



unisource®



Nancy Sobhy
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Paper and Wide Format



Digital Printing Survey Summary Results

September 10, 2013



What They Think?

PRINT® 13

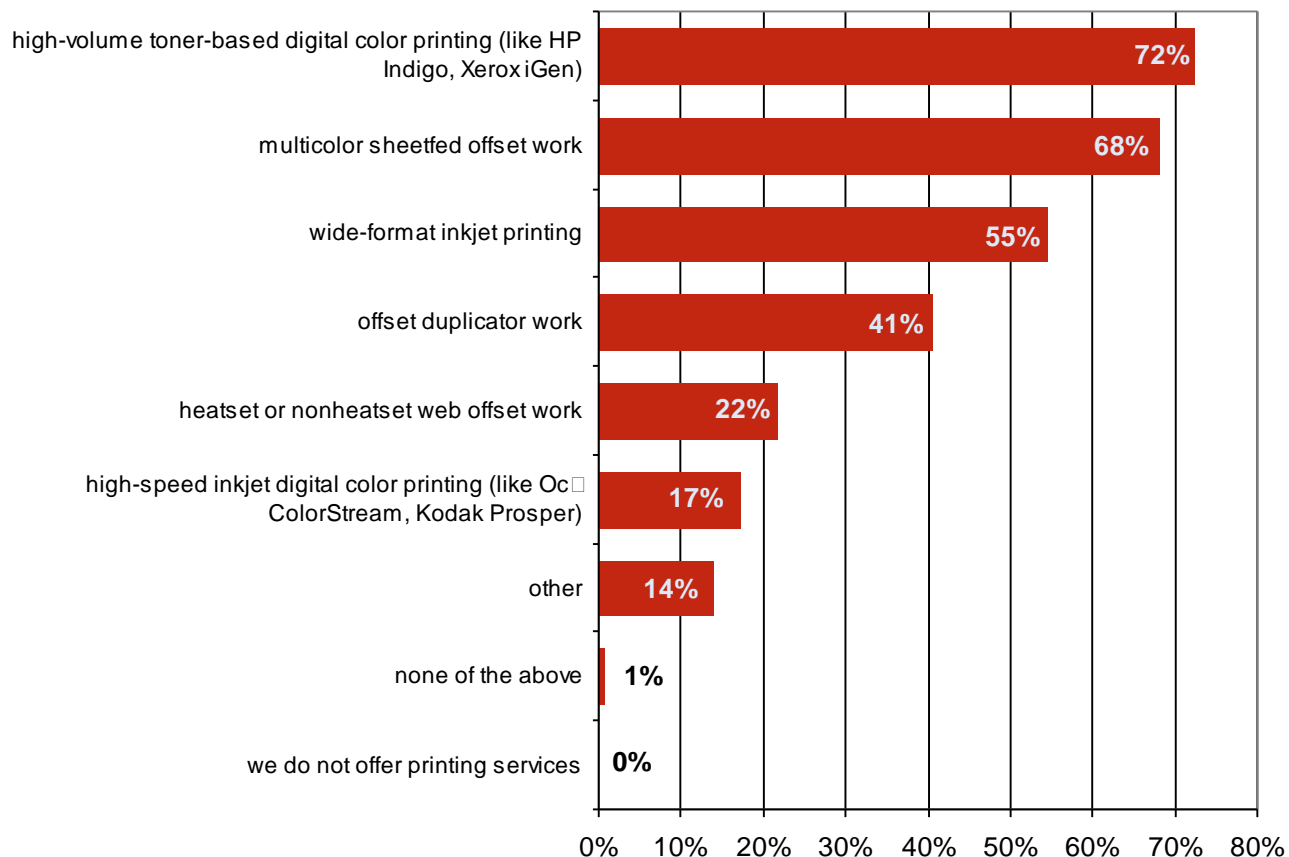
The Unisource/WTT Survey

- Understand concerns and challenges faced by owners of toner-based digital printing equipment in day-to-day operations
 - Quality concerns
 - Page/design elements that present problems
 - Perception of digital print quality and comparison to offset
 - Areas for improvement
 - Where users get general and operational information

