TULLY & HOLLAND
INCORPORATED

SPECIAL INDUSTRY REPORT:

Retail Imagery, Graphics, and Signage

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EXECUTIVE SUMMARY

Consolidation within the Retail Imagery, Graphics, and Signage sector, which is highly fractionated and competitive, is likely to accelerate in the years ahead. The primary reasons for our hypothesis are: the now widespread availability of affordably priced large-format digital printers and computer-numerically-controlled manufacturing equipment; the increasing demand among large retail chains for "one-stop shop" solutions from their primary Retail Imagery, Graphics, and Signage vendors; and the resultant emerging **convergence** trend among many formerly "pure-play" Retail Signage and formerly "pure-play" Retail Graphics companies that are now exploring new avenues for growth and pursuing new markets, mainly by expanding their product lines and service capabilities in order to target and woo one another's customers.

THE SIGNAGE AND GRAPHICS INDUSTRIES ARE CONVERGING AND CONSOLIDATING, CREATING NEW CHALLENGES AND AVENUES FOR GROWTH

The larger driving force behind the aforementioned emerging convergence trend is the heightened competition among retailers and their increased awareness about branding, brand management, and brand strength. As recently noted by Steve Kaufman, Editor of *Visual Merchandising and Store Design* magazine:

"The brand is more than the label on the collar, more even than the nameplate over the door. Brand management is understanding exactly who you are in the marketplace, what you stand for and what strengths you have, and creating a marketing campaign – an all-inclusive offensive – that either reinforces or changes your market position."

Clearly, retail imagery, in particular signage and graphics, can play a central role in communicating a large retail chain store's brand messaging, positioning merchandise in the store so that it maximizes its brand impact, and inspiring the customer to purchase. To win contracts from large retail chains requires critical mass and proven capabilities. For graphics and/or signage companies seeking to win over prospective large retail chain customers, which are appealing because they represent the potential for "production shop"-sized versus "custom shop"-sized orders and therefore longer production runs, it might make more sense, strategically, practically, and from an expected return-on-investment perspective, to "buy" another company with complementary capabilities and customers than to "build" those same capabilities and customers internally by making the necessary investments in sales, marketing, and capital expenditures.

Any company in this sector that is not ready, willing, and able to make the necessary investments to expand its product line and service capabilities, which might be necessary in order for it to be able to retain its existing customers and/or win new ones, whether because it is undercapitalized or for other reasons, is at great risk of losing market share to more aggressive competitors. If a company loses market share, this might interrupt an enviable historical track record of consistent year-over year growth. Worse, if a company loses one or more of its major customers, this might result in a more than temporary steep decline in sales and negative year-over-year growth. Owners of potentially vulnerable companies might want to consider selling out now, or at least sooner rather than later, before either of these scenarios materializes and the value of their business dissipates rapidly. Recent studies conducted by Tully & Holland have confirmed that the single most significant driver to the multiples paid for businesses in the signage and graphics sector is EBITDA growth, including both historical and prospective future growth.

Notable examples of convergence and consolidation within the retail imagery industry include the recently announced merger and acquisition transactions on the next page.

This industry is populated by innumerable "Mom & Pop's" and "job shops," as well as many medium-sized players, and a smattering of larger firms. In an increasingly capital-intensive and competitive environment, the companies that will naturally increase in value over time are those that can demonstrate that, year after year, they have a high percentage of satisfied repeat customers, attractive profitability and growth rates, low customer concentration risk, long-term contracts that generate recurring revenues, and long enough production runs for economies of scale. In addition, retail customers are increasingly demanding a "one-stop shop" for signage, graphics, and décor, so the ability to provide a full range of products and project management services will be the key to landing large contracts. Smaller niche players with a limited array of products and services to offer will be forced to partner up with larger more diversified firms or smaller ones providing complementary solutions. Strong personal relationships between owners of partnering "niche" firms who subcontract out work to one another, and/or with owners of larger "general contractor" firms will not be sufficient to sustain long-term future profitability. In today's hyper-competitive marketplace, retailers now more than ever need to have their store imagery, signage, and graphics reliably and innovatively designed, manufactured, and installed "cheaper, better, and faster." As a result, many such business owners in this sector find themselves "at a crossroads" and are currently contemplating their best strategic options.

