INSIGHTS: OFFICE EQUIPMENT DEALERS

CONFIDENTIAL

Winter 2019

NB Group ("NBG") is an entrepreneurial private investment firm focused on growing Technology Services businesses in North America

We take a different approach to investing in businesses

Characteristic	NBG model	Typical PE firm
Team	Former consultants and operators with deep Technology experience	Former bankers, “Wall St” types
Industry knowledge	Specific focus on Technology Services and the Office Equipment space: have evaluated many investments in the industry in last 12 months	May simply be opportunistically pursuing any business with attractive characteristics
Portfolio size	Only 3-5 investments, concentrate risk	8-20+ investments, bad outcome on an investment is ok because of portfolio approach
Investment style	Make investments to grow business	Push on debt load, look for ways to cut costs
Transaction structure	Highly flexible, try to align transaction structure with seller’s goals	Rigid structure across most deals (e.g. owner has to go/stay)
Operational value add	Former consultants and operators; partners to management without interfering with day-to-day operations. Limited number of investments allows us to focus on helping grow companies.	Focus on financial reporting, busy chasing new deals
Process	2 decision makers, immediate decisions	Multiple partners, “investment committee” decision making
Deal tactics	Don’t make commitments we can’t keep (limited time/resources), honest and open communication	Promise aggressive terms, but often have to renegotiate later on
Funding model	Customize investor base for each transaction - ideally include investors with relevant experience, no outside pressure to put capital to work	Generic investor base lack relevant experience, pressure to do deals even if not passionate about the business

NB Group is a Technology focused investment firm

Investment Team

Neel Bhargava

- **Founding Partner, NB Group**
- Investment Team, Berkshire Partners PE (tech/telecom focus)
- Co-Founder, Foodpanda
- Consultant, Bain & Co.
- MBA, Harvard Business School

Ariez Dustoor

- **Partner, NB Group**
- Co-Founder, Scout Finance (SaaS application)
- Corporate Development, Yahoo!
- Investment Team, Audax Group PE
- Consultant, McKinsey & Co.
- BA, University of Michigan

Industry Advisors

Greg Forrest

- **Operating Advisor, NB Group**
- **Chairman/CEO, Teo Technologies**
- **Managing Director, Reclinata Group**
- CEO, Magna 5
- President, AGC Networks
- CEO, Xeta Technologies (NASDAQ: XETA)

John Baldwin

- **Operating Advisor, NB Group**
- CEO, Bunchball
- CEO, Computron Software
- CEO, Daptiv Software
- CEO, VistaSource
- Operating Partner, Parallax Capital PE (tech focus)

Rich Kingston

- **Operating Advisor, NB Group**
- **President, Eclipse Telecom** (tech and telecom services consulting)
- VP, Windstream
- Founder & CEO, Business Only Broadband

There is a compelling opportunity to invest in and consolidate the Office Equipment Dealer space

- **After extensive research and evaluation of various Technology Services businesses, we have identified Office Equipment Dealers as a highly attractive area for us to invest**
- **The Office Equipment Dealer market has transitioned from equipment-focused to service-focused. This "Managed Print Services" business model is compelling with recurring revenue, strong margins, and low capex**
- **Demand for Managed Print Services is growing despite a gradual decline in printing equipment sales and print output**
- **Industry remains <u>very</u> fragmented and performance varies widely. Opportunity exists for new platforms to acquire add-ons at attractive valuations, drive economies of scale, and improve operations to drive enterprise value**
- **Growth through acquisition is the first growth priority, but there are significant additional upside opportunities through expansion into adjacent services (e.g. IT Managed Services)**

NBG is seeking to partner with a great operator with an existing footprint and grow the "platform" into a large regional player through add-on acquisitions.

Office Equipment Dealers provide a strong value proposition to business customers through an attractive business model

"Office Equipment" Dealers are local businesses which sell printing and copying equipment as well as on-going services to manage an organization's print infrastructure. These "Managed Print Services" aim to reduce costs, improve efficiency, and reduce environmental impact for mid market and enterprise customers

Value proposition

Cost reduction: significantly reduce per-page and total imaging costs

Streamlined operations: one stop shop for all imaging sales, support, and service

Reduced internal "stress": IT department can focus on other areas

Lower environmental impact: reduce paper and ink consumption to improve environmental footprint

Business Model

- Revenue is generated from two sources:

Services (recurring)	Equipment sales/leasing
Fixed monthly fee with additional cost per page in excess of contracted amount	Payment streams are sold off to financing companies (e.g. Wells Fargo): no on-going carrying costs or risk

- 3-5 year contracts
- Sole supplier/servicer to customers for printing/copying needs
- Generally aligned with single large OEM

Printing by businesses is declining somewhat, but Managed Print Services is growing