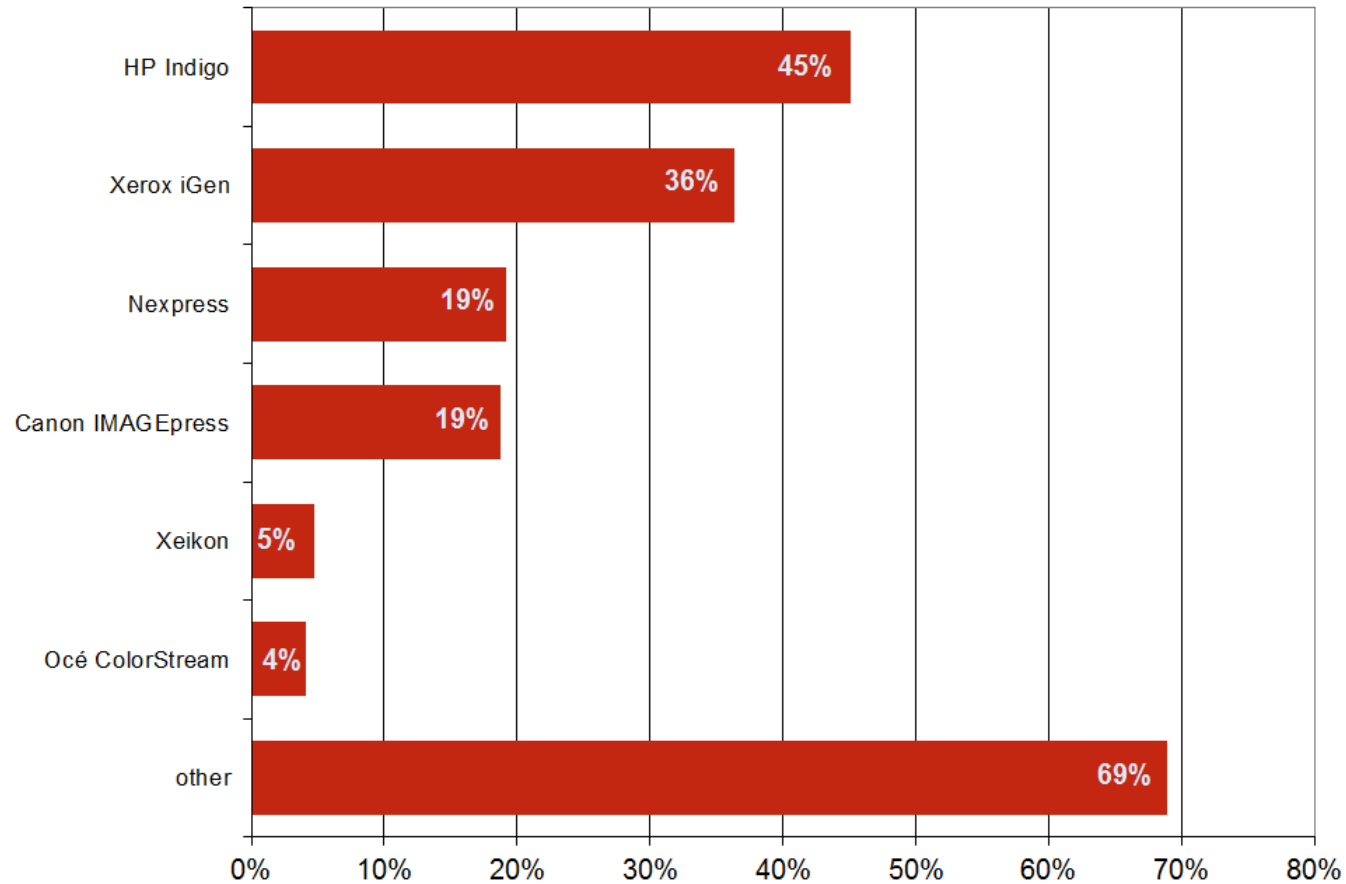
Methodology

- Target: high volume digital color owners
- Invitation to WhatTheyThink subscribers
- Web site banner invitation
- Incentive: PDF of Disrupting the Future
- 417 participants started the survey
- 336 completed questionnaire
- Average response per question was 331

