

The Business of Printing ...and the Paradox of Digital Media



Graph Expo 2012

October 8, 2012

McCormick Place, Chicago

Agenda

- Economic overview
 - The post-election economy
- What really matters?
 - The printing BUSINESS, not PRINT media
- The TWO paradoxes of digital media
 - Why is the influence so great but the financial results so disappointing?
 - Using it and competing against it
- Essential aspects of a flexible, yet unshakable, print business: its people and investments

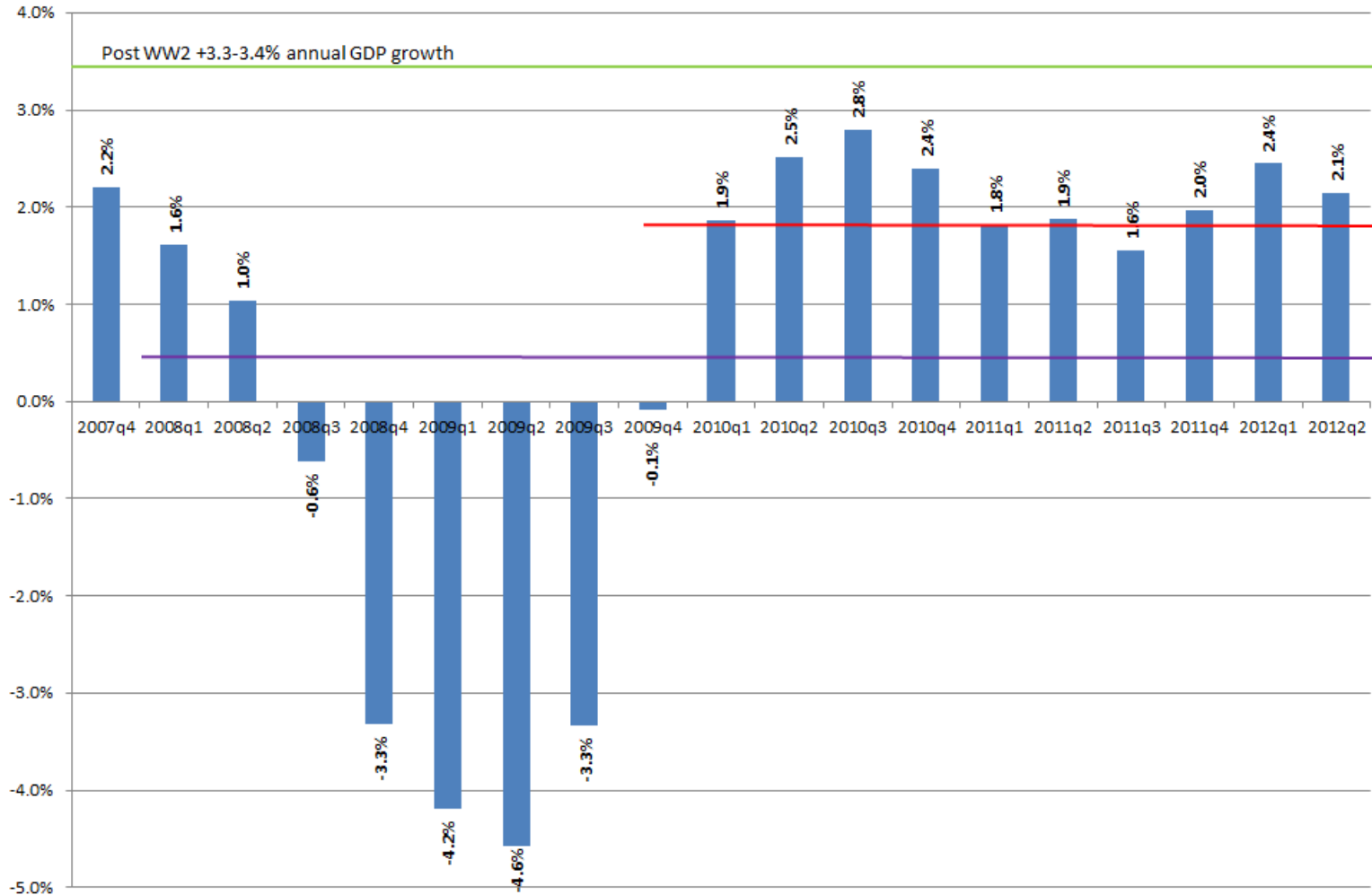
Dr. Joe's Key Recovery Indicators as of 10/4/2012	NASDAQ Composite	ISM Non-Mfg New Orders	ISM Non-Mfg Imports	ISM Mfg New Orders	ISM Mfg Imports	Proprietors' income (\$billions)
Recession Start 12/2007	2661.0	52.3	50.5	47.4	48.0	\$1,089.1
Prior Reading	3136.4	53.7	49.5	47.1	49.0	\$1,184.3
Latest Data	3135.2	57.7	50.0	52.3	49.5	\$1,194.9
Change Since Prior Reading	0.0%	7.4%	1.0%	11.0%	1.0%	0.9%
Change Since Recession Start	17.8%	10.3%	-1.0%	10.3%	3.1%	9.7%
Data release used	10/3	10/3	10/3	10/1	10/1	Q2 Final

NOTE: NASDAQ and Proprietors' Income in the table are not inflation-adjusted.

To be at December 2007 equivalents in today's dollars, the NASDAQ must be approximately 2919; it is now +7.4% above that level.

The Proprietors Income CPI-adjusted level at the start of the recession was approximately \$1,194.8B, and is now +0.1% above its Q4-2007 level.

GDP growth still lags historical average; only +1.9% rate since recovery



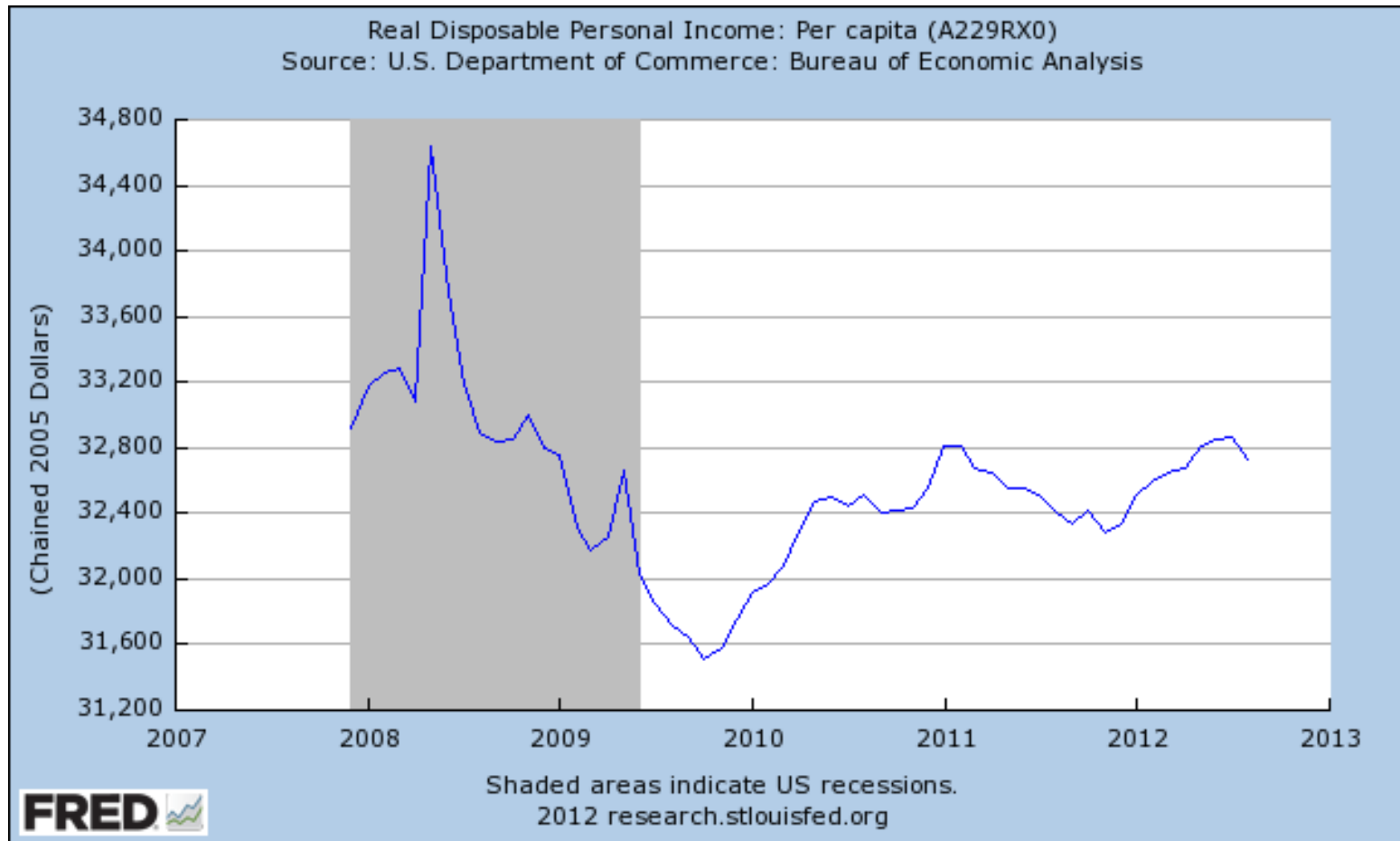
Why Friday's 7.8% Unemployment Report was "Strange" (Part 1)