Many retail imagery, graphics, and signage industry participants face significant people management challenges because they employ their own installation crews. The same can also be said of firm's that employ their own in-house design staff. Issues critical to ensuring profitability include staff utilization and staff realization. With respect to installation crews, whether in-house or outsourced, business owners and managers also face the challenges of ensuring adequate levels of supervision, professionalism, and quality control on-site in the field. Of course, outsourcing one's installation work, while lessening the burden and strain on one's own management personnel and limited administrative resources, entails a similar level of reputational risk with respect to timely execution, tangible quality, and perceived professionalism on-site in the field.

RECENTLY ANNOUNCED MERGERS AND ACQUISITIONS

Announced Date	Target	Status	Transaction Value	Buyers	Business Description (Target)
3/28/2008	Merisel Inc. (OTCPK:MSEL)	Announced	$83.38 Million	American Capital Strategies, Ltd. (NasdaqNM:ACAS)	Merisel, Inc., together with its subsidiaries, supplies visual communication solutions in the US. The company offers imaging services, such as graphic arts consulting and production, including large format digital photographic output, and exhibits and displays, as well as produces visual communications media for use in the design and production of consumer product packaging and advertising products used in retail stores, and large format outdoor and event displays. The company also provides large format printing. It serves retail, fashion/apparel, cosmetic/fragrance, consumer goods, sports/entertainment, advertising, and publishing industries.
1/22/2008	Traffic Communications Plus Inc.	Announced	NA	Neo Advertising Canada, Inc.	Traffic Communications Plus, Inc. provides mall marketing programs. The company offers indoor and outdoor signs. It also offers printing and promotion services.
1/2/2008	Tri-ad Graphic Communications Ltd.	Closed	$22.1 Million	Southern Graphic Systems-Canada, Ltd.	Tri-ad Graphic Communications, Ltd. engages in producing retail graphics, and flexo printing and packaging.
11/1/2007	Systemtext AB	Closed	NA	Skyltmodern AB	Systemtext AB provides advanced sign and display solutions. The company engages in sign making, screen printing, offset printing and reflective labels.
10/22/2007	Groupe Marie-Laure-PLV	Closed	NA	Argos Soditic	Groupe Marie-Laure-PLV engages in the production of promotional and marketing materials for retailers which includes displays and stands.
10/19/2007	Perfect Screen Print Ltd.	Closed	NA	Imprint Creative Print Solutions Ltd.	Perfect Screen Print, Ltd. provides screen printing services. It offers point of sale, formats, cardboard engineering, signage, soundboard, lithographic, and print management products.
9/13/2007	Lauren Displays Ltd.	Closed	NA	Creo Retail Marketing Limited	Lauren Displays, Ltd. provides large format screen and lithographic digital printing services.
8/22/2007	FMW, Inc.	Closed	NA	Blackstreet Capital Management, LLC	FMW, Inc. operates as an in-store media company for businesses, services, and professionals.
8/22/2007	Dynamic Images Inc.	Closed	NA	IGH Solutions, Inc.	Dynamic Images, Inc. is a full service graphics imaging, fulfillment, and program management company.

Announced Date	Target	Status	Transaction Value	Buyers	Business Description (Target)
8/21/2007	PLM Group Ltd.	Closed	$120.06 Million	Transcontinental Inc. (TSX:TCL.A)	PLM Group, Ltd., together with its subsidiaries, provides commercial printing services, including printing of large format products on various substrates ranging from paper, metal, stryrene, and plastic.
5/16/2007	Media Puzzle Pty Ltd.	Closed	$30.44 Million	Network Ltd. (ASX:NWK)	Media Puzzle Pty, Ltd. operates as an outdoor media company.
5/10/2007	Solare Solutions, L.L.C.	Closed	NA	Kojis and Sons Signs, Inc.	Solare Solutions, L.L.C. provides custom signage products and services.
4/20/2007	Frontline Marketing Inc.	Closed	$13.09 Million	Alloy Inc. (NasdaqNM:ALOY)	Frontline Marketing, Inc. operates as an in-store advertising and display network, comprising various grocery stores. It provides advertisers with point-of-purchase advertising and merchandising solutions.
4/18/2007	Creative Forecast LLC	Closed	NA	Bullzi Security, Inc. (OTCPK:BLLZ)	Creative Forecast LLC provides services in architectural visualization, virtual reality, and 3D solutions.
4/2007	Unisign Corporation	Closed	NA	Magic Media, Inc.	Unisign Corporation is involved in manufacturing electrical signs & outdoor advertising. The company manufactures and installs signage and offers signage repair services.
2/15/2007	Z-Max Dimensional Products, Inc.	Closed	NA	Medical Institutional Services Holdings, Inc. (OTCPK:MIHS)	Z-Max Dimensional Products, Inc. offers lenticular printed products and digital 3D based products..

