

Success Through  
**Performance**  
1999 Annual Report



## Who We Are...

Multi-Color's mission is to serve our customers better than anyone else. We produce distinctive, value-added in-mold labels (IML) and specialty gravure-printed products. We offer plastic container manufacturers and consumer product companies a fully integrated process that includes gravure cylinders, proprietary substrates, high-performance adhesives, inks and coatings, specialized printing and die-cutting. We are the industry leader in technology, performance, and technical support for our customers.



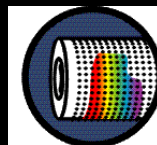
### IML Labels

Multi-Color in-mold labels (IML) add marketing value to consumer products. IML labels are complex, technologically demanding products. Each component from substrate and laser-etched gravure cylinder to the printing with up to eight colors — along with over-coats and adhesives — requires a special expertise for success. The finished product is a finely detailed, strikingly attractive label that performs consistently well for plastic container manufacturers and adds marketing value and product security for consumer product companies.



### Substrates

Multi-Color leads the IML industry in high-performance substrates. Our substrates improve machinability, and reduce costs for plastic container manufacturers. The polyethylene and polypropylene films are recyclable, and strengthen today's larger product containers. Our substrates work well with environmentally friendly, water-based inks and adhesives.



### Gravure Cylinders

Multi-Color uses an exclusive Think Laboratories laser-etching and chemical-engraving process to produce gravure cylinders with a high degree of precision and great range of capability in printing. Technology and Laser Graphics expertise enable us to manufacture a cylinder in one-third the time of traditional engraving methods. We make gravure printing, with its richness of image, cost-competitive with other printing technologies. Laser Graphics also sells cylinders to outside customers for packaging and consumer products.

# Financial Highlights

(amounts in thousands except per share data)

Year Ended	1999	1998
Net sales	\$ 49,786	\$ 47,576
Operating income (loss)	\$ 2,165	\$ (2,455)
Net income (loss)	\$ 1,484	\$ (4,071)
Diluted earnings (loss) per common share	\$ .50	\$ (2.00)

# Performance Highlights

Performance highlights for fiscal 1999 included:

- Delivered four consecutive quarters of profitability from operations
- Achieved 4.6 percent increase in revenues, the first annual revenue gain since fiscal 1994
- Increased sales of IML and gravure cylinders by 6.3 percent
- Negotiated agreement with the company's two principal lenders — PNC Bank of Ohio and Comerica Bank — for increased financing flexibility
- Started construction of a \$2.9 million, 61,000-square-foot expansion of Scottsburg plant to consolidate all gravure printing and finishing in one facility, reduce waste and improve operating efficiency
- Resolved outstanding environmental issues with the Indiana Department of Environmental Management, resulting in a reduction of net income by \$727,000 to reflect adjustments to reserves for this settlement and for resolution of Ohio environmental and workers compensation issues

# Success Through Performance

A year ago, we promised to move quickly to transform Multi-Color's performance. We said we would create systems to consistently execute the fundamentals of manufacturing. We said we would improve service to customers. We have followed through on those commitments. Improving financial results demonstrate our progress.

In fiscal 1999, we had four consecutive quarters of profitable operations — and for the first time since fiscal 1994 revenues increased. For the year, Multi-Color reported net income of \$1.48 million, or 50 cents per diluted common share, on revenues of \$49.8 million. Most of the 4.6 percent growth in revenues came from IML labels.

In contrast, in fiscal 1998 we reported a loss of \$4.07 million, or \$2 per diluted common share, on revenues of \$47.5 million.

There is still much to be done, but we believe we have created a sound foundation for continuing progress.

We are systematically concentrating on every business process, including safety, continuous improvement in quality, and customer service. In the spring of 1998, we introduced our Process Plans of Control (PPOC). We have analyzed operating procedures, standardized them, and implemented many continuous improvement initiatives. This has been done both at Laser Graphics — the gravure cylinder manufacturing plant in Erlanger, KY, and at our printing and finishing plant in Scottsburg, IN.

Working with PPOC, our associates have reduced operating costs, increased up-time for

our Scottsburg plant, improved on-time delivery, and improved product quality. All four Scottsburg presses are now operating 24 hours a day, seven days a week.