Respondent profile



Equipment ownership profile

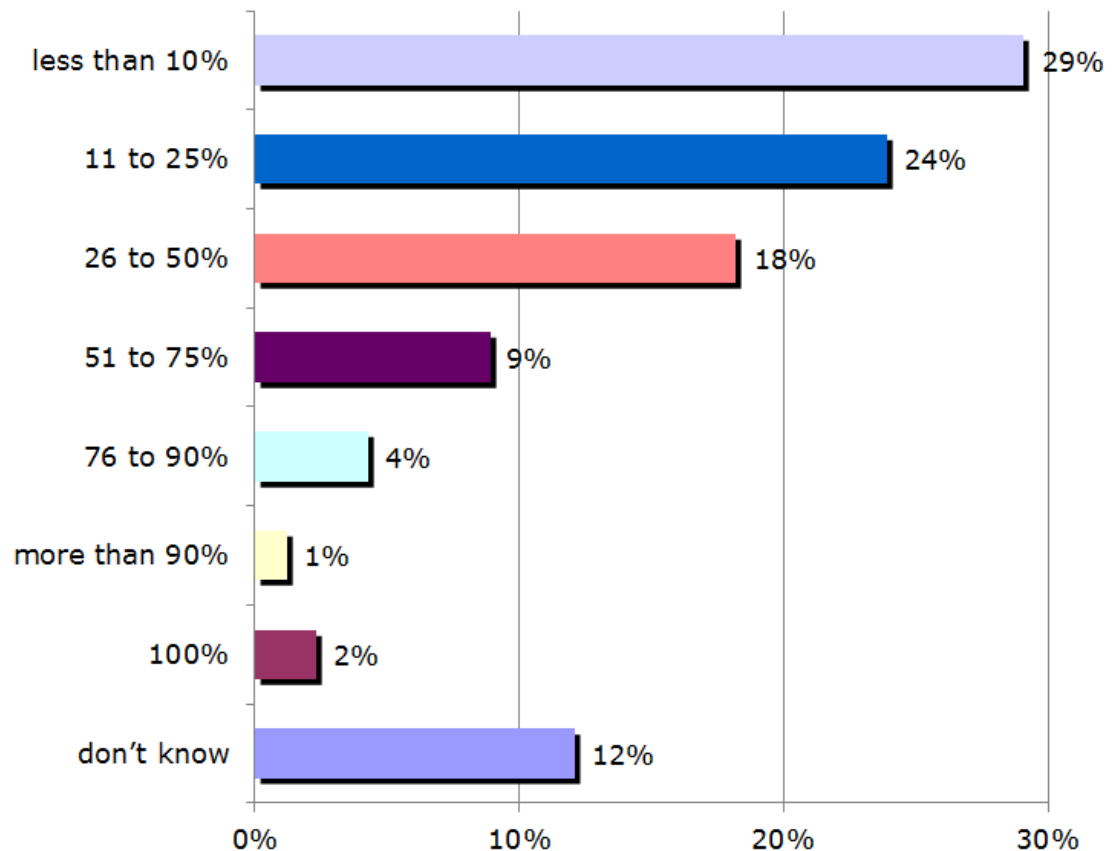


Digital printing as % of total sales

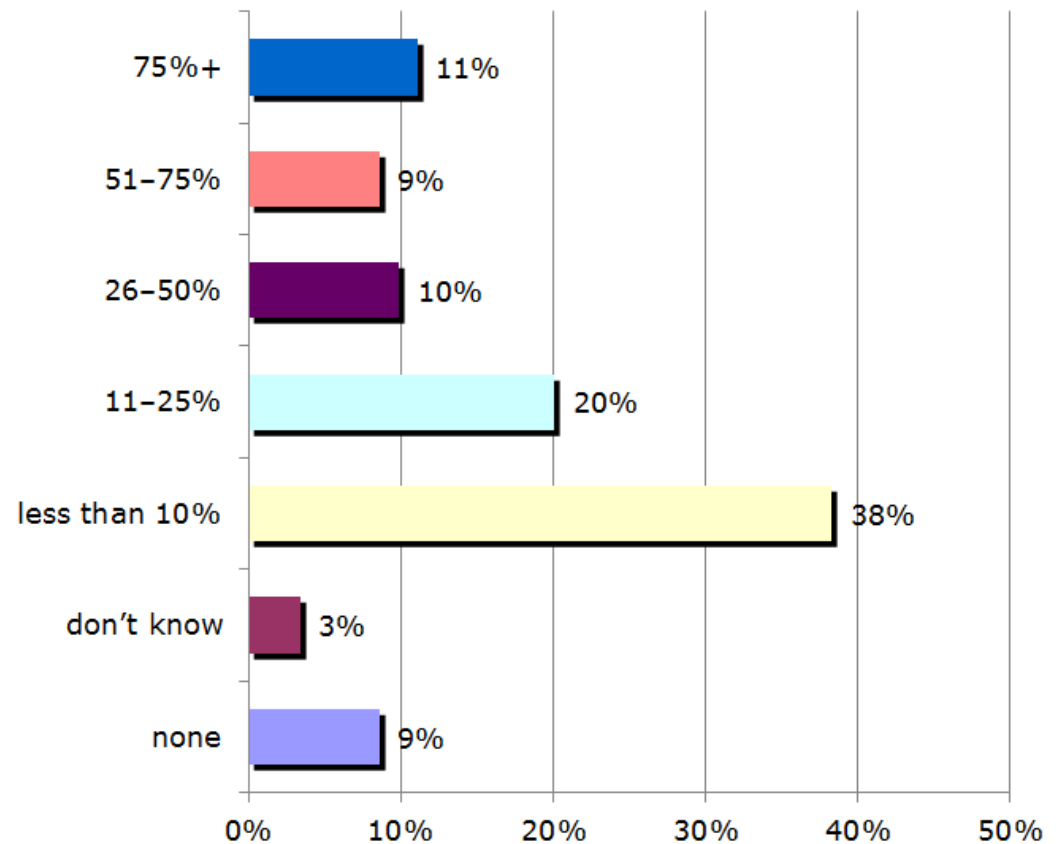
68% do multicolor
sheetfed work

For half of those,
digital printing is