Printing is in gradual decline…

-1.0%

5 year forward CAGR for printer, copier, and MFP sales

…but print services are growing

+3.2%

5 year forward CAGR for print services and software

"[A] transformation in the traditional printing market…the print services and solutions market represents and opportunity for revenue growth and remains an attractive area for investment" – Gartner, 2018

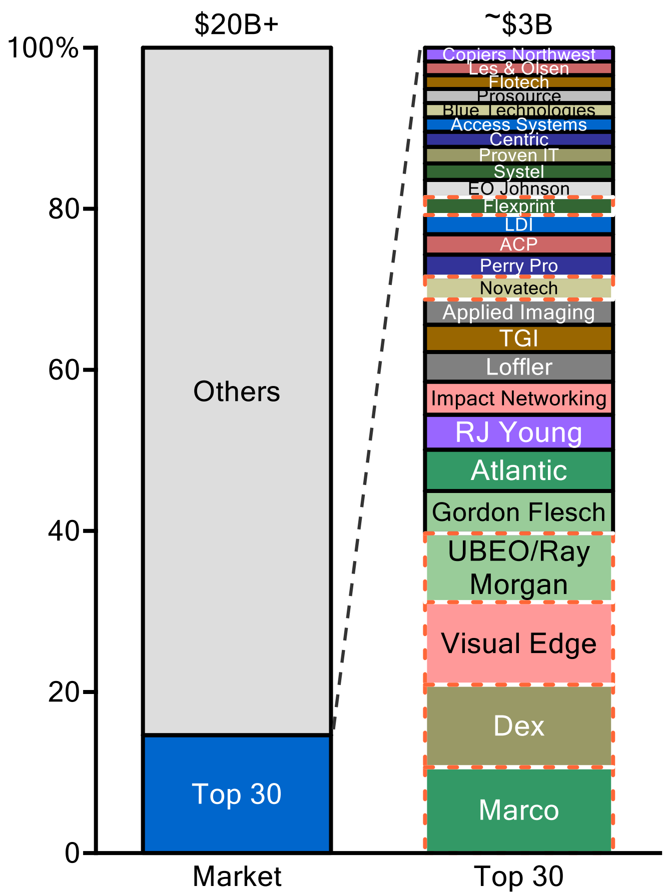
Key trends driving growth in Managed Print Services:

- Businesses increasingly want to outsource document and print services, which they view as non-core and outside IT departments' expertise
- Printing is a cost center and increasingly businesses of all size view outsourced management of these activities as most efficient way to lower cost

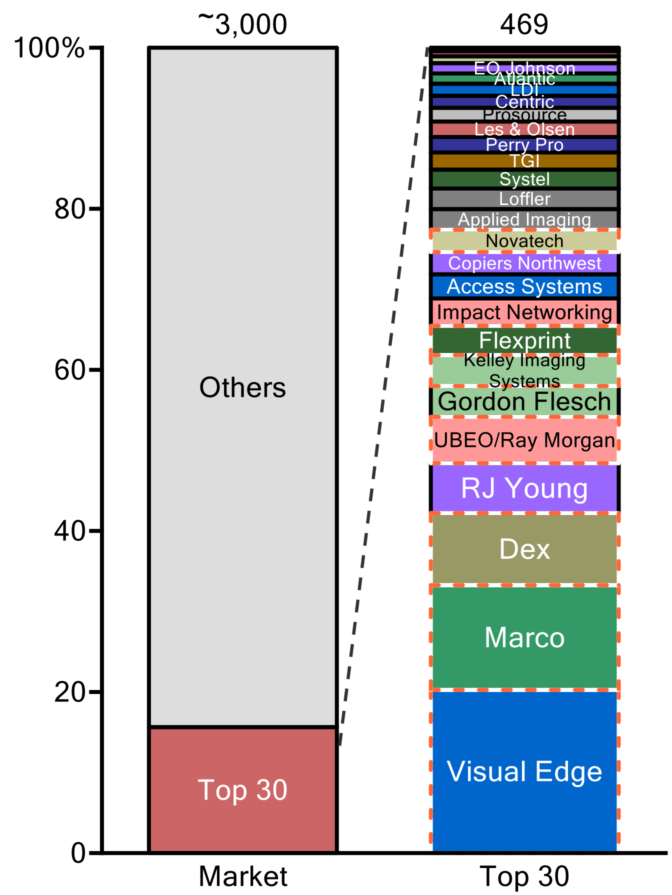
Source: Gartner, NBG research

The Office Equipment Dealer market is highly fragmented: largest dealers and consolidators account for ~15% share

