



Banta Corporation (BN)

Centveo Raises "Final" Offer to \$50 and Sets October 31 Deadline

Price: (10/03/06)	46.90	Rating:	Neutral	FY: Dec	2005A	2006E	2007E
52WK H-L:	52 - 34			Q1	0.54A	0.56A	
Market Cap (mil):	1,144	Suitability:	Higher Risk	Q2	0.56A	0.51A	
Shares Out (mil):	24.0			Q3	0.89A	0.81E	
Float (mil):	23.9			Q4	<u>0.95A</u>	<u>0.89E</u>	
Avg. Daily Vol (mil):	0.42			Total	2.93A	2.76E	1.79E
		Price Target:	50	FY P/E	16.0x	17.0x	26.2x
Dividend:	0.72	Previous:	47				
Yield:	1.54						

EPS (Net): Our revised estimate excludes charges.

EPS (Net): Our 2006 & 2007 EPS estimates include the projected impact of FAS 123R (stock option expense).

Please refer to Appendix - Important Disclosures and Analyst Certification.

Action

Centveo raised its cash offer for Banta to \$50 per share after the Banta rejected the prior \$47 per share offer. Centveo characterized the offer as "final" and set an October 31 deadline. Meanwhile, the Banta Board of Directors directed management to explore all strategic alternatives, including the possible sale of the company. As the stock approaches the \$50 "final" offer, we would take profits.

Summary

- Centveo raised its cash offer for Banta to \$50 per share after the close yesterday. Banta had rejected the previous offer of \$47 per share earlier in the day.
- Centveo characterized the offer as "final" and set an October 31 deadline.
- Prior to rejecting it, Banta had characterized the \$47 offer as "illusory." By rejecting it, the Board effectively acknowledged its validity and accepted the fiduciary duty that flows from rejecting it.
- Meanwhile, the Banta Board of Directors directed management to explore all strategic options, including the possible sale of the company saying "it is an appropriate time to undertake a comprehensive process to identify and study all of the value-creating options available to the company."
- Separately, Banta indicated that the Centveo offer triggered a \$100 million obligation to fund a trust to provide for deferred compensation and retirement benefits to retired and active Banta employees. This funding requirement was created in 1990 and is not the result of any recent actions taken by the Board, the company stressed. If a change in control does not occur, the funds revert to Banta from the trust. Notably, the \$100 million obligation represents the estimated sum of future cash payments applying no discount rate, according to the company.
- Finally, Banta reiterated guidance it provided a couple weeks ago.
- As the stock approaches the "final" \$50 offer, we advise investors to consider selling shares, especially considering the downside risk absent the Centveo or a third-party offer.

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Details

No further details.

Investment Thesis

Valuation. Our \$50 price target reflects 6.6x our forward EBITDA estimate and 16.5x our forward EPS estimate one year from now taking into account the current \$50 per share all-cash takeover offer by Cenveo. Our price target also assumes a \$16 per share special dividend payable in November. Typically, our price target represents a 12-month target; however, an investor's 12-month outlook should accommodate this dividend. Absent the Cenveo offer and based on 2007 guidance, we believe Banta shares would trade between \$40 and \$47 after incorporating these initiatives – at or below the current \$47 Cenveo offer. Key assumptions include: 2007 EBITDA (\$152M), EBITDA multiple (6x-7x), net debt post-dividend (\$324M). Based on these assumptions, we estimate the current value of Banta shares at \$24-\$31, plus a \$16 special dividend. However, if the initiatives bear fruit in 2008, EBITDA could approach \$175M, suggesting a \$44-\$50 price today (12% discount rate) including the \$16 special dividend in November 2007 – straddling the Cenveo offer. Notably, if Banta successfully generates excess cash flow to reduce debt, the value of equity could improve (every \$24M of debt reduction would boost our per share valuation by approximately \$1).

Business Service Opportunity. Banta has seized on a significant opportunity to provide outsourcing services. Banta provides supply chain management services to HP, generating approximately \$135 million in revenue annually (2004 and 2005). Historically, HP and Banta renew the evergreen contract on an annual basis. Banta recently indicated that the contract had been extended for five years (through 2011). Banta is extending its SCM reach globally as well as adding new end markets.

Diversified End Markets and Customer Base. Demand for Banta's printing and supply chain services comes from several sectors in the economy, forming a more stable base of revenue. Banta taps spending on education, technology, advertising, healthcare, retail and wholesale distribution, and several other sectors through thousands of customers.

