutions

A turnkey operation for software solutions, PrinticommTS handled CD and floppy-disk duplication, label printing, fulfillment and distribution, inventory and logistics management. PrinticommTS paired its comprehensive in-house services with strategic outsourcing relationships for auxiliary services needed by clients in the high-tech industry and those who wanted to incorporate technology into their customer offerings.

Over the past five years, Printicomm had completed 22 acquisitions in an effort to expand and enhance its capabilities. These acquisitions primarily involved premier marketing communications and publication services companies to complement Printicomm's strong core

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printing competence. Three of these acquisitions involved various earnout structures, most of which were economically successful. Because of the strong element of "intellectual capital" that typified the acquired companies in these transactions, reinvestment needs and asset values were not typically material elements of valuation. Printicomm found earnout structures to be a useful vehicle to substitute the risk of future cash flows from buyer to seller rather than seeking to mitigate risk by increasing its hurdle rate for the transaction.

Digitech

Greene started Digitech ten years ago after he became frustrated working as a senior software engineer for a large technology firm. Soon after starting his firm, Greene recruited a former colleague, Buckingham, from their previous employer. Buckingham displayed a brilliance for creative programming and energized the development of important new products. One year after start-up Digitech had a market hit with Print-now software. Sales of this product spurred revenues to over $15 million by 1992. However, because of marketing-channel constraints and the fact that a large well-financed competitor quickly entered this market niche, this product's life cycle was short-lived.

Digitech's sales sputtered until the development of its Marketelegence software in 1995, which was the trademarked name for solutions for advertisers and publishers. Marketelegence used interactive technology to manage marketing messages from creation to ultimate placement to consumers. All photography and graphics were digitized and stored while the message and data repository was linked to a page layout program. Sales of this software skyrocketed with the addition of several major new large corporate customers in 1997. These customers represented over 40 percent of 1999's expected sales. Digitech had a great product but was severely constrained by its lack of marketing channel development and understanding. In Risher's view, management was focused on the development of new products, but lacked the managerial depth to manage a rapidly growing firm the size of Digitech.

Industry Highlights

Commercial printing was one of the nation's oldest and largest manufacturing activities. The industry was highly fragmented with approximately 52,000 printing establishments and one million employees that were dispersed geographically throughout the United States. The top 500 printers represented less than one percent of the total population of printers, while their revenues accounted for 34 percent of the total $73 billion of sales in 1998. Most printers competed on the regional, state, and local market level rather than a national level.

Most products of the U.S. commercial printing industry targeted the diverse needs of domestic consumers and businesses. The industry's economic fortunes tracked fluctuations in the nation's GDP and were closely tied to the level of U.S. advertising expenditures. Changes in U.S. demographics typically had a swift impact on the markets for printed products. Expansion of the school-age population generated more comics, textbooks, juvenile books, and youth-

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oriented periodicals. Growth in household formation promoted the interests of direct mail, newspaper insert, and catalog producers. New-business formation created markets for trade advertising, forms, directories, and financial and legal printing. An increase in the number of senior citizens increased the demand for newspapers and books.

Commercial printing was a mature industry that was undergoing a significant transition. Forces affecting U.S. commercial printing included changes in technology, shifts in the industry's structural dynamics, changes in the demand for print advertising, and imposition of new electronic media on traditional print markets.

Traditional printing operations were long centered on analog technology, a process dependent on photographic film, light-sensitive printing plates, solvent-based inks, and an array of chemicals and developers. This traditional technology was rapidly being replaced by digital technology. As a result, thousands of typesetting firms had been rendered obsolete by digital type produced on desktop computers. Also gone were the many platemaking and color-separation shops whose film-based skills had become worthless as digital processors produced color-corrected films or the digital text and images were applied directly to printing plates. Digital technology was also being applied to printing presses themselves. This yielded cost-effective, full-color short production runs of text and image variable printed products that were previously cost-prohibitive before the advent of digital imaging.