Largest dealers
Share by revenue



Largest dealers
Share by location count

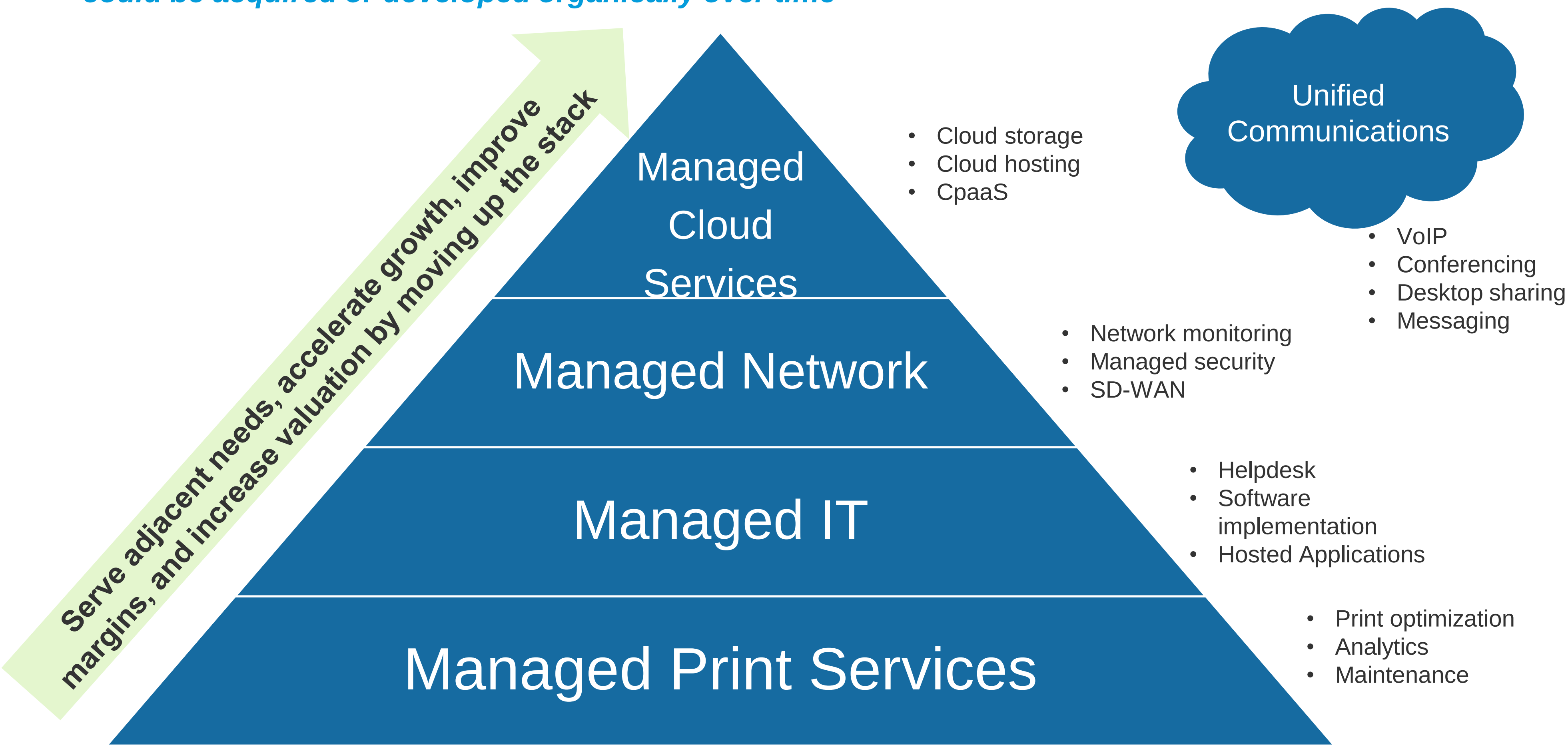


Most active consolidators

Source: NBG research, ENX Magazine (trade publication), Transparency Market Research

Opportunity to move up the stack and cross-sell additional, high-growth technology services to MPS customers over time

Chief Information Officers (CIOs) often have responsibility across these dimensions. Capabilities could be acquired or developed organically over time



The Office Equipment industry has several attractive characteristics

#	Industry Characteristics	Description
1	**Recurring, SaaS-like revenue model**	▪ Services revenue is 100% recurring and contracted for 3-5 years ▪ Equipment sales are packaged with services, assets are off-loaded to financing companies
2	**Attractive margins and cash flow generation**	▪ Gross margins of 60%+ and EBITDA margins of 15-20%+, increasing over time ▪ Limited capex = very high FCF conversion
3	**High switching costs lead to strong customer retention**	▪ Customers are contracted for 3-5 years often with strong renewal rates; equipment in place creates switching costs
4	**Highly fragmented industry**	▪ ~3,000 dealers in the US, mostly small local companies ▪ Even largest players have only modest market share
5	**Stable industry with low cyclicality**	▪ Core print industry is steady to very slightly declining and not tied to macro environment – printing is not going away anytime soon
6	**Attractive "roll-up" opportunity**	▪ Small acquisitions available at 2-3x EBITDA ▪ Sellers comfortable with market valuations and deal structures
7	**Synergy and cross-sell opportunities**	▪ Acquired companies benefit from greater scale in purchasing, ability to streamline operations ▪ Several adjacent service lines can be sold to attractive business customers such as IT Managed Services or managed print (managing desktop printers in addition to copy room machines)

The Office Equipment industry has challenges, but they can be mitigated

		NBG viewpoint & Mitigants
1	**Organic revenue growth** is limited over time as providers need to offer customers continual price concessions	▪ Revenue per customer may decline over time as customers demand price concessions at renewal ▪ However, gross profit $ can grow through streamlined operations and economies of scale that improve margin *"The first 6 months of contract we have lost money. After 6 months, we reach 50% gross margin and then drive it to 80% over time." – CFO, large OE platform*
2	**Printing** is in a long-term gradual decline	▪ Decline will be slow and many industries (e.g. healthcare, legal, retail) unlikely to ever eliminate paper ▪ While printing is declining, businesses use of printing services and managed print solutions is actually growing ▪ Nevertheless, significant opportunity for providers to broaden service portfolio beyond Office Equipment to mitigate long-term risk and drive revenue/customer
3	**Consolidation** is already underway in the industry	▪ There are several consolidators active in the market, but the degree of fragmentation in the industry is still very high ▪ Focus on building a platform is "whitespace" geographies – those without a highly acquisitive platform company *"We are the largest player in the state and still only have a small fraction market share." – Investor, large DI platform*

NB Group ideal investment criteria for a Office Equipment Dealer platform acquisition

NBG is seeking to acquire an Office Equipment Dealer / Managed Print Services provider as a "platform" to grow through acquisition. Below is general criteria, but we are flexible and will look at variety of situations.

General Criteria for Office Equipment Platform Acquisition

- **Financials:** $20-150M+ Revenue; $3-25M+ EBITDA; 10%+ EBITDA margin
- **Business model:** 75%+ recurring revenue with strong retention; no equipment lease portfolio in-house
- **Growth profile:** flat or growing revenue, opportunity to accelerate through add-on acquisitions and organic initiatives
- **Customers:** limited customer concentration (Top 5 < 30% revenue)
- **Geography:** anywhere in US
- **Investment type:** preference for majority acquisition, will consider significant minority investment
- **Management:** flexible, open to either management staying or putting in place new leadership
- **Other:** seller rollover equity of 15% or more

Please get in touch to discuss partnership or exit opportunities

Contact information

Neel Bhargava

neel@nbgroup.us

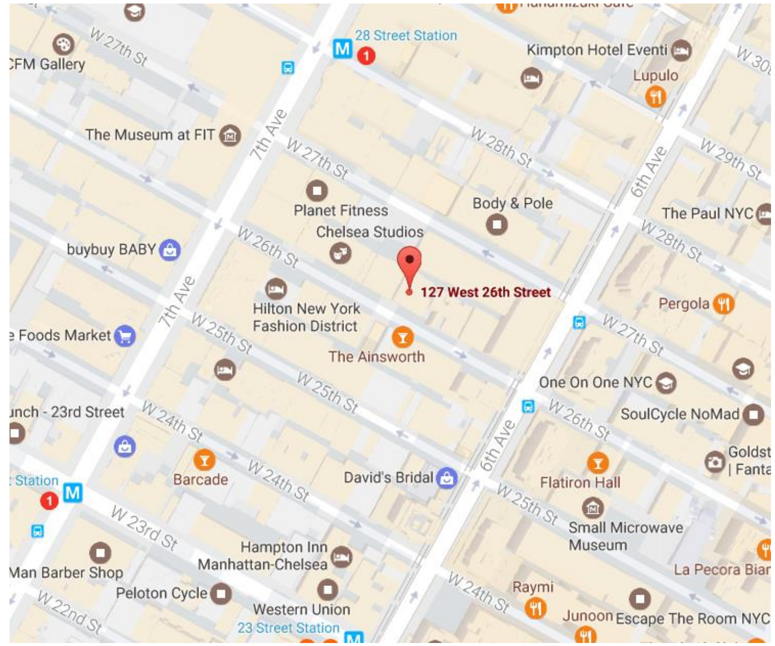
(d) 646-854-6675

Ariez Dustoor

ariez@nbgroup.us

(d) 415-999-2117

Location



NB Group

127 W 26th St, 7th Floor

New York, NY 10001