To achieve greater efficiency and productivity, we are consolidating printing and finishing operations. A \$2.9 million construction program is adding 61,000 square feet to the Scottsburg plant, more than doubling plant size. By this fall, all Scottsburg operations will be under one roof and reorganized for maximum efficiency.

Serving our customers well, meeting and exceeding their requirements and expectations, is at the heart of what we are doing. Scottsburg's new management system puts customer service in charge of manufacturing.



Chairman Louis Perlman and Director Gordon Bonfield review the architectural drawing for the 61,000-square-foot construction project that will more than double the size of the Scottsburg, IN, plant.

## Achievements Checklist

In fiscal 1999, we focused on improving Multi-Color's performance. We put in place our Process Plans of Control (PPOC), and renewed the company's emphasis on serving the customer. Although we made significant progress, we need to work even harder in fiscal 2000. Among the results were:

- Brought two more presses on line at Scottsburg and went to a 24-hour-a-day, seven-day-a-week operation;
- Moved to a seven-day-a-week operation in the Scottsburg finishing department;
- Created a central safety and health committee, installed the Dupont Safety Process, and achieved a significant decline in recordable injuries;
- Reduced waste 30 percent;
- Increased productivity 40 percent;
- Reduced downtime of the Scottsburg presses 20 percent;
- Improved on-time deliveries 20 percent, bringing our on-time delivery rate above 90 percent;
- Increased sales per associate 24 percent.

Together with the Enterprise Resource Planning System that came on line in October 1998, this system is producing significant improvement in customer service.

We also completed the strategic transformation of Multi-Color to concentrate on our core strengths. These are in-mold labels (IML) for plastic packaging for branded consumer products and gravure cylinders.

Revenues from IML have been growing consistently at an annual rate of approximately 6 percent. We believe we can continue to increase IML revenues at that pace — and even faster — in the years to come.

A year ago we increased the capacity of Laser Graphics to produce laser cylinders. That investment is paying off; sales of cylinders to outside customers are growing rapidly. We believe this business has the potential to deliver substantial revenues and profits in years to come.

Having stabilized operations in fiscal 1999, we can now concentrate on the growth of the business. We see opportunities in foreign markets, particularly in Mexico and South America, where we have begun selling our proprietary IML substrates. There are also opportunities to expand the market for IML into injection-molded and thermoformed packaging. We will be exploring those opportunities in the years to come.

We have the right technology for success. More important, we have the right people. Multi-Color associates have worked hard and enthusiastically to transform the company.

We also very much appreciate the continuing support of our shareowners.

Multi-Color is making solid progress. We believe our programs will continue to yield progress in performance and in financial results.



On May 19, 1999, the Board of Directors elected Francis D. Gerace, Vice President of Operations, as President of the company to succeed Gordon Bonfield. Mr. Bonfield resigned as President and Chief Executive Officer to accept a senior executive position with a major packaging company. He remains a member of the Board.

*Louis M. Perlman*

**Louis M. Perlman,**  
Chairman of the Board

*Francis D. Gerace*

**Francis D. Gerace,**  
President

# Success Through Customer Satisfaction

**C**ustomer service is Multi-Color's No. 1 priority. In fiscal 1999, we reorganized the Scottsburg, IN, gravure printing plant, created a new customer-service team and put it in charge of the manufacturing process. Customer-service representatives have responsibility for everything from ordering materials to scheduling production of IML labels and other specialty gravure-printed products and the finishing and shipping of the products.

At the same time, our technical support people are regularly in the field, at blow molders' plants and with consumer product

manufacturers, to meet their needs and bring back valuable information for improving our performance and product quality.

The Process Plans of Control (PPOC) introduced in fiscal 1999 have further systematized our total quality process. PPOC are creating a disciplined system of manufacturing, with documented, standardized processes.

At the Multi-Color Packaging College, we regularly share with our customers our expertise on all the key elements of IML manufacturing and related quality requirements.