11-50% of sales

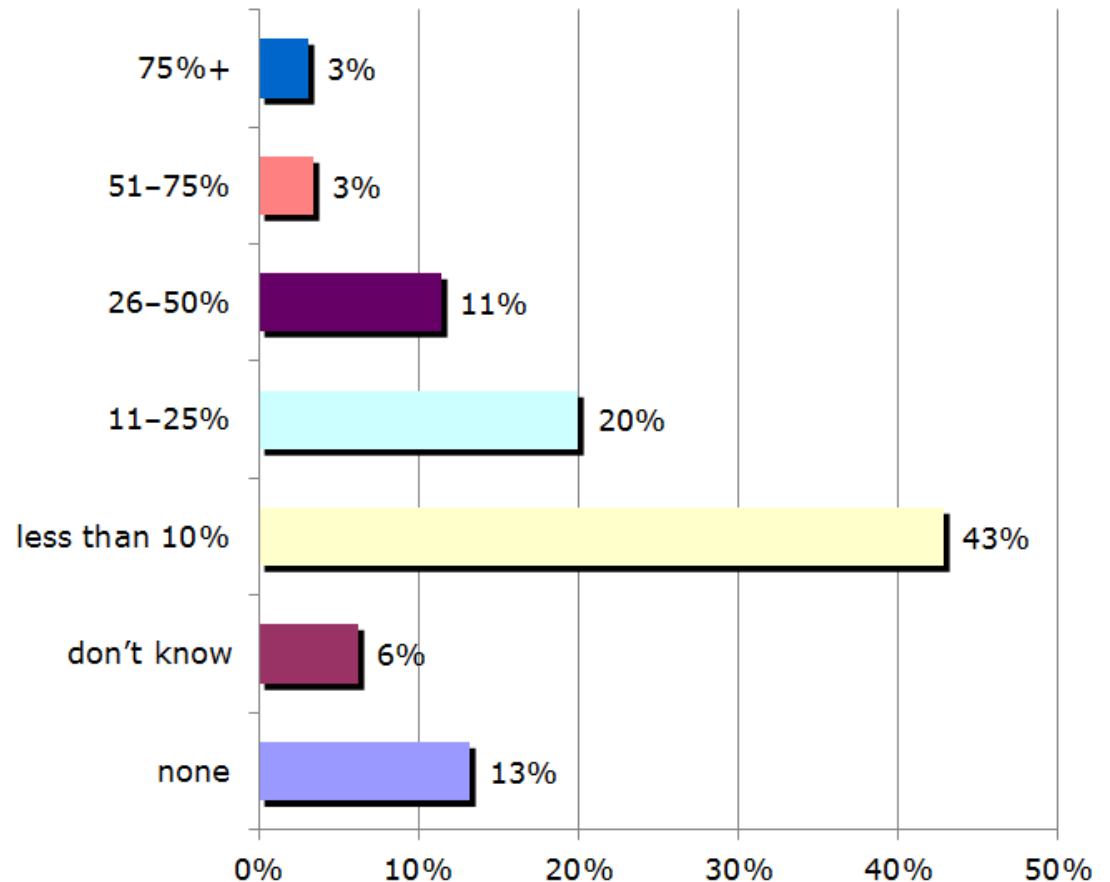
55% do wide-format work



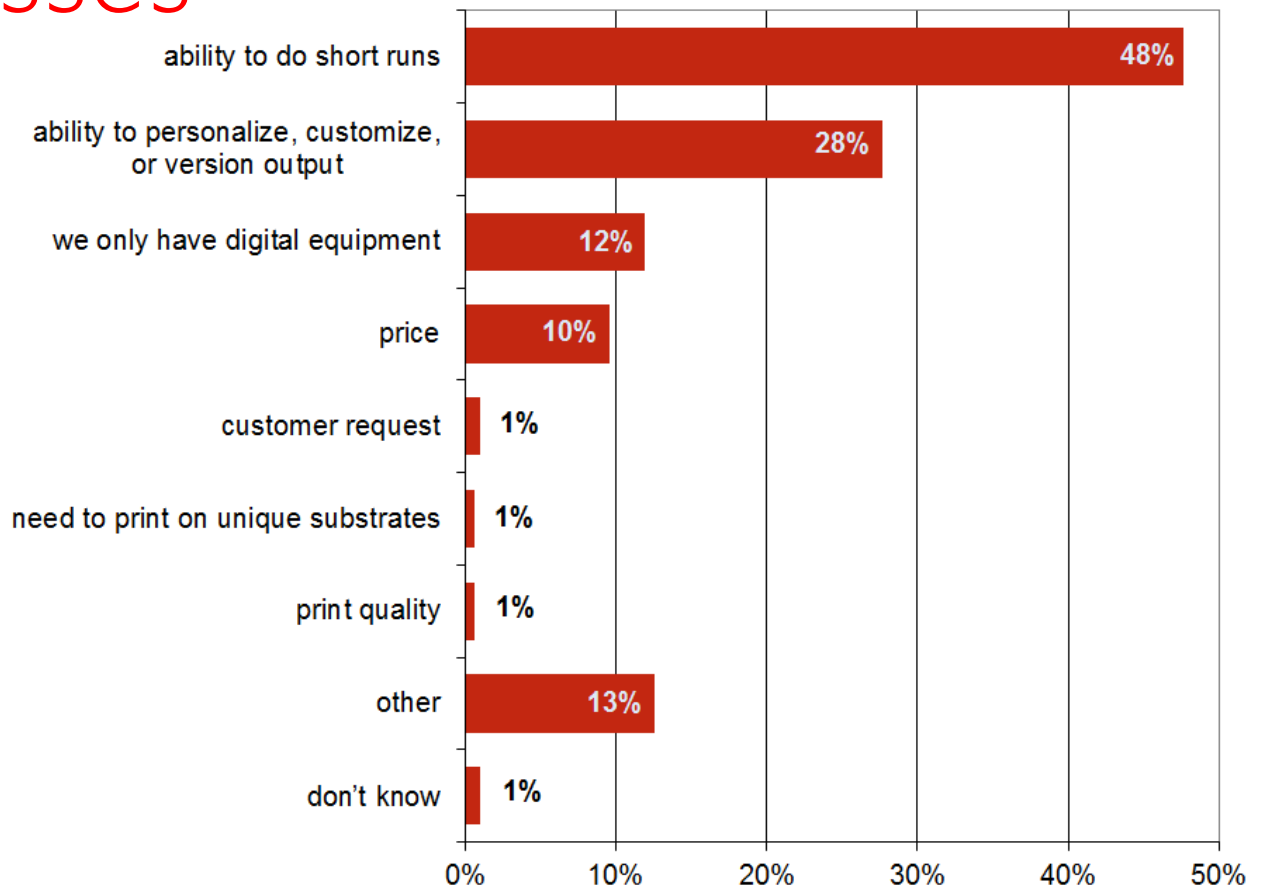
Jobs with any type of variable content



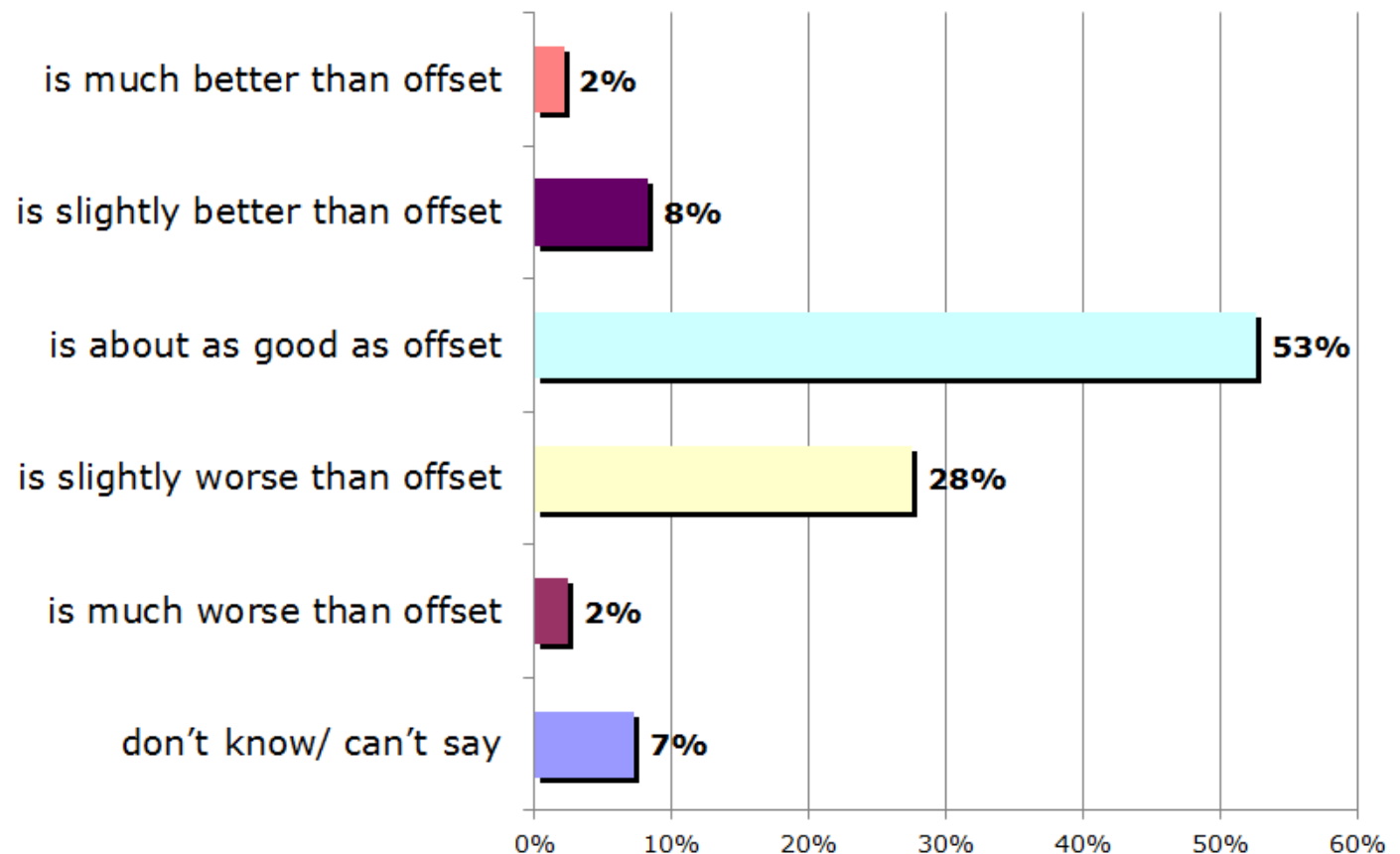
Jobs that are part of cross-media campaigns