- Unemployment rate dropped from 8.1% to 7.8%
- Payroll survey is not used to calculate rate; added only 114,000 jobs
 - Goods-producing industry employment went down
 - Transportation and warehousing went up
- Household survey used to calculate rate
 - Added 873K jobs, or 659K self-employed or 1099 (non-W-2) jobs
 - Bulk of job increase was among teenagers, black, and "some high school" classifications
 - Typically late cycle growth categories after economic growth has become sustained
 - "U-6" broad measure of unemployment stayed exactly the same, 14.7% when it should have reflected the improvement of the overall rate
- Change is not historically consistent
 - In periods of economic growth unemployment rate gets worse for about six months as optimistic and motivated workers flood the market faster than jobs are created
- BLS has been constantly changing its seasonal adjustment factors
 - Not designed for prolonged sluggish economic periods
 - One month's factor is not created by the same technique as the prior month's
 - BLS is flailing about seeking the right seasonal adjustment methodology

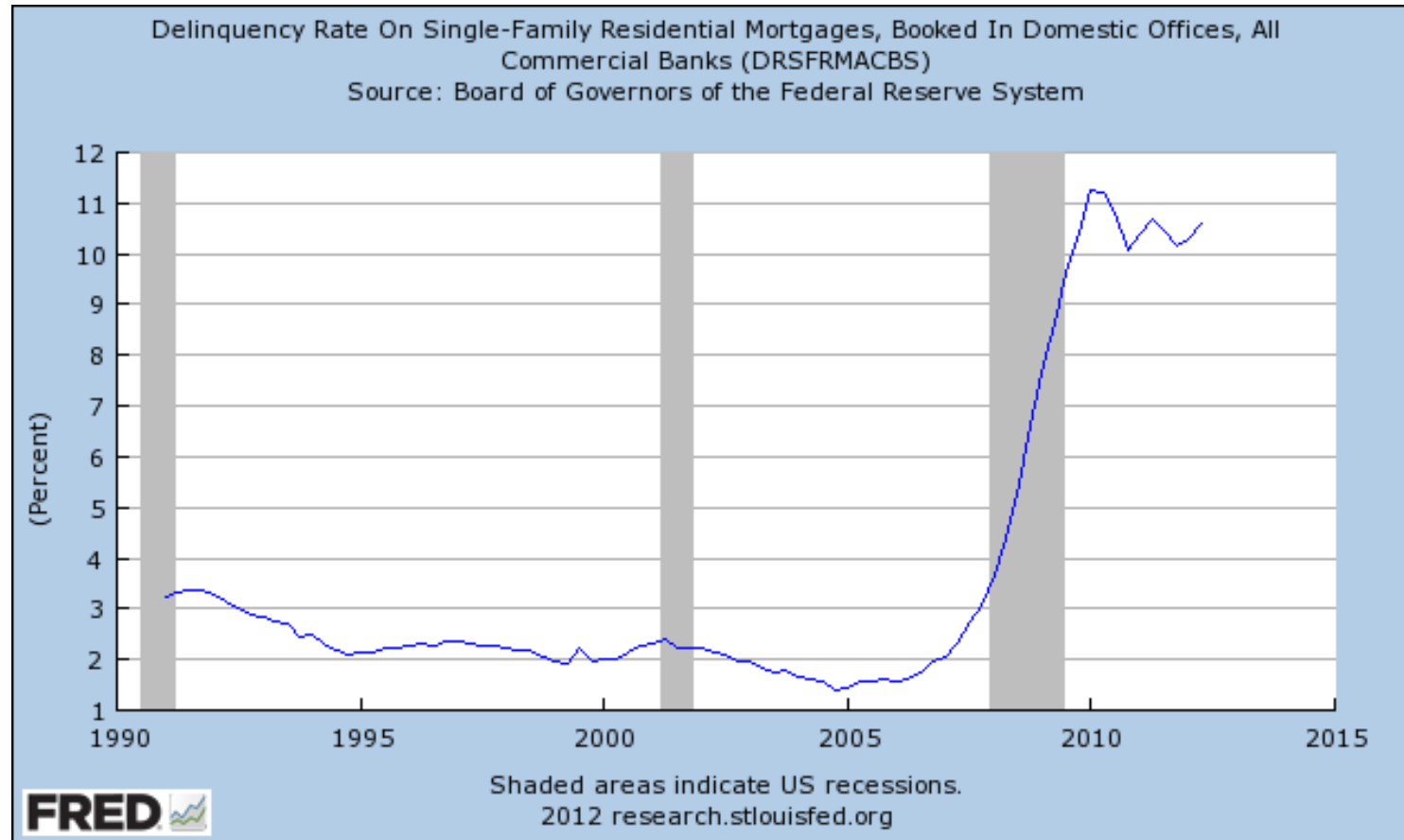
Why Friday's 7.8% Unemployment Report was "Strange" (Part 2)

- BLS does not release raw data for independent analysis
 - Promotes "economic conspiracy" propositions
 - While the data are not released, the methodology is well documented.
- Report was not consistent with other independent data and data from other agencies
- Government economic statistics are notoriously bad in the short term, and become better after years of revision
- Unemployment report is the closest "real-time" report available, but is revised monthly, annually, and then subject to annual three-year revision cycle
- It is naïve to expect data based on estimates of estimates and seasonal adjustments in a mostly free and dynamic economy to have Census-style accuracy; not even the Census has the certitude that is attributed to it.
- The preoccupation with short-term data movements rather than longer-term trends creates inefficient and often inappropriate allocations of economic resources in private and public organizations of all sizes

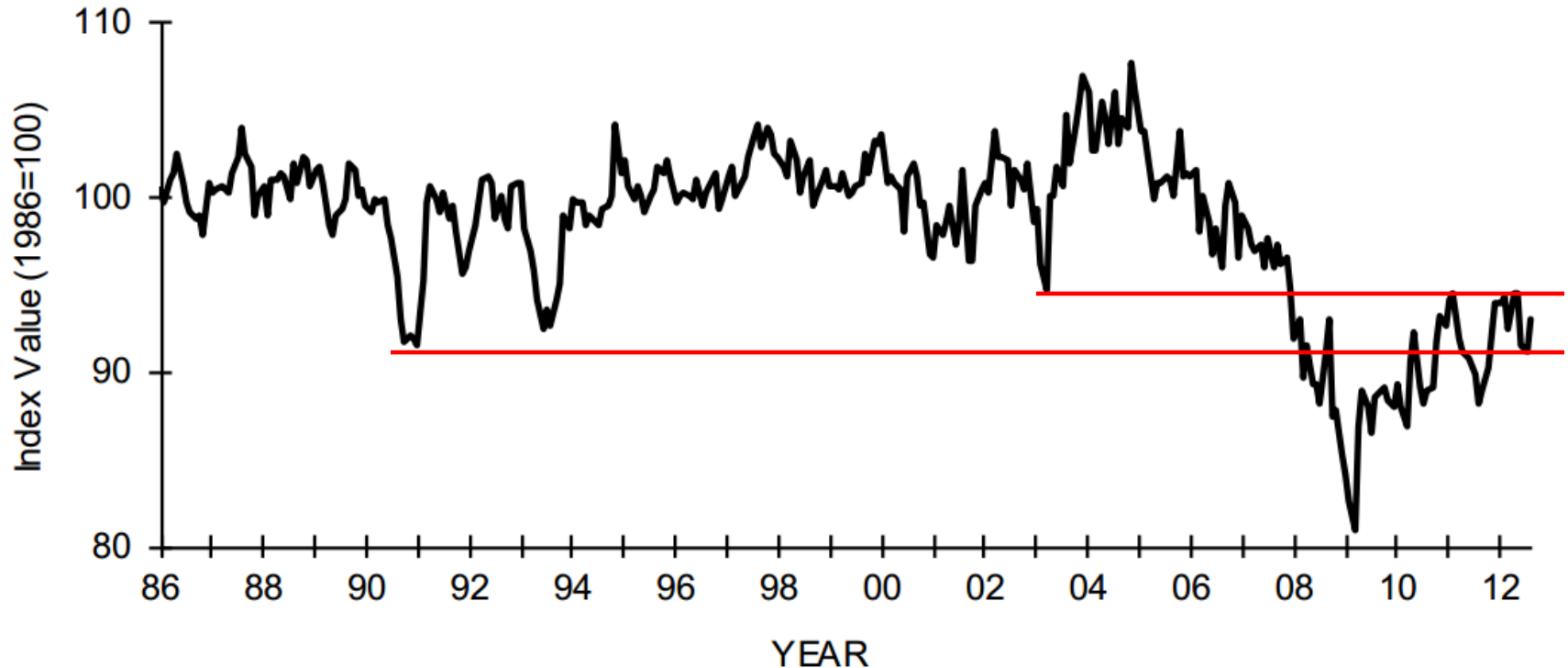
Real Per Capita Disposable Income Has Not Recovered