The rapid technological changes in the industry led to increasing consolidation in the industry as players sought economies of scale while attempting to retain a marketing focus that was sensitive to local and regional printing opportunities. A wave of merger and acquisition activities supported by a growing U.S. economy and rising stock market was consolidating ownership among a few dominant players. The most successful consolidators in the industry displayed many of the same qualities. First, they were geographically dispersed and had a specific business strategy. Second, they defined themselves as either a high value-added printer providing extra service in a specialized market niche or a specialized low cost producer in a narrow market niche. The goal of these firms was to become a one-stop shop that administered all their clients' communications needs.

While commercial printing's value of shipments closely paralleled fluctuations in GDP, the industry was largely dependent on U.S. expenditures on print advertising. Since 1980, U.S. advertising through various print media had held steady at approximately 60 percent of total advertising expenditures. Although print advertising's trends in the 1990s showed overall growth in nominal dollars, gains in advertising expenditures among print media varied significantly. Marginal growth was expected in the advertising revenues of newspapers and periodicals while higher advertising growth was expected in the direct mail, catalog, and insert segments. The increased use of digital printing equipment was expected to enable U.S. printers to respond more rapidly to any changes in print demand that might have arisen from advertising expenditure fluctuations.

Although total demand for U.S. printed products continued to expand, the electronic media provided strong competition. Examples include CD-ROMs, which reduced the need for

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technical manuals, encyclopedias, and directories; Web sites on the Internet, which provided electronic access to digital catalogs, annual reports, and other company information; and E-mail, including electronic commerce, which lessened the demand for newsletters and printed business information and forms. The Internet was used on a regular basis at work or at home by over 29 million U.S. residents age 18 or over. This sector represented 15 percent of the U.S. adult population. A doubling of this Internet-accessed sector over the next decade was virtually assured, guaranteeing further inroads in demand for selected U.S. printed products.

A series of favorable factors were expected to support the growth of U.S. printed product output over the next five years. The U.S. population was projected to reach 280.4 million by 2003, an increase of 8.1 million people. Higher levels of educational attainment and increasing personal income were expected to accompany this population growth. A rising U.S. economy, coupled with growth in aggregate demand for print advertising, were expected to support an inflation adjusted annual growth rate of 2 percent over the next five years in the value of industry shipments. Competition from the electronic media was expected to reduce U.S. markets for some printed products, but commercial printing's aggregate demand was projected to stay relatively aligned with growth in the nation's economy. The costs of the printing industry's principal material input, paper, were expected to increase over the next five years, adversely affecting printer's profit margins.

Support for the Acquisition of Digitech

Printicomm was at a unique historical inflection point where the skills and competencies upon which its companies originally achieved success were less able to sustain profit growth and margins necessary for quality investment. This slow erosion of print margins and increase in the difficulty of maintaining or growing revenues had severely strained future internal growth. Continuing innovation in graphic reproduction threatened to obsolete current equipment and further increase industry over-capacity, forcing the demise or further consolidation of remaining companies.

Printicomm's strategy in this rapidly changing industry was to grow its business through strategic acquisitions that would provide the company will additional competitive advantages in its selected niches of the commercial printing industry. Risher believed that the acquisition of Digitech would have a significant positive impact on the performance of both the Printicomm Journal Services and Printicomm Point of Purchase divisions. Digitech's Marketelegence software would enhance the capabilities of these divisions by providing customers with the latest electronic marketing solutions.

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Alternatives

Given the difficulty of the negotiations to date, Risher reflected upon some strategic alternatives before him.

Internally develop capability

One alternative for Printicomm was to pursue developing Digitech's technology in-house at Printicomm. The time and expense of creating a viable software program with the capabilities of Marketelegence were likely to be high, but a failure to reach a reasonable purchase price for Digitech may have made this a good option. According to some rough calculations performed by Risher, it would have cost Printicomm $50 million to develop the technology. Additionally, it would take approximately 2 years until Printicomm would have a working prototype that could compete in the marketplace.