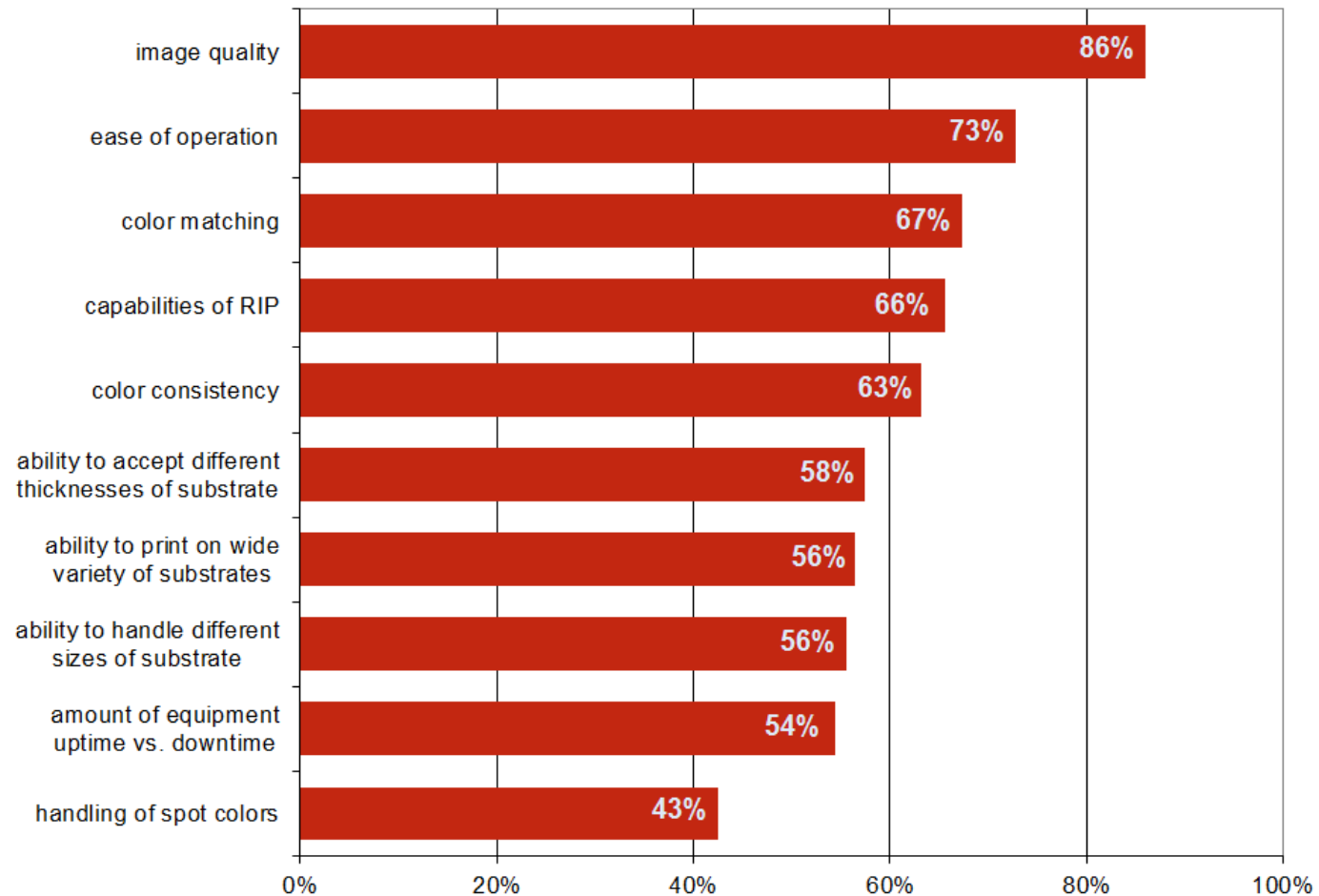
Primary reason jobs are run on digital presses