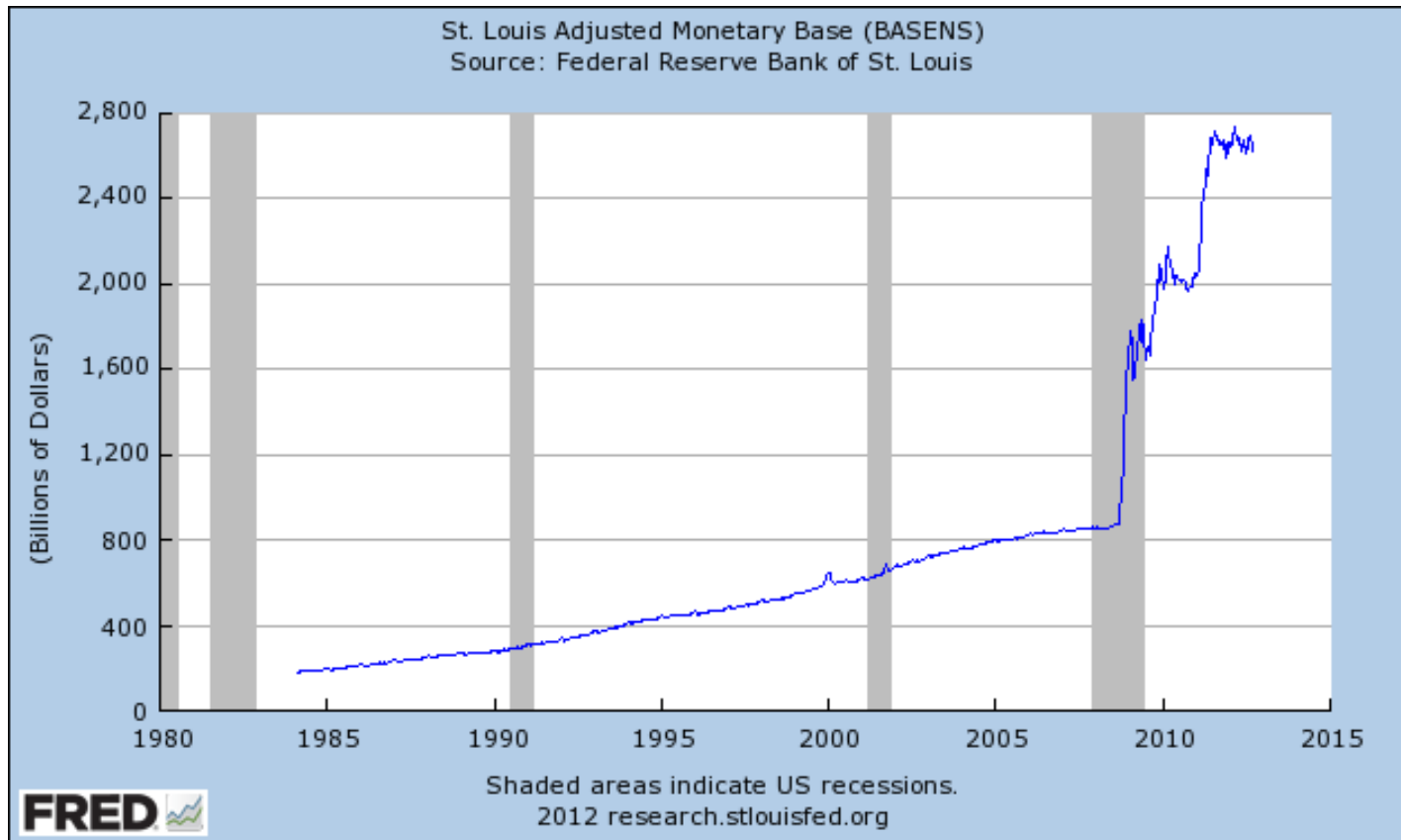
Mortgage Delinquency Not Improving



NFIB Small Business Index is “Trapped” Between Two Recession Bottoms

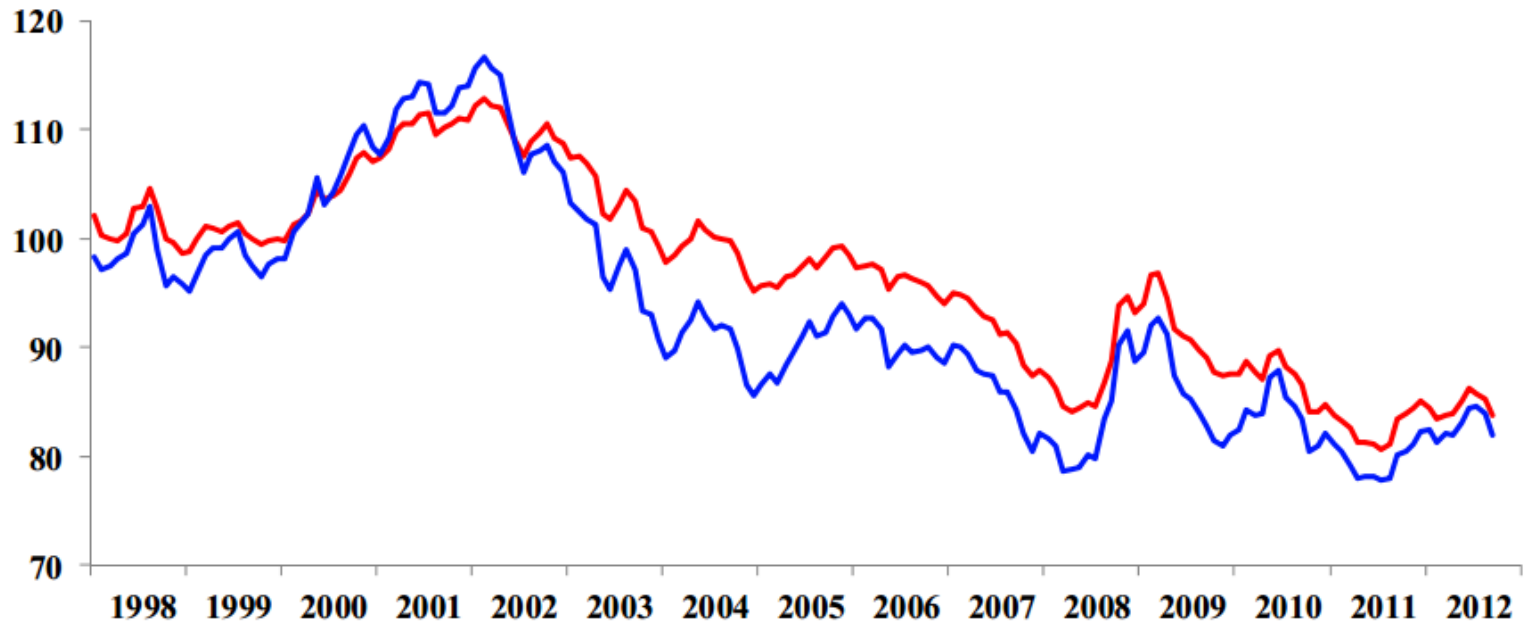


Fed Expands Its Balance Sheet to Unprecedented Levels... Still!



Dollar Remains Weak

March 1973 = 100



— Exchange Value of the US\$ (Oct 01 release, Sep=83.8)

— US\$ vs Major Currencies* (Oct 01 release, Sep=81.9)

A Lesson?

UK Telegraph 9/21/2012

Japan launches QE8 as 20-year slump drags on

Japan has launched an eighth round of quantitative easing to weaken the yen and cushion a slide back into recession.



The Bank of Japan (BoJ) is to buy a further 10 trillion yen (£79bn) of bonds Photo: Bloomberg News

Inflation Multipliers (CPI)

Year	Multiplier
2007	1.093
2008	1.092
2009	1.063
2010	1.047
2011	1.017
2012 (6 mo)	1.000

Underlying Theme: Efficiency, Not Expansion

(for another 10 years?)



- Efficiency investments preferred
 - Changes to operations and procedures
 - Paybacks immediate, predictable, measurable
 - Change/shift costs to reduce overheads, increase flexibility
- Expansion risk investments discouraged
 - High future tax rates, high inflation expectations, higher expected regulatory compliance costs
 - Future demand harder to forecast
 - Net present value of future returns must be extraordinary to make risk worthwhile
 - Raises bar for all future expansion projects
 - Higher risk projects go unexplored