Source: Capital IQ

TRENDS IN RETAIL DESIGN – IT'S ALL ABOUT THE EXPERIENCE

A number of trends seem likely to continue to dominate the future of the converging retail imagery, signage, and graphics industries. According to a recent article published by Jacobs Carter Burgess, an architectural project management and consulting firm:

- Trend analysts predict shopping will see dramatic changes in the retail environment, changes aimed at making the shopping experience more efficient and more enjoyable.
- Retailers realize few shoppers have time for a leisurely stroll through the mall.
- In response, retailers and developers are improving access to stores and shopping centers, organizing merchandise according to customer needs and increasing options available in locations.
- “We see developers for all of these projects emphasizing improved access and convenience,” said Randy Stone, a Carter & Burgess project manager and retail center expert, who added, “Malls, stores, and centers must constantly reinvent themselves to remain competitive.”
- Retail is becoming both more visually interesting and eco-friendly. As a result, customers of signage, graphics, and décor companies – from the large chains to one-of-a-kind shop owners – are seeking to integrate

innovative "retail imagery" and "green" principles into their retail environments.

- Retail consolidation trends are resulting in fewer big box retailers with sameness of merchandise offerings and low customer service levels. This provides opportunity to small unique retailers with high customer service levels. Both extremes of this spectrum and retailers that fall somewhere in between could benefit from investments in retail imagery, graphics, and signage, which is one of the reasons why this industry segment is growing.
- Aside from the traditional complement of saws, drills, and other woodworking and metal bending equipment, today's signmakers are increasingly investing in sophisticated capital equipment, including CNC router tables, laser cutters, and large-format printers.
- There is no "one-size-fits-all" graphics solution due to the eclectic requirements of customers with respect to scale, media, and messages.
- Digitally printed graphics and signage allows the freedom for the commercial sign shop, digital printing house, or POP display manufacturer to pursue new business that they would have otherwise not been capable, or profitable doing. Higher image quality, lower production costs, and media flexibility allow owners and managers of such shops to expand into new markets to grow their businesses.
- Understanding return on investment for major equipment purchases will be essential for the business owner seeking to grow profitably – and to create value.
- For those owners who are contemplating their "exit strategy," a key point to keep in mind is that potential buyers will want to understand which critical cost and revenue measures drive your business. Therefore your internal reporting system should segregate and track these metrics.

The retail imagery, graphics, and signage industry spans and/or intersects with all facets of store design and in-store marketing, which in part explains the extraordinary diversity and fractionated characteristics of this industry.

CONCLUSION

In summary, we believe that retail signage and graphics companies that have evolved from "custom shops" into high-volume sign, digital-printing, and screen-printing companies, many of which are proactively exploring new avenues for growth, will begin to consolidate as the signage and graphics industries continue to converge in the years ahead.

For more information or to discuss any opportunities in this industry or others, please contact Don O'Connor at doconnor@tullyandholland.com
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INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Tully & Holland, Inc. is an investment bank that provides sophisticated corporate finance advisory services to consumer product companies with special emphasis on food companies, direct mail marketers and catalogers, consumer product manufacturers/distributors and retailers. Tully & Holland's Managing Directors have a combination of deep industry knowledge and sophisticated financial experience enabling them to craft innovative solutions for each client's needs. Founded in 1992, Tully & Holland's transaction success is facilitated by long-term relationships with financial and strategic buyers around the world.

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