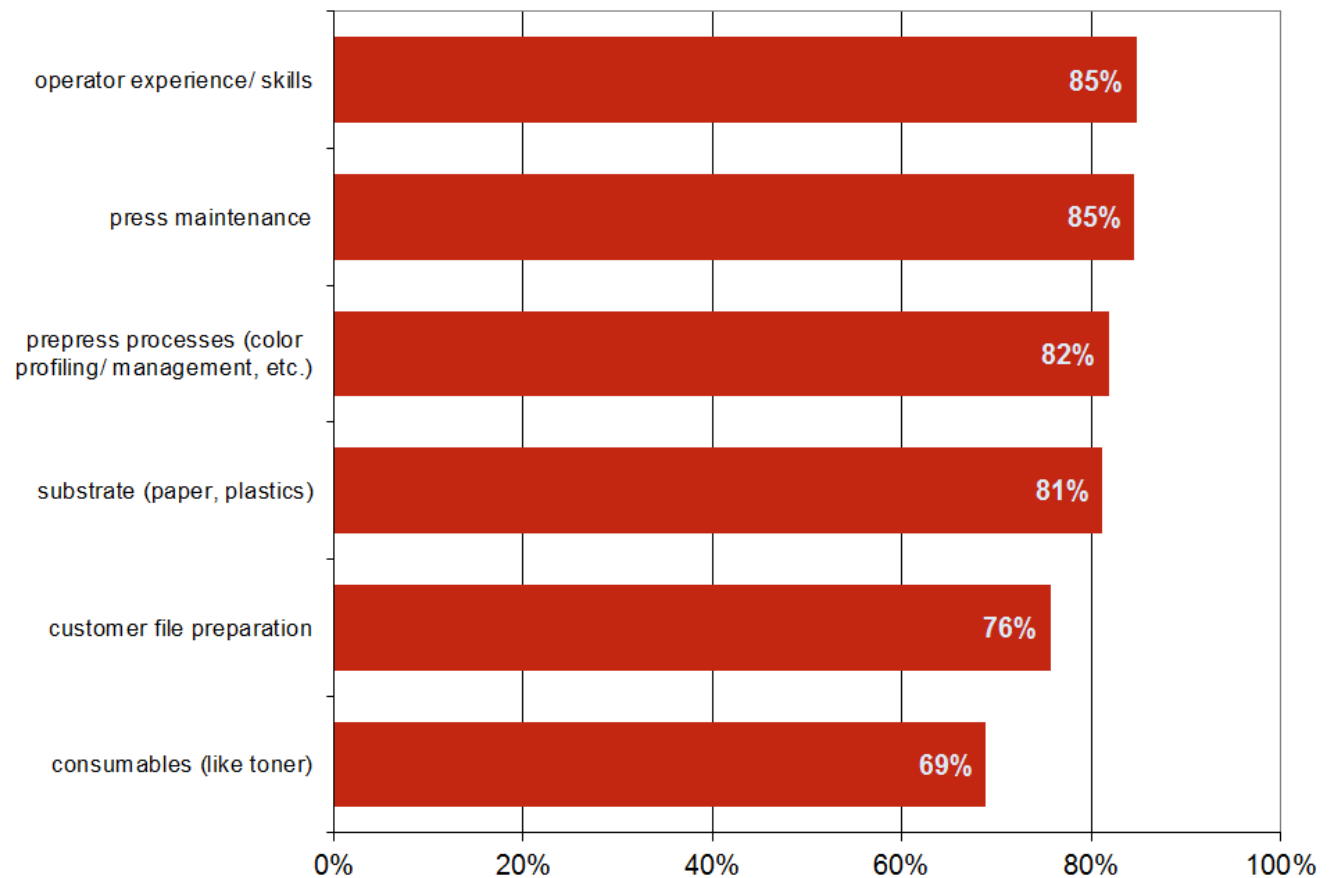
Digital vs. Offset



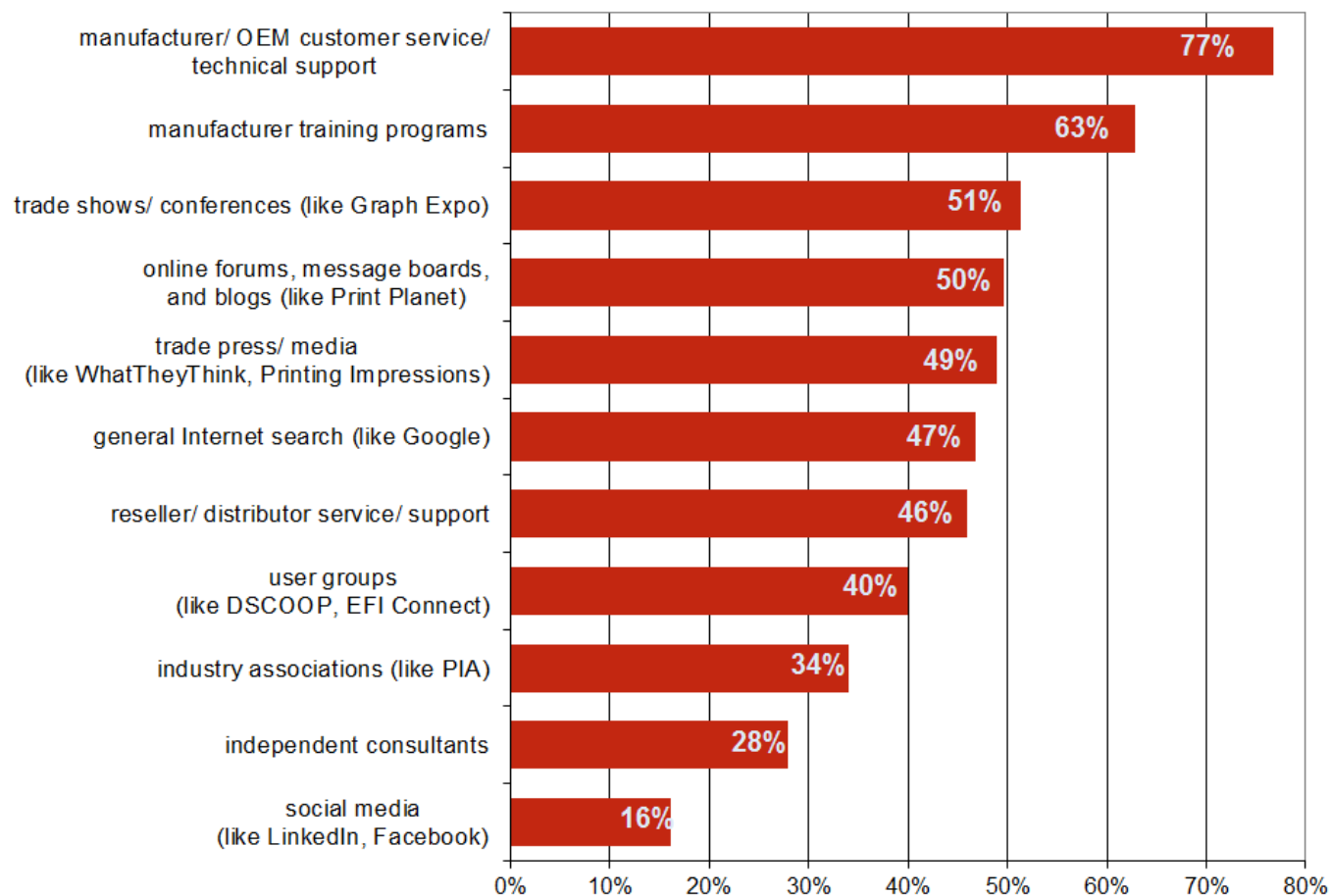
Equipment satisfaction



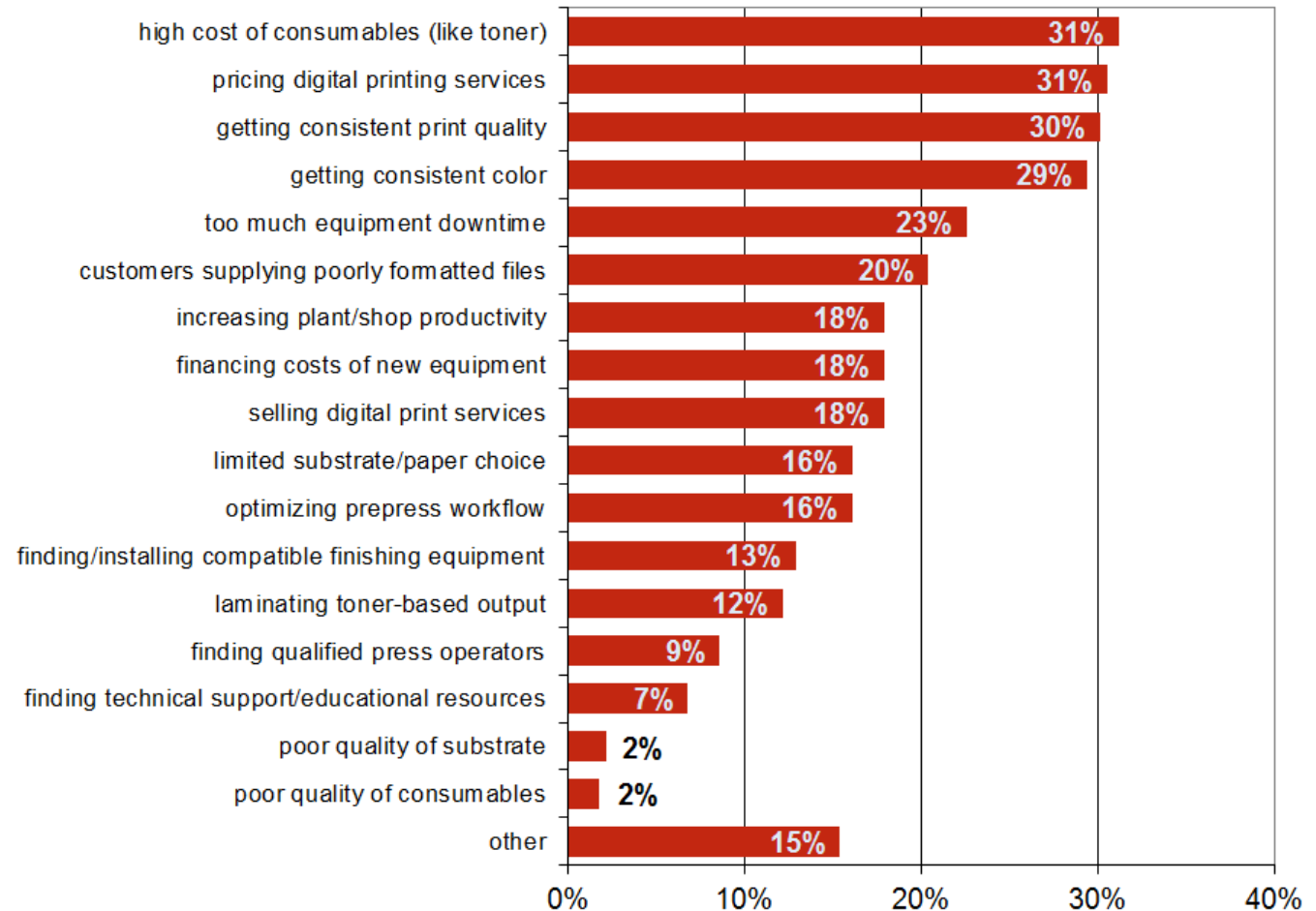
Factors that affect print quality



Helpful information sources



Challenges noted by owners



Summary

- Owners are generally happy with their digital printing equipment
- Most believe that toner-based digital has a quality of output that is less than offset in some way
- In addition to short runs and versioning, fast turnaround was cited a major reason for investment
- Color consistency, reproducing gradients, solids, and custom colors, and other issues are still a major challenge
- Custom colors cited many times in survey as concern and challenge, as are matching PMS or special logo colors
- Some respondents are not satisfied with the level of customer support and repair from their vendors



Economic Outlook

Here we are... still... again...