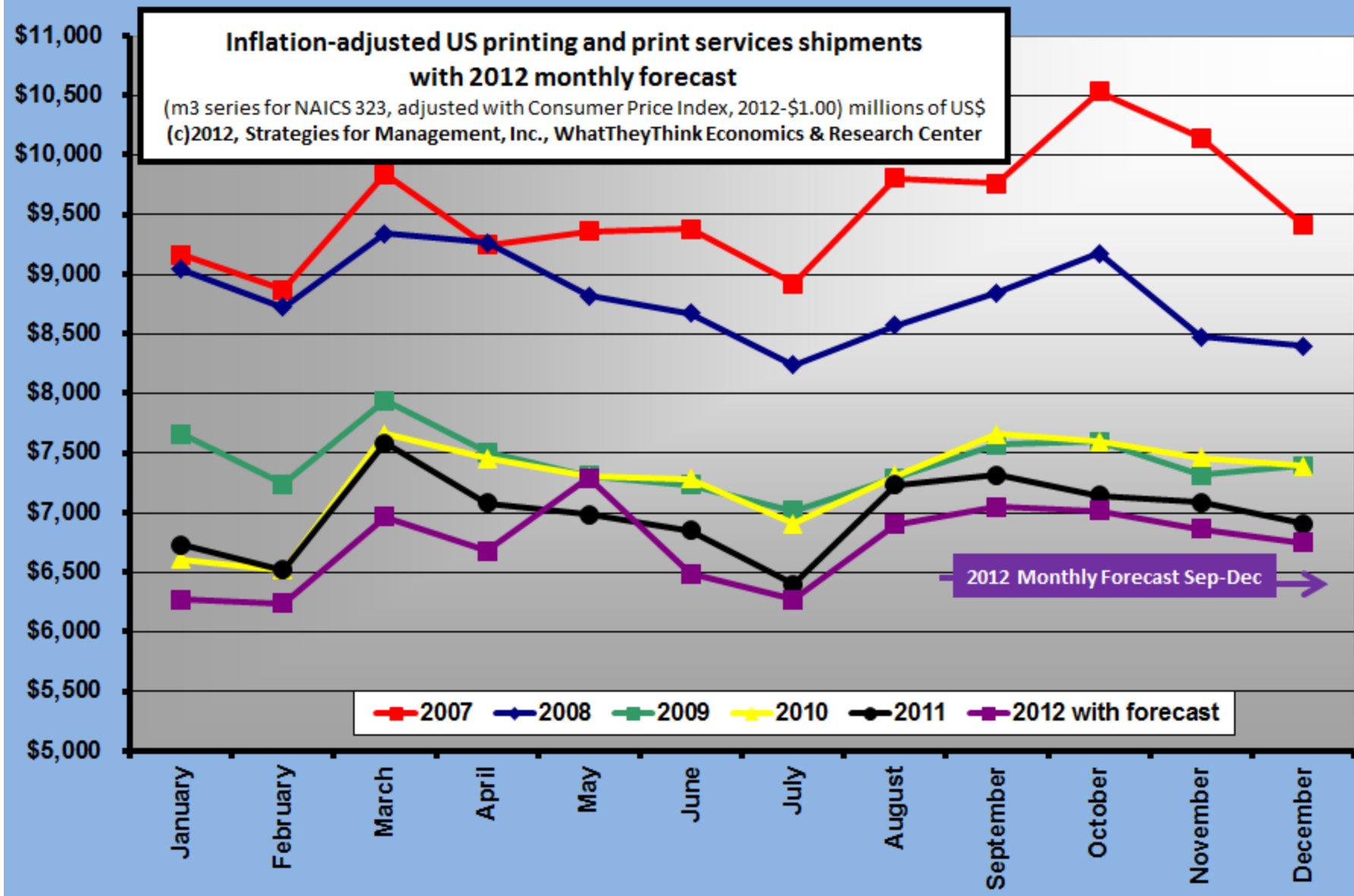
Presidential Election Communications Snapshots, 1996 to 2012

- 1996: Websites, online ads, e-mails
- 2000: Web sites, e-commerce
- 2004: E-marketing, blogs
- 2008: Social media (Facebook, MySpace, Twitter)
- 2012: Mobile media (iPhones, iPads, smartphones, tablets)

	US Internet Users	Change	% of Adults with Broadband at Home	Approx. # of Users with Broadband	Change from Prior Elections	
2000	124,000,000		3%	3,720,000		
2004	201,661,000	63%	23%	46,382,030	1147%	42,662,030
2008	220,141,950	9%	59%	129,883,751	180%	83,501,721
2012	245,200,000	11%	68%	166,736,000	28%	36,852,250

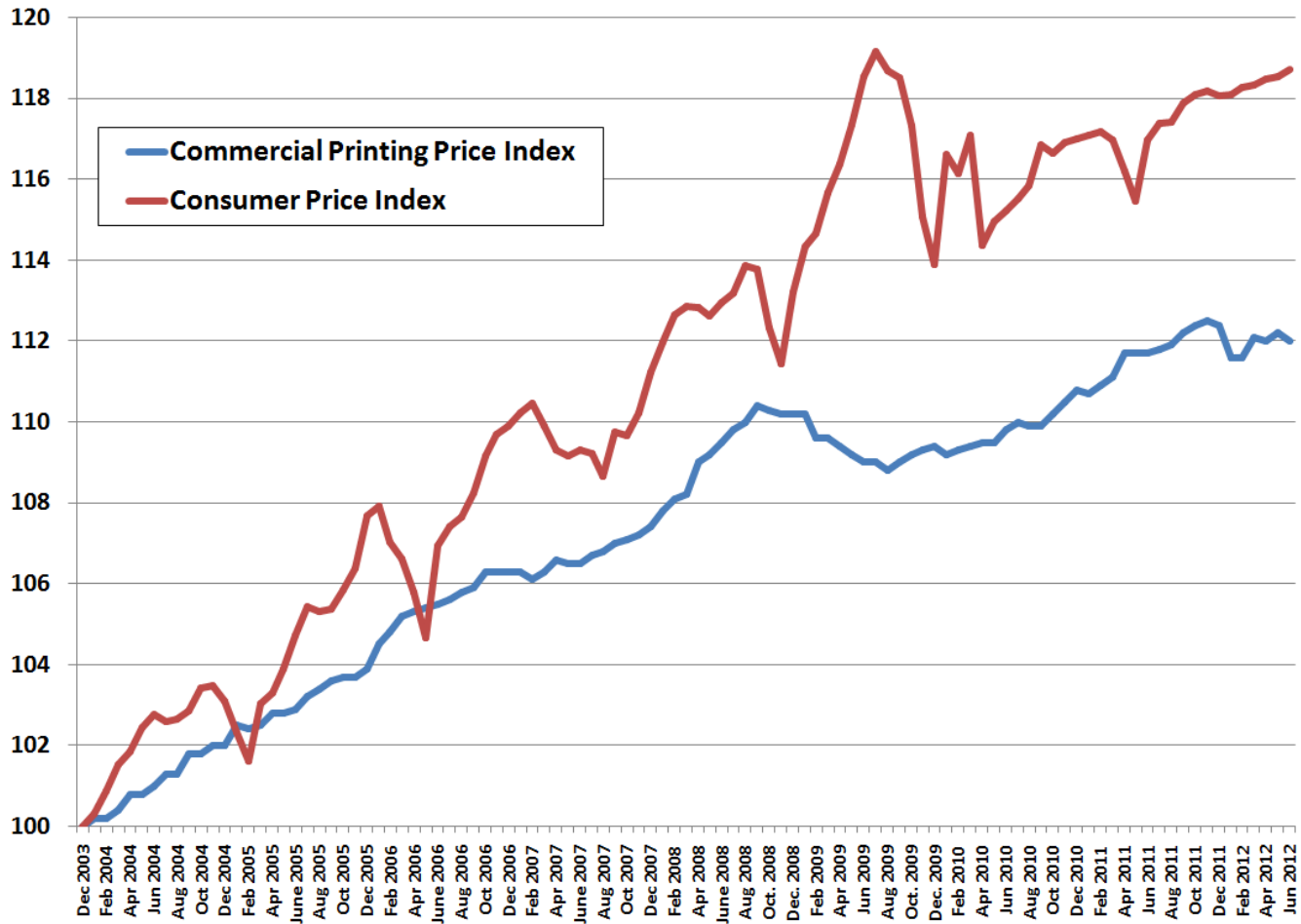
Possible Election Outcomes

- Obama re-election, by any margin
 - Similar domestic political and economic conditions as last two years, but can take broad and sweeping international economic actions
- Narrow Romney Electoral College win, Obama popular vote win
 - Replay of Bush/Gore, probably divided Congress
- Romney win, probably with narrow Senate win & wider House majority
 - Depending how close presidential win is, can be a major shift in economic policy