**"We are making tremendous strides in implementing procedures to serve the customer better," says Administrative Services Manager Julie Amann (right). She leads a new Scottsburg team of seven customer-service representatives, including Stephanie Bensing and Rose Hall, and an equal number of associates in shipping and receiving. Her Administrative Services group is in charge of the manufacturing process — from ordering materials, to scheduling, printing, die-cutting and shipping. Their mission: Use customer service to drive the business. "We have to become better because our customers are becoming more demanding," Julie says. "We have the ability, the backing from senior management and the drive to be very successful."**





Total Quality Manager Gordon Daniels helps customers understand Multi-Color's manufacturing process and achieve the results they seek. With more than 20 years of experience in IML, Daniels serves as the dean of Multi-Color's Packaging College. He is also regularly on the road, at customers' plants, listening to their requirements, and helping them get full value from their investment in IML labels. "I bring their needs back for us to work on," Daniels says. "And now we have a well-defined system of authority, responsibility and accountability for ongoing improvement. We won't get there as fast as we would like, but we will continue to strive to improve quality, reduce waste, and meet customers' expectations."

## How we go to Market

**W**e are a service business that just happens to make IML labels. Meeting our customers' needs is our real business. In today's intensely competitive environment, the makers of consumer products are working on shorter and shorter lead times. They are also more and more interested in promotions to boost sales. As always, they are committed to lowering their costs and giving their product packaging a distinctive look to catch the consumer's eye.

Consumer product manufacturers challenge us to help get their products to market faster, at less cost — and with packaging labels that add punch and marketing value.

We continue to invest in technological resources to improve quality and meet ever more complex, more demanding requirements.

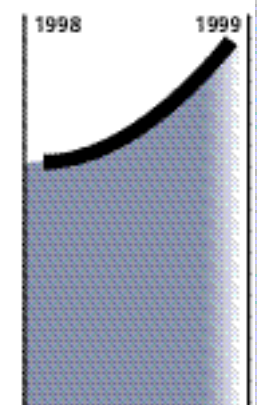
But the key to getting the benefits of technology are effective business Process Plans of Control (PPOC). Quality checklists and formal, disciplined standards of operations are in place. Doing the "blocking and tackling" of operations is generating benefits for all of us — for our Multi-Color associates, for shareowners, and for customers.

To better serve our customers — both packaging molders and consumer-product manufacturers — we have put customer service in charge of the manufacturing process — from ordering, scheduling and printing to die-cutting and shipping.

**"We will serve our customers better than anyone else."**

— Francis D. Gerace, President, and  
Steve Mulch, Vice President,  
Corporate Sales & Business Development

**On-Time Delivery  
Improved 49 %**

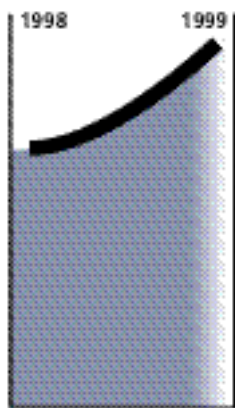


# Success Through Technology

ML labels are a complex, highly technical product. Success starts with the substrate – the base plastic material for the label. Multi-Color has developed proprietary substrates that we use ourselves and also sell to other printers, both in the United State and abroad.

There are several critical characteristics of a successful substrate. The material needs a proper coefficient of friction so that the finished label is easily and consistently picked up and applied to the blow-molded container. A second is the ability to hold the label's inks, including metallics and flourescents, overlay varnishes and adhesives. Still another, is the ability to lay smoothly, without wrinkle or bulge, when applied to a very hot, just molded plastic container that will quickly shrink, along with the label, as its temperature falls.

Productivity  
Increased 40%



Technology for the gravure cylinder is another key competitive advantage for Multi-Color. At our Laser Graphics cylinder plant in Erlanger, KY, we employ the laser-etching and chemical-engraving technology developed by Japan's Think Laboratories. We are the only cylinder manufacturer in the United States to have this technology. The Think process has several advantages. It is quicker and it is less costly than other engraving processes. Equally important, this technology creates cells with fineness of depth and surface size to eliminate the stairstep edges that have limited the application of gravure printing. It creates smooth and feathered patterns of color. It also gives clear definition to ever smaller type sizes required as companies add more information — and more

**"There are many facets of label performance that we affect at the printing stage,"**

**says Printing Manager Doug Barnhardt.**

**Standardized operating procedures, part of our Process Plans of Control, are helping to steadily improve performance and consistency of success. At the same time, just in the past year, Scottsburg has added new equipment for making cylinders ready for the presses, changed its cylinder storage and handling system to reduce cylinder damage, built a solvent tank farm that produced substantial savings, and added a new ink handling facility. For the future, Barnhardt says, "We will grow through technology and productivity improvements."**