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Dr. Joe Webb

www.drjoewebb.com

www.linkedin.com/in/drjoewebb/



Agenda

- Economic situation
- The print business
- Awful doomish stuff that makes you squirm in your seats
- Hearty thanks for your attention
(break at 9:45)
- Q&A until 10am
- Hearty thanks again

Balance of 2013

- Continued sluggishness, interest rise in bond market is done for now
- Unemployment “improves” to 7.2%, but is hollow; incomes are still not rising
- Inflation looks “tame” but there are still problems
- Commercial print demand continues slow ebb, -2.5% for year
- Concern for industry suppliers: check the health of your vendors; possible M&A activity or closures for some suppliers, especially CapEx area

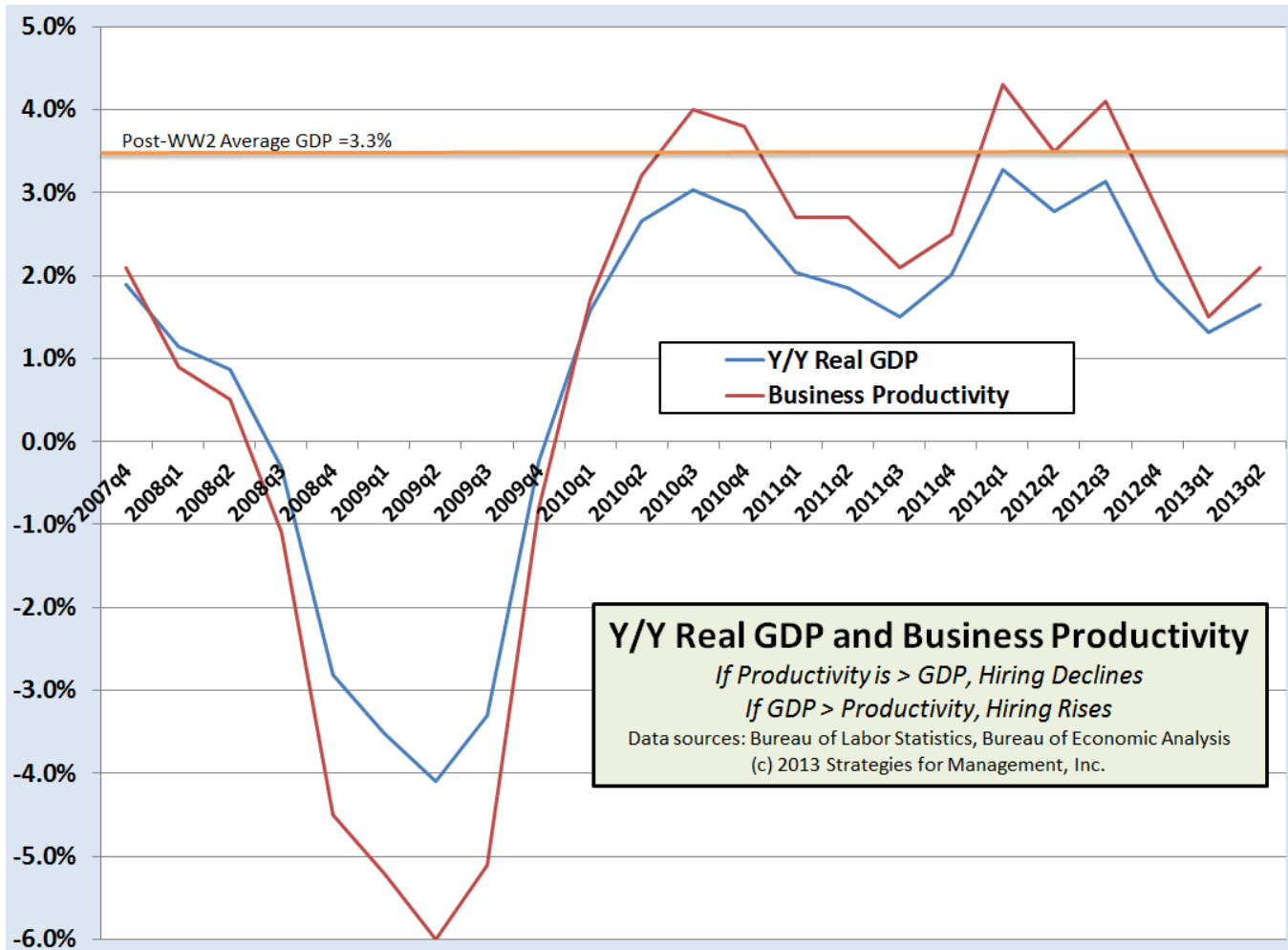
2014

- Contentious political year, “when all is said and done, more will be said than done”
- Corporate spending tepid, efforts to expand digital media
- GDP remains in +2% range
- Interest rates rise slightly, Fed has little freedom of action
- Employment stagnates but does get slightly below 7%; weight of ACA more obvious
- If election held today, Democrats increase seats in House and governorships; Senate stays basically the same
 - Political campaigns focus on “pain” of austerity and how “obstructionists” prevented economic initiatives from having their full beneficial effect

Recovery still moves sideways

| Dr. Joe's Key Recovery Indicators as of 9/5/2013 | 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 | \$985.5 |
| Prior Reading | 3693.0 | 57.7 | 50.5 | 58.3 | 57.5 | \$1,334.6 |
| Latest Data | 3658.8 | 60.5 | 55.0 | 63.2 | 58.0 | \$1,333.3 |
| Change Since Prior Reading | -0.9% | 4.9% | 8.9% | 8.4% | 0.9% | -0.1% |
| Change Since Recession Start | 37.5% | 15.7% | 8.9% | 33.3% | 20.8% | 35.3% |
| Data release used | 9/5 | 9/5 | 9/5 | 9/3 | 9/3 | Q2 Prelim. |
| <p><i>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 2958; it is now +24.8% above that level. The Proprietors Income CPI-adjusted level at the start of the recession was approximately \$1,096B, and is now +21.63% above its Q4-2007 level.</i></p> | | | | | | |

Productivity & GDP