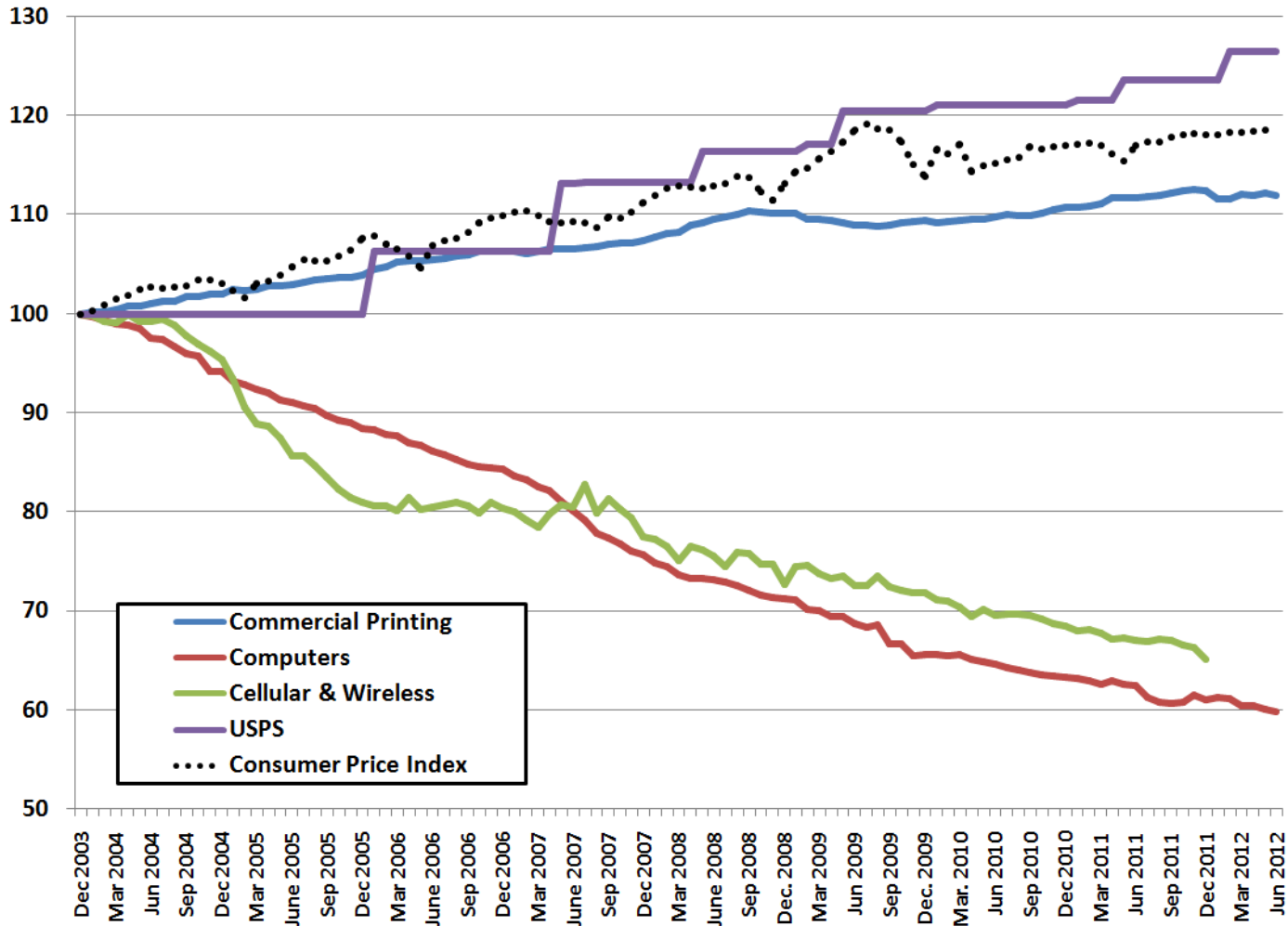


Printing Gets Cheaper Every Day

Prices Lag the Overall Inflation Rate

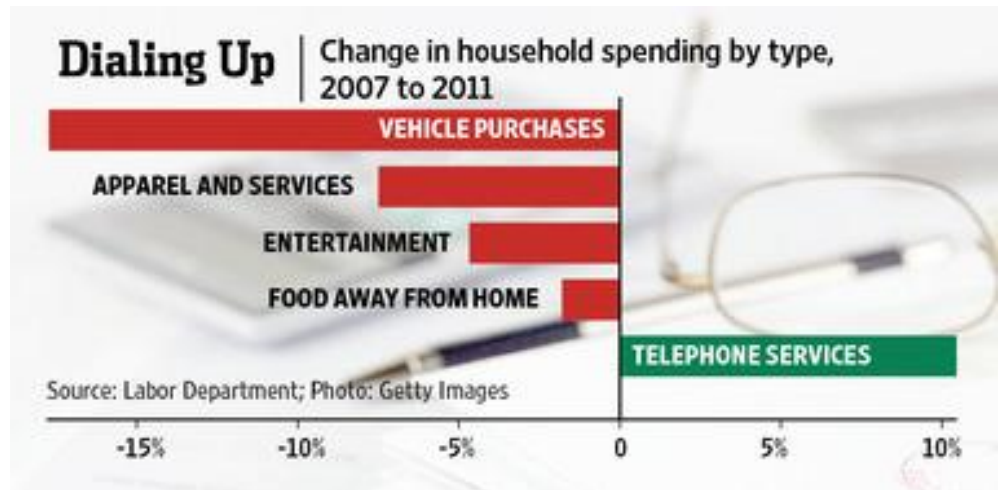


... But Not Cheap Enough?



“Cellphones Are Eating the Family Budget,” WSJ 9/26/2012

- *Wireless carriers are betting they can pull bills even higher by offering faster speeds on expensive new networks and new usage-based data plans.*
- "Speed entices more usage," Verizon CFO Fran Shammo



What Happens When Connectivity is “Free”?



FreedomPop BETA



100% free high speed internet – any device, anywhere!

- Free Data** - guaranteed 500MB FREE every month
- Fast Speeds** - internet at 4G speeds (10x faster than 3G)
- No Gimmicks** - no data caps or throttling speeds
- Take It With You** - use at home, the office, or wherever you go
- No Contracts** - cancel anytime without fees or commitment

US Commercial Printing Forecasts

Note: 2011 shipments were \$83.3B	FORECASTS BY STATISTICAL MODELS			SFM/WTT ERC Qualitative Forecast
	Conservative	Aggressive	GDP (+2.5%)	
2012	\$80.8	\$77.2	\$88.2	\$79.0
2013	\$77.6	\$66.8	\$82.4	\$75.5
2014	\$74.4	\$58.4	\$76.5	\$71.0
2015	\$71.2	\$49.5	\$70.4	\$65.0
2016	\$68.2	\$40.1	\$64.2	\$58.0
2017	\$65.4	\$30.3	\$57.8	\$53.0
2018	\$62.6	\$20.0	\$51.2	\$48.0

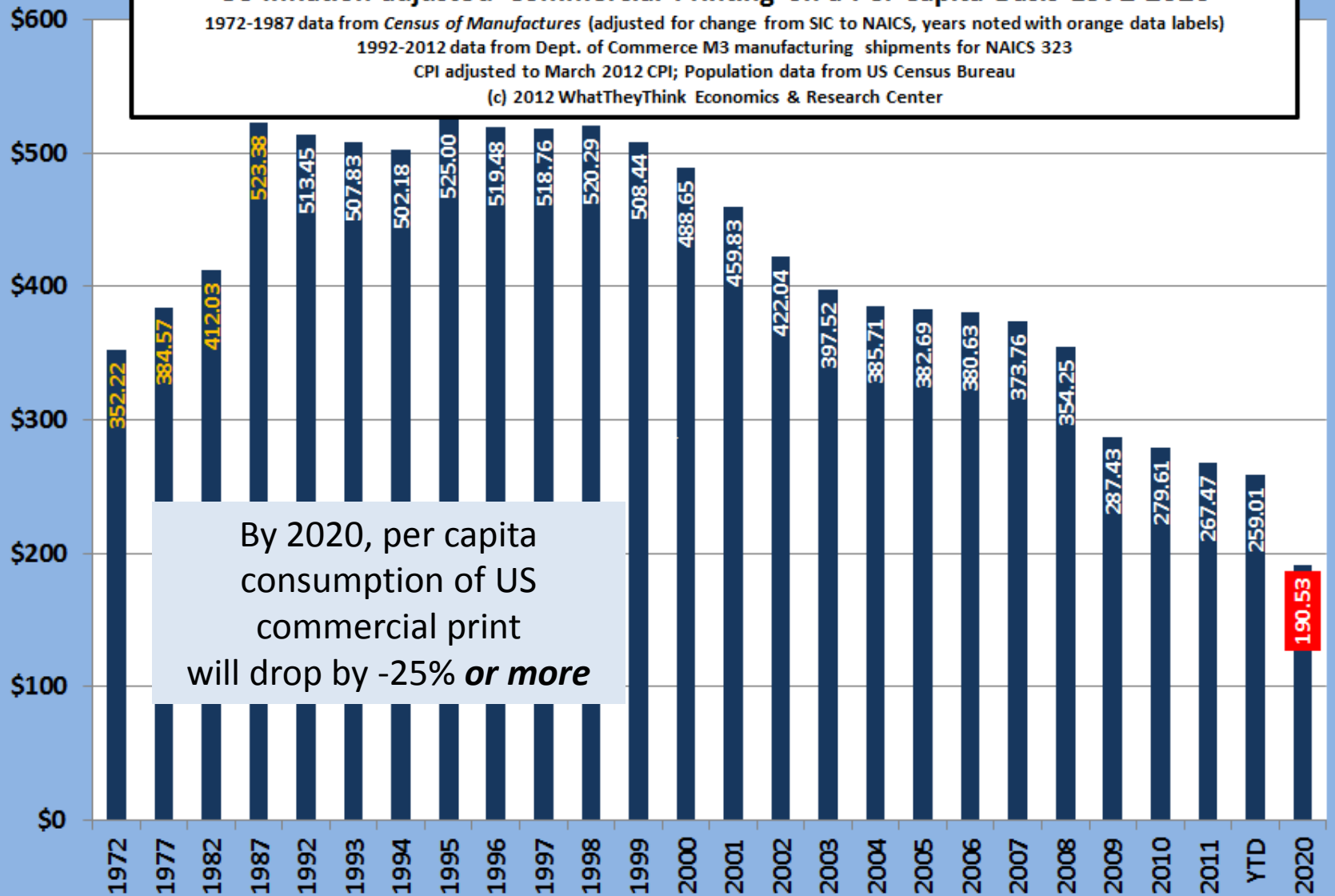
US Inflation-adjusted Commercial Printing on a Per Capita Basis 1972-2020