Laser Graphics' advanced, rapid laser-etching and chemical-engraving technology helps Multi-Color meet tight deadlines and tight budgets with labels that make products stand out on the supermarket shelf. "The whole thing is a team effort," says graphics coordinator Linda Wilson. Graphics coordination is the first contact with the customer, and initiates an integrated process to manufacture the IML labels. "With our new computer network, information about an order is available instantly to everybody in Multi-Color," says Wilson. "Communicating regularly with the customer, we take all the artwork through imaging, cylinder creation and customer approvals, and pull everything together for customer service and printing in Scottsburg."

languages — to their labels. Laser Graphics also uses a shell technology that cuts cost and time from cylinder production.

At our gravure printing plant in Scottsburg, IN, four gravure presses run 24 hours a day, seven days a week to handle the differing requirements of our customers. Scottsburg can handle short runs with very rapid turnaround. Scottsburg is equally well-equipped for long press runs.

Our presses can handle up to eight colors. As the number of colors increase, and the variety of labels for different size containers increases, Multi-Color's technology pays off. An eight-color job, plus adhesive and over-coat, may require more than 50 cylinders for all the product's variety in container sizes. Producing all these cylinders on tight schedules, delivering them to Scottsburg, and producing the finished labels requires a high level of

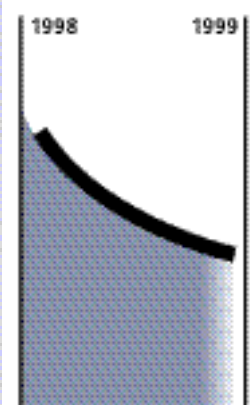
expertise in customer service and technology.

In fiscal 1999, we have brought new equipment into our make-ready operation at Scottsburg that increases the efficiency and productivity of our printing operation. We also have converted our finishing operation from five to seven days a week to handle the production of the four presses.

In fiscal 2000, we expect to reap additional benefits in productivity, efficiency, cost and waste reduction, and quality from the 61,000-square-foot expansion of the Scottsburg plant. The building is scheduled to be finished in mid-summer and our equipment arranged in a more effective configuration by September.

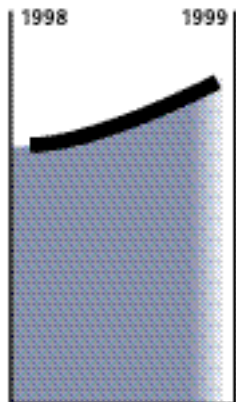
Since technology is our competitive advantage — and technology is required to meet our customers' new requirements — we will be looking in fiscal 2000 at further investments to improve the quality of our products.

**Better Safety:  
Recordable Incident  
Rate Decreased 57%**



# Success Through Growth

Sales Per Employee  
Increased 24%



**M**ulti-Color has great opportunities for growth in all three lines of business. First are our proprietary substrates — the plastic materials for IML labels. Mexico and South America are growth markets for us for export of these substrates.

Closer to home, our fastest growing business is sales of laser cylinders to outside customers for packaging and other products. In addition, we have won new business among existing customers. We expect sales to continue growing.

Our largest line of business is IML labels. Revenues have historically expanded at an annual pace of around 6 percent. With improved customer service and product quality, we expect continued growth in demand for our IML labels for blow-molded containers.

There are other markets to develop — IML for injection-molded and thermoformed containers. These are popular applications in Europe. We see great potential for them in the U.S. market.

Overall, the future for Multi-Color is, we believe, as strikingly bright as the fluorescent and metallic colors on our IML labels.

## When Procter & Gamble's Downy®

fabric softener converted to a new look, Multi-Color was challenged to produce a variety of new IML labels. "Put a highly cooperative process of developing labels together with our integrated manufacturing process," says John Voelker, vice president of sales and marketing, "and we will deliver the most graphically demanding label quickly and accurately. We are growing by helping our customers get to market faster." For Downy's high resolution artwork, each combination of bottle size, product formula, and text language (English and French) required six different color cylinders, plus adhesive and over-lacquer cylinders critical to the label's performance. Voelker (left) and Laser Graphics Plant Manager Dave Smith look over a label proof.



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Vice President of Sales and Marketing



205 West Fourth Street

Suite 1140

Cincinnati, OH 45202

513/381-1480

<http://www.multicolorcorp.com>