Find another company to purchase

Risher knew that it was not too late to pursue an alternative company to acquire. There were a number of other small software companies that had developed their own forms of digital technology for the commercial printing industry, but Risher felt that the Digitech technology was superior to the current competition and was worth a premium price if necessary. Risher also knew that Greene possessed strong managerial skills and that his level of qualifications would be difficult to find in another target company. In addition, it would be frustrating to have to start negotiations with a new company given the time and energy already spent on the Digitech transaction.

Fixed-price deal

Negotiations up to this point had focused on determining a fixed sales price for the acquisition of Digitech. A fixed price deal would certainly be the easiest to consummate, requiring only a standard purchase and sale agreement that highlighted the total consideration in amount and form. Unfortunately, the two parties remained relatively far apart on their respective notions of a fair valuation for Digitech's business. Risher was also concerned that if Printicomm paid a premium price for Digitech that Digitech management would have little incentive to stay on at Digitech and continue to grow the business. Risher thought that the retention of Greene and Buckingham was critical to integrating the companies and transferring business knowledge between the two companies.

Earnout

Given his concerns about valuation and management retention, Risher had begun to consider the idea of using an earnout to move this potential transaction forward. Risher recalled that an "earnout" was an acquisition payment mechanism where some portion of the purchase price of the acquired company (Digitech) would only be paid by the acquiring company (Printicomm) if Digitech attained certain agreed-upon performance goals after the closing.

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Risher knew that there were three key elements in creating a successful earnout. First, the earnout should be based on achievable performance goals that increase the value of Digitech in the hands of Printicomm after the closing. Second, Digitech's management should receive adequate compensation for creating that value. Third, the earnout should provide Digitech's management with the resources and operating freedom necessary to achieve its performance goals.

Risher knew that an earnout made a lot of sense from an economic perspective, and if designed appropriately, could be viewed as a win-win situation for both parties. He also knew that the two key drivers that could be negotiated in designing an earnout were the time period and the earnout targets. As a result, Risher decided to develop two different earnout structures to present to Greene at their next meeting. The two proposals would offer alternatives that were on either side of the spectrum with regard to time period and earnout targets.

The first earnout structure would extend payments to Greene and Buckingham over the next five years based on Digitech achieving certain operating income targets. Since this five-year plan left Printicomm exposed for a long time, Risher wanted to incorporate high earnout targets into this structure. Risher decided to set the targets as follows: 1999—$2.5 million; 2000—$3.0 million; 2001—$3.0 million; 2002—$3.5 million; 2003—$3.5 million. These targets were purposely set close to Printicomm's projected operating income numbers for Digitech so that Printicomm would only pay additional monies for performance above the expected level. Risher also believed that the dollars paid out at closing could be set at a relatively low value of $20 million because of the potential future value offered to Digitech with a 5 year earnout period.

The second earnout structure would only provide for contingent payments over the following three years. Risher felt that the earnout targets should be lower for this structure since there was less uncertainty about the future in this shorter time frame. Risher decided to set the targets as follows: 1999—$2.0 million; 2000—$2.5 million; 2001—$2.5 million. These relatively low targets provided Digitech with a good opportunity to earn additional monies in the earnout, but were still not expected to cost Printicomm much over the shorter time horizon. Since the shortened earnout provided Digitech with less time to capture value from the earnout, Risher believed that the dollars at closing would need to approximate the $28 million fixed price offer that was already on the table.

Each earnout would be valued differently by Printicomm and Digitech based on their respective views of the future. Risher decided that he would use an earnout valuation model from his MBA program that could value a potential earnout using expected distributions for key value drivers. Risher decided that the key drivers of future value for Digitech were sales growth and profit margin. As a result, he set out to determine the appropriate distributions for these variables from the perspective of Printicomm. Risher projected that sales would grow by at least 5 percent a year, with a maximum growth rate of 15 percent. He further estimated that the most likely growth rate for sales in the future was 10 percent. Risher also decided that the same distribution of expected values could be used for expected future profit margins.