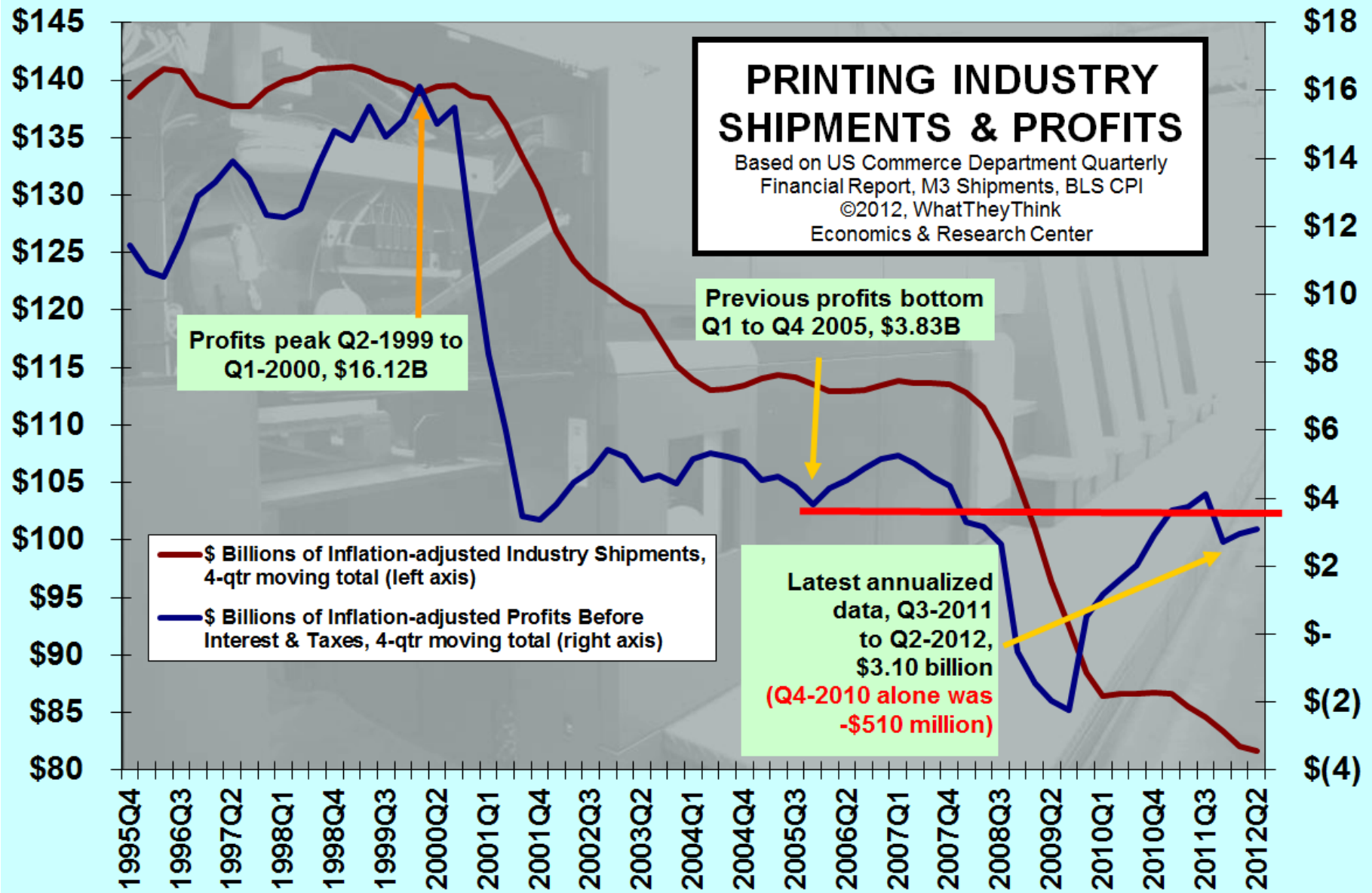
1972-1987 data from *Census of Manufactures* (adjusted for change from SIC to NAICS, years noted with orange data labels)

1992-2012 data from Dept. of Commerce M3 manufacturing shipments for NAICS 323

CPI adjusted to March 2012 CPI; Population data from US Census Bureau

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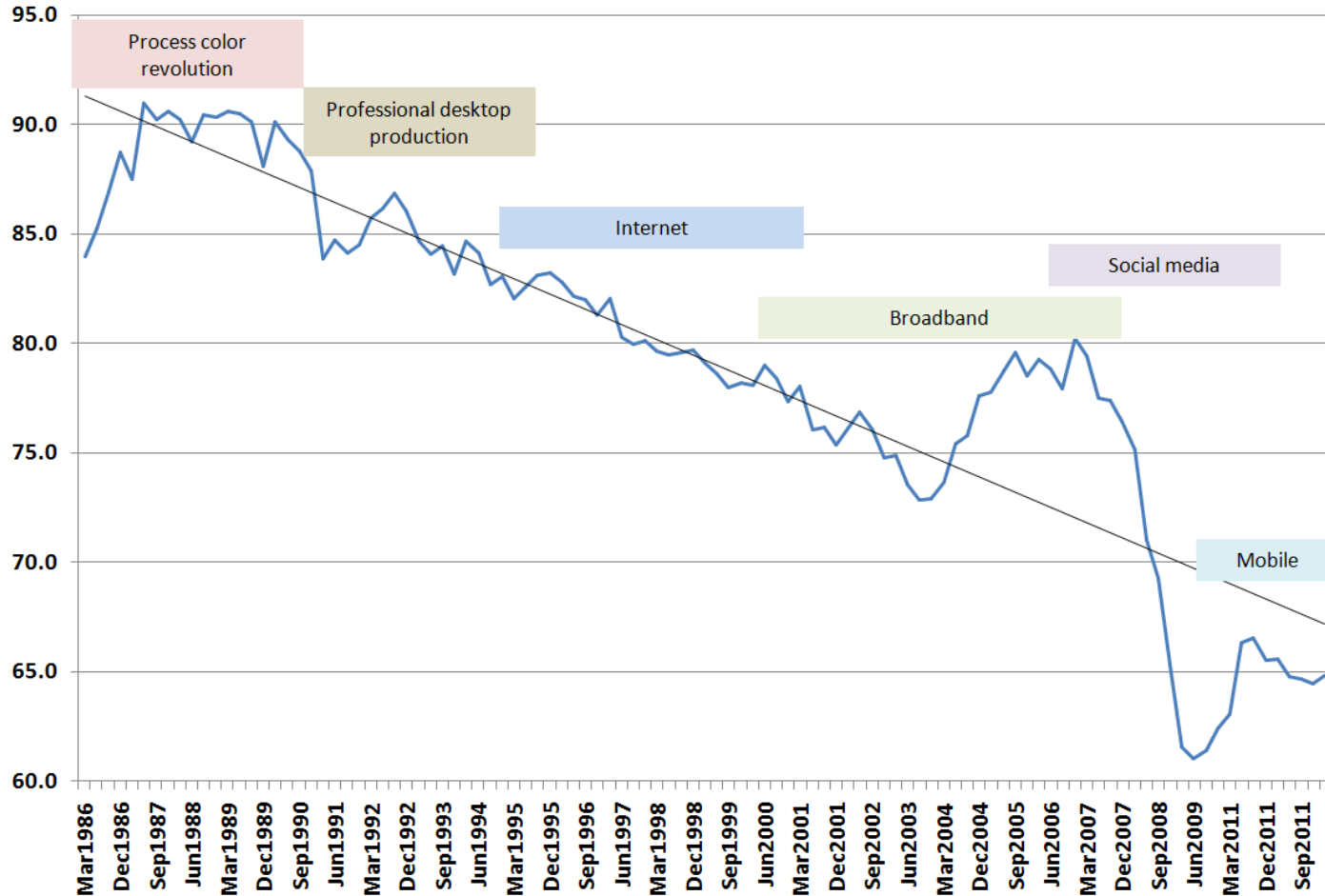




How the Other 3/4 Lives

PIA Profits	All Printers	Profits Leaders	The Other 3/4
2000	3.1%	10.5%	0.6%
2001	1.0%	8.0%	-1.3%
2002	1.6%	8.4%	-0.7%
2003	1.7%	8.7%	-0.6%
2004	2.5%	9.4%	0.2%
2005	2.7%	10.3%	0.2%
2006	3.4%	10.1%	1.2%
2007	3.1%	9.7%	0.9%
2008	1.5%	9.4%	-1.1%
2009	-1.4%	7.0%	-4.2%
2010	1.4%	9.5%	-1.3%
2011	1.8%	9.6%	-0.8%
AVERAGE	1.9%	9.2%	-0.6%

Capacity Utilization Declining for 25+ Years



CapEx investment rate shrinks

- CapEx decreases from 5% to 3% of sales
- Long-term CapEx giving way to “steady stream” CapEx