Acquisitions. Banta expects to derive perhaps one-third of its long-term sales growth through acquisitions. Management's acquisition goals are to enhance its print services offering (special interest magazine, direct marketing, and literature management) and expand its supply chain management operations (geographically and beyond the technology sector). However, the company has taken a conservative and price-disciplined approach in pursuit of acquisition opportunities.

Return on Investment. We expect pressure on margins as Banta derives a higher mix of revenue from potentially faster-growing, but lower-margin, SCM services. However, SCM services demand a smaller capital commitment, enabling Banta to maintain a solid return on investment.

Consistent Long-Run Performance and Solid Financial Metrics. Over the last 30 years, Banta has posted over 10% sales and EPS growth (CAGR). Banta generated nearly \$60 million in free cash flow in 2005, has almost \$150 million in cash, less than \$80 million in debt, and approximately \$80 million remaining on its stock repurchase authorization

Risks & Caveats

Cyclical. Sales fluctuate approximately in-step with broader economic changes. For example, Banta's operations are exposed to cyclical changes in advertising, technology,

and education, in addition to most other economic sectors.

Seasonal. Educational book activity tends to be strongest in the first half of the year, while catalog, direct marketing and certain technology outsourcing activity tend to be strongest in the second half. Banta also prints a large bi-annual catalog every other year (even years).

Hewlett Packard. Banta has an evergreen contract with HP to provide supply chain management services. The deal currently represents approximately \$134 million of annual revenue to Banta, and would difficult to replace. However, Banta recently announced a five-year renewal through 2011.

Acquisitions. Strategic acquisitions are a core element to Banta's growth strategy. Failure to make suitable acquisitions or the inability to adequately integrate a target company into Banta's operations could affect the company's operating performance.

Raw materials. Banta buys and resells the vast majority of the paper it uses in its printing operation. Weakness in the paper market would depress sales, all else being equal. Banta often passes raw material price increases along to customers.

Strategy Change. Banta has a proud history of over 100 years, primarily in the printing business. In recent years, the company increasingly has devoted resources to growing its supply chain management business. Banta's future success is closely tied to its ability to maintain operational excellence in printing while growing its expertise in outsourcing.

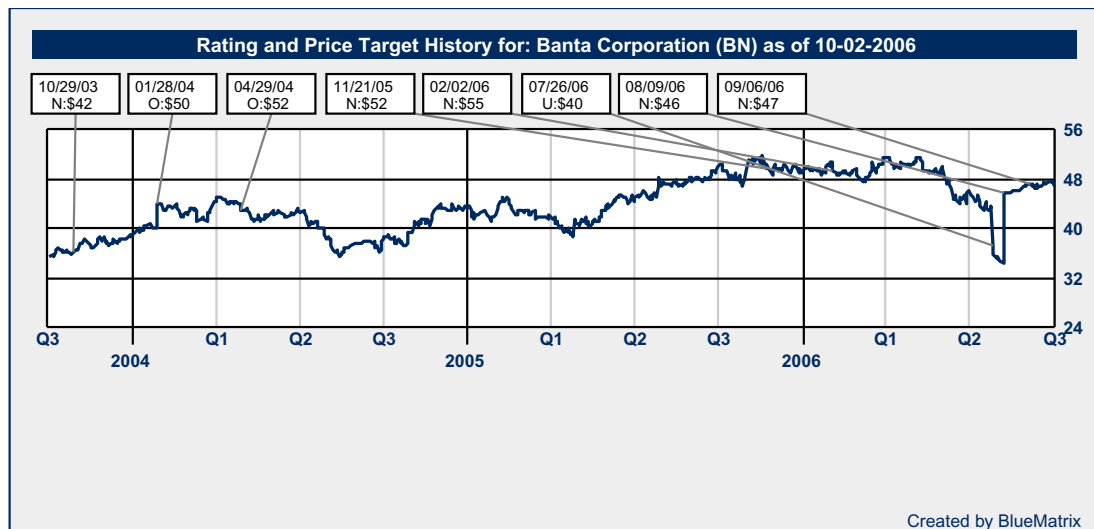
Technology Exposure. Banta's supply chain management business is highly dependent upon the technology spending.

Industry Consolidation. The printing industry continues to consolidate as printers seek to build a competitive advantage through larger economies of scale.

Company Description

Banta Corporation is a top-five commercial printer and an emerging leader in supply chain management outsourcing solutions. Print services represent 72% of revenue while Supply Chain Management services represent the remaining 28% of revenue. The company serves publishers of educational and general books, special-interest magazines, consumer and business catalogs, and direct marketing materials. Banta also offers global supply chain integration services for leading technology companies, including HP and Dell.

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