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In order to value the earnout structures from the perspective of both parties, Risher needed to estimate the distribution that Digitech would likely use for the key drivers in their analysis. Risher reviewed the projections prepared by Digitech and concluded that Digitech's minimum expected future sales growth was 10 percent. He also determined that Digitech's maximum expected sales growth would be 30 percent, with the most likely growth rate equaling 20 percent. Risher expected the distribution for expected profit margins to be slightly tighter with a range from 15 percent to 25 percent, with 20 percent being the most likely.

After designing the two earnout options and determining the distributions for the key value drivers from the perspective of both parties, Risher thought it was time to use his earnout valuation model to determine the attractiveness of each earnout. Based on this analysis of the two proposed earnouts, he wondered which structure he would propose to Greene and why.

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Exhibit 1

PRINTICOMM'S PROPOSED ACQUISITION OF DIGITECH: NEGOTIATING PRICE AND FORM OF PAYMENT

Historical and Project Income Statements and Cash Flows

Actuals reported by Digitech

Years Ended	1992	1993	1994	1995	1996	1997	1998
Sales	$ 15,350	$ 10,633	$ 11,313	$6,747	$7,400	$18,651	$ 23,450
Nominal Sales Growth		-31%	6%	-40%	10%	152%	26%
Cost of Goods Sold	9,655	8,700	8,890	5,096	3,850	14,800	16,850
S,G&A	2,500	1,900	1,950	2,200	2,400	2,600	2,600
Depreciation and Amortization	55	55	55	55	65	65	65
Total Expenses	12,210	10,655	10,895	7,351	6,315	17,465	19,515
Operating Income	$ 3,140	$ (22)	$ 418	$ (604)	$ 1,085	$ 1,186	$ 3,935
Operating Ratio	80%	100%	96%	109%	85%	94%	83%
Operating Income After Taxes							
Plus Depreciation and Amortization							
Less Capital Expenditures	1% This year's sales.						
Less Additions to Wkg. Cap.	2% This year's sales.						

DCF Valuation: Printicomm's View	
Discount Rate	**10%**
Terminal Growth Rate	**5%**
PV of total free cash flows	**$ 30,267**

Projection by Printicomm

Years Ended	Est 1999	Est 2000	Est 2001	Est 2002
Sales	$ 28,140	$ 32,361	$ 36,244	$ 39,506
Nominal Sales Growth	20%	15%	12%	9%
Cost of Goods Sold	21,867	24,868	27,539	30,018
S,G&A	3,374	3,837	4,249	4,632
Depreciation and Amortization	84	96	106	116
Total Expenses	25,326	28,801	31,895	34,766
Operating Income	$ 2,814	$ 3,560	$ 4,349	$ 4,741
Operating Ratio	90%	89%	88%	88%
Operating Income After Taxes	$ 1,688	$ 2,136	$ 2,610	$ 2,844
Plus Depreciation and Amortization	$ 84	$ 96	$ 106	$ 116
Less Capital Expenditures	$ (281)	$ (324)	$ (362)	$ (395)
Less Additions to Wkg. Cap.	$ (563)	$ (647)	$ (725)	$ (790)
	$ 929	$ 1,261	$ 1,628	$ 1,775
	$ 929	$ 1,261	$ 1,628	$ 1,775