Year	Capex as % of Shipments	% of Capex for Used Equipment
1998	4.9%	8.5%
1999	4.3%	5.4%
2000	4.0%	4.3%
2001	3.6%	7.4%
2002	4.1%	19.9%
2003	4.0%	11.9%
2004	3.7%	6.0%
2005	3.6%	3.6%
2006	3.6%	3.5%
2007	4.2%	3.8%
2008	4.0%	5.6%
2009	3.0%	16.3%
2010	2.8%	4.1%
AVERAGE	3.8%	7.7%

Fewer US Commercial Printing establishments: down 1/3 by 2020

Year	1-9	10-19	20-49	50-99	100+	Total
2011est	19,709	3,632	2,781	1,123	886	28,131
2012est	19,154	3,442	2,633	1,058	840	27,127
2015fc	17,488	2,873	2,190	862	706	24,119
2020fc	14,711	1,924	1,451	536	494	19,115
2025fc	11,934	975	711	210	316	14,146

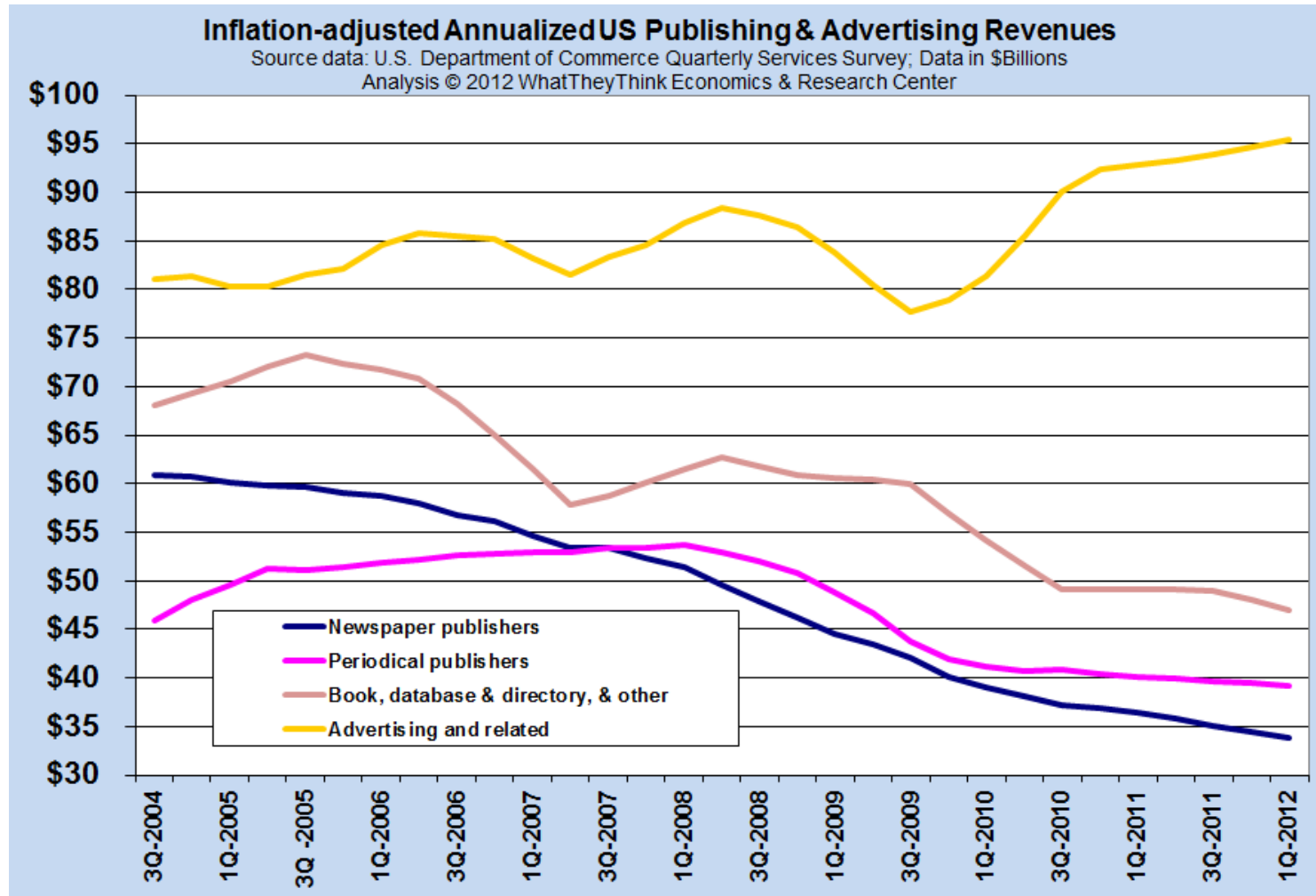
... or worse...

**-40% from
2012 to 2020**

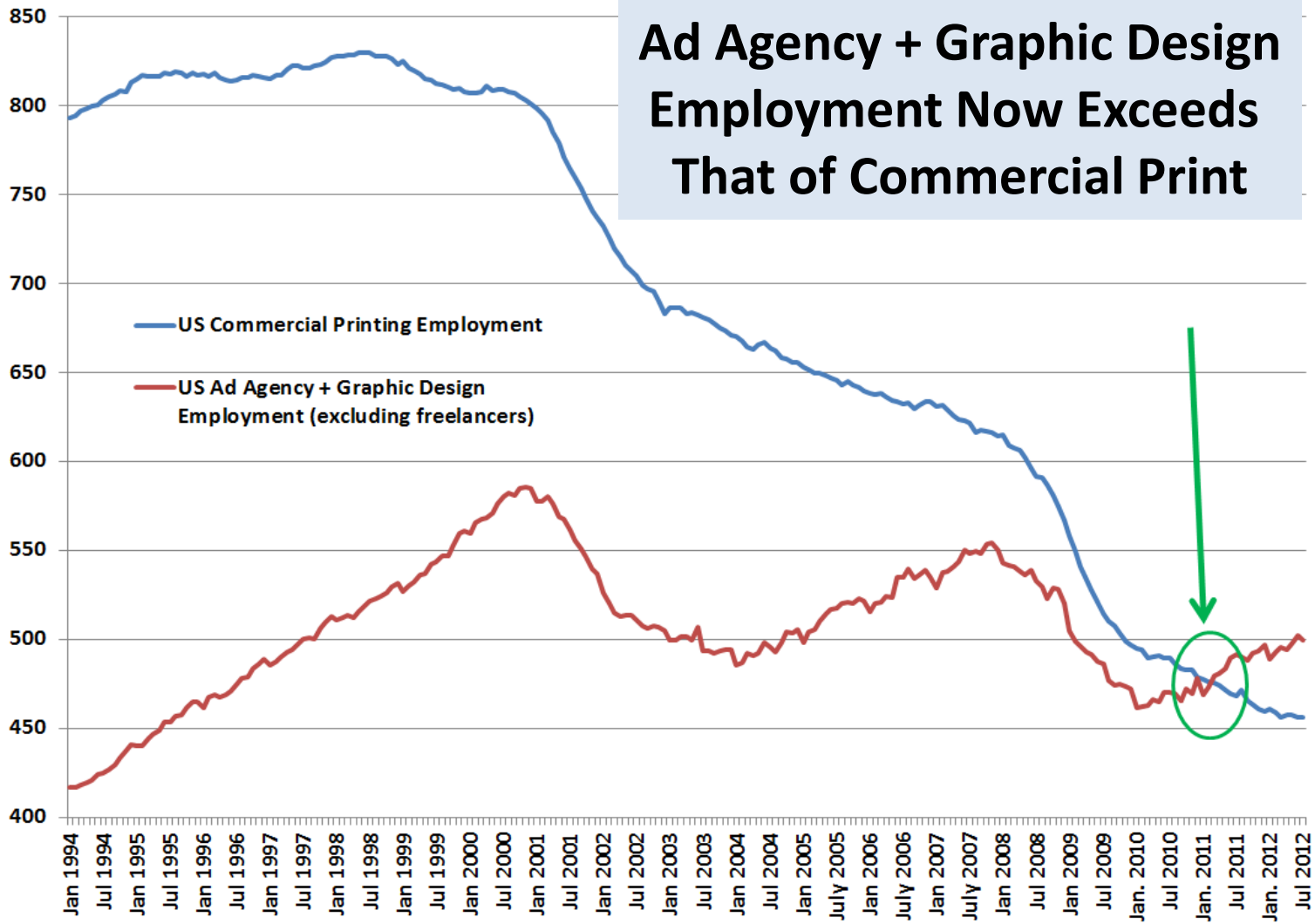
Commercial Printing is Now an
Industry of Niche Specialties:
“Mainstream” Print
is a 20th Century Idea

**Products are Ideas Applied to
Client-Specific Objectives
in Creative Ways**

Content is Still Being Created



Ad Agency + Graphic Design Employment Now Exceeds That of Commercial Print



Ad Agencies Move to Digital Media Production & Strategic Counsel

Digital Tactics and Services Most Often Used by US Marketers and Sold by Agencies, 2009 & 2012

% of respondents in each group

	2009		2012	
	Marketers	Ad agencies	Marketers	Ad agencies
Web development	54%	70%	87%	83%
Online advertising	37%	59%	74%	66%
Social/digital media planning/buying	-	-	55%	60%
Video production	31%	41%	43%	48%
Mobile marketing	13%	24%	43%	34%
Strategic counsel	20%	59%	16%	76%
Blog content development	29%	40%	28%	39%
Blog monitoring	39%	33%	28%	26%
Podcasting	7%	13%	8%	6%

Source: RSW/US, "2009-2012 Changes in Digital/Social Media: Marketer & Agency Perspective," June 13, 2012

141840

www.eMarketer.com

Convenience & Immediacy Drive the Media Shift



versus



Apple sold more than 17M iPads last quarter (more than 185,000 per day!)

 BREAKING

We're live with coverage of Apple's Q3 earnings call

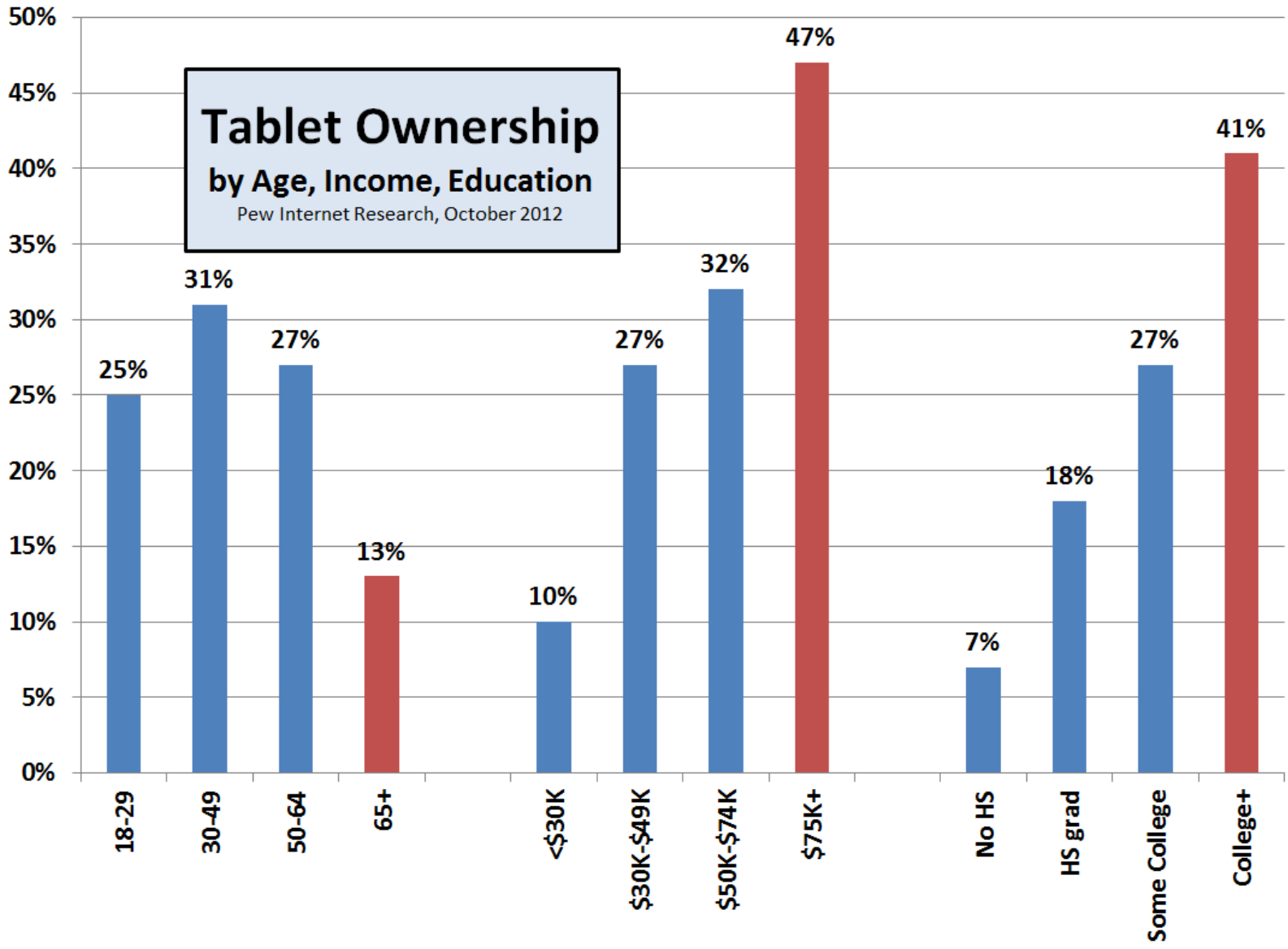
CNET > News > Apple

Apple Q3 earnings: \$35B in revenue, 26M iPhones, 17M iPads

Apple missed Wall Street's expectations for its third-quarter earnings, but the company beat its own estimates, and set a record for iPad sales.

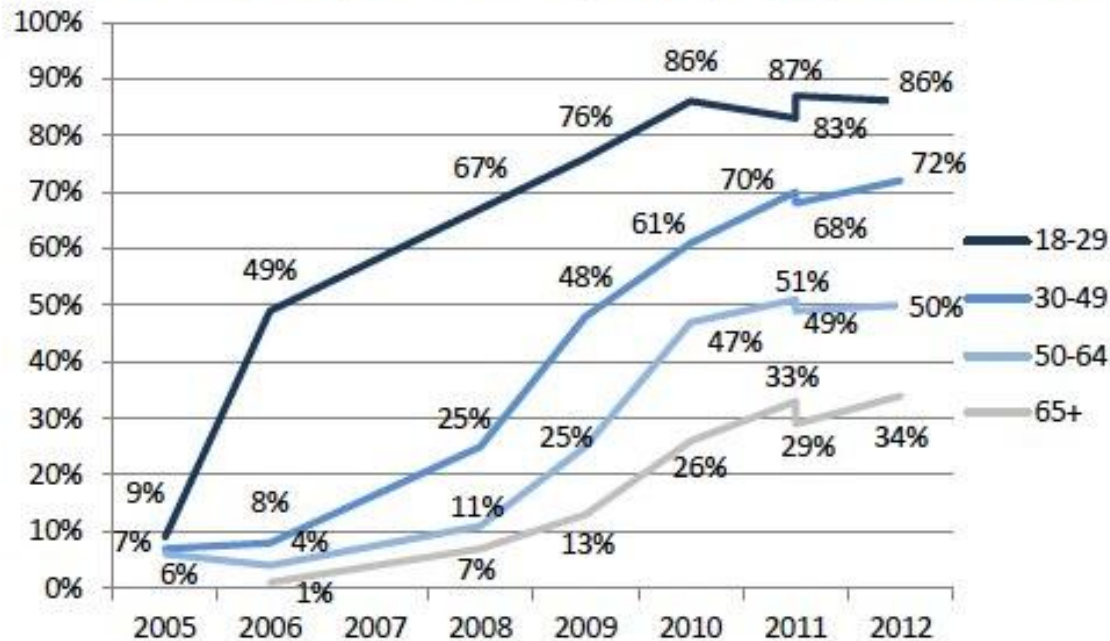
2.16 iPads/second





Social Network Use Increasing Across All Age Groups

Social networking site use by age group, 2005-2012



Note: Total n for internet users age 65+ in 2005 was < 100, so results for that group are not included.

Source: Pew Research Center's Internet & American Life Project surveys: February 2005, August 2006, May 2008, April 2009, May 2010, and May 2011, and February 2012.

Despite Disappointment on Wall Street, Social Media Companies are Growing

- Groupon
 - >10,000 employees
 - \$1.2 billion in cash
 - 38 million active users; 100,000 merchants
- Facebook
 - 4,000 employees
 - Nearly 1 billion monthly active users
- LinkedIn (Wall Street likes this one!)
 - \$45 IPO, now \$130 per share
 - >2,800 employees
 - 175 million members worldwide

The Paradox

- Printers must use modern communications media to sell print
- New digital communications media companies have trouble monetizing their dreams
 - But their infrastructure and business methods persist
- If printers do not sell new media services, they need to support client's new media use

Creative Tension:

Flexibility and a Unshakable Foundation

- Print business culture starts with the owner
- CapEx is an expression of the purpose of the organization and its ability to assess the future
- When the judgments of the future prove incorrect (positive or negative), does the business adapt or dig in its heels?
- Victim of circumstance or navigator of conditions?

What Inhibits Flexibility?

- Lack of youth in print organizations of all types is deadly
- Paralysis of finance structure ill-suited for the marketplace, limits freedom of action
- Employee selection that supports status quo
- Technology is the strategy
- Low understanding of customer motivations
- Emphasis on transactions and not relationships
- Hands-on in the shop creates market myopia

Unshakable Foundation

- The proper role of debt
- Planning scenarios for unlikely outcomes
- Confidence from market knowledge
- Relationships favored over transactions
- Diversity of thought and approach
- Technology as a tool, not a strategy
- Hands-on in the marketplace, not in the shop

The “Answers”

- Not all printers should be marketing services providers, but they need to work in the new context of media in a way that makes sense
- There is no standard way to run a profitable printing business; profitable companies set their own standards
- CapEx needs to be a steady stream, not singular event
- Employment actions support a strategy, not a task
- Niche strategies are essential but all niches are temporary
- The value of a business is determined by how it takes control during periods of adversity

Commercial Printing's
Survivors Will be
Healthier
Smaller
Media Integrated
Focused on Specialties
Broadly Dispersed

QUESTIONS

Thank You Very Much!