Projection by Digitech

Years Ended	Est 1999	Est 2000	Est 2001	Est 2002
Sales	$ 28,609	$ 34,331	$ 40,167	$ 45,389
Nominal Sales Growth	22%	20%	17%	13%
Cost of Goods Sold	21,985	25,789	30,173	34,096
S,G&A	3,392	3,979	4,656	5,261
Depreciation	85	99	116	132
Total Expenses	25,462	29,868	34,945	39,488
Operating Income	$ 3,147	$ 4,463	$ 5,222	$ 5,901
Operating Ratio	89%	87%	87%	87%
Operating Income After Taxes	$ 1,888	$ 2,678	$ 3,133	$ 3,540
Plus Depreciation and Amortization	$ 85	$ 99	$ 116	$ 132
Less Capital Expenditures	$ (286)	$ (343)	$ (402)	$ (454)
Less Additions to Wkg. Cap.	$ (572)	$ (687)	$ (803)	$ (908)
	$ 1,115	$ 1,747	$ 2,044	$ 2,310
	$ 1,115	$ 1,747	$ 2,044	$ 2,310

DCF Valuation: Digitech's View	
Discount Rate	**10%**
Terminal Growth Rate	**5%**
PV of total free cash flows	**$ 40,285**

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Exhibit 2

PRINTICOMM'S PROPOSED ACQUISITION OF DIGITECH: NEGOTIATING PRICE AND FORM OF PAYMENT

Selected Industry Comparables
(dollars in millions, except for share data)

Company	Sh O/s (mill)	Sh. price 31 Dec, 96 ($)	Beta (Lev.)	Beta (Unlev.)	Mkt.Val. Equity ($ mill)	Net Debt ($ mill)	Firm Value ($ mill)	Book Value ($ mill)	Revenues ($ mill)	EBIT ($ mill)	Net Income ($ mill)	1999(E) EPS	EBITDA
Champion Industries	9.714	10.25	0.54	0.49	100	17.86	117	90.62	123.06	7.87	4.15	1.14	11.49
Cunningham Graphics Intl	5.305	15.25	N/A	N/A	81	2.4	83	6.3	53.15	3.51	4.01	1.05	4.20
Baldwin Technology A	14.920	5.625	0.53	0.43	84	33.11	117	126.91	231.41	14.39	9.02	0.57	18.37
Polyvision Corp	14.093	2.0625	0.25	0.23	29	3.36	32	N/A	34.17	1	1	0.09	2
PrimeSource Corp	6.529	6.625	0.62	0.42	43	34.15	77	105.1	453.05	9	4	0.89	12
Tufco Technologies	4.426	5.00	0.10	0.07	22	17.7	40	65	76.97	2	0	0.13	5
IPI Inc	4.734	3.4375	N/A	N/A	16	0.05	16	32.48	8.53	1.95	2.03	0.43	2.37

	Enterprise Value as a Multiple of				Equity Value as a Multiple of	
	Revs.	EBIT	Net Income	EBITDA	1999(E) EPS	Book Value
Champion Industries	1.0	14.9	28.3	10.2	9.0	1.1
Cunningham Graphics Intl	1.6	23.7	20.8	19.8	14.5	12.8
Baldwin Technology A	0.5	8.1	13.0	6.4	9.8	0.7
Polyvision Corp	0.9	23.3	32.1	18.3	22.9	N/A
PrimeSource Corp	0.2	8.3	18.9	6.6	7.4	0.4
Tufco Technologies	0.5	17.8	120.7	8.2	38.5	0.3
IPI Inc	1.9	8.4	8.0	6.9	8.0	0.5
Low	0.2	8.1	8.0	6.4	7.4	0.3
High	1.9	23.7	120.7	19.8	38.5	12.8
Median	**0.9**	**14.9**	**20.8**	**8.2**	**9.8**	**0.6**

Sources: Bloomberg Financial Services and case writer analysis.

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Exhibit 3

PRINTICOMM'S PROPOSED ACQUISITION OF DIGITECH: NEGOTIATING PRICE AND FORM OF PAYMENT

Yields on U. S. Treasury Securities

Maturity	Current	1 Year Ago
1 Year	4.69%	5.55%
2 Year	5.00%	5.69%
3 Year	5.04%	5.70%
4 Year	5.08%	5.73%
5 Year	5.11%	5.75%
10 Year	5.22%	5.74%
30 Year	5.57%	5.90%

Source: The Wall Street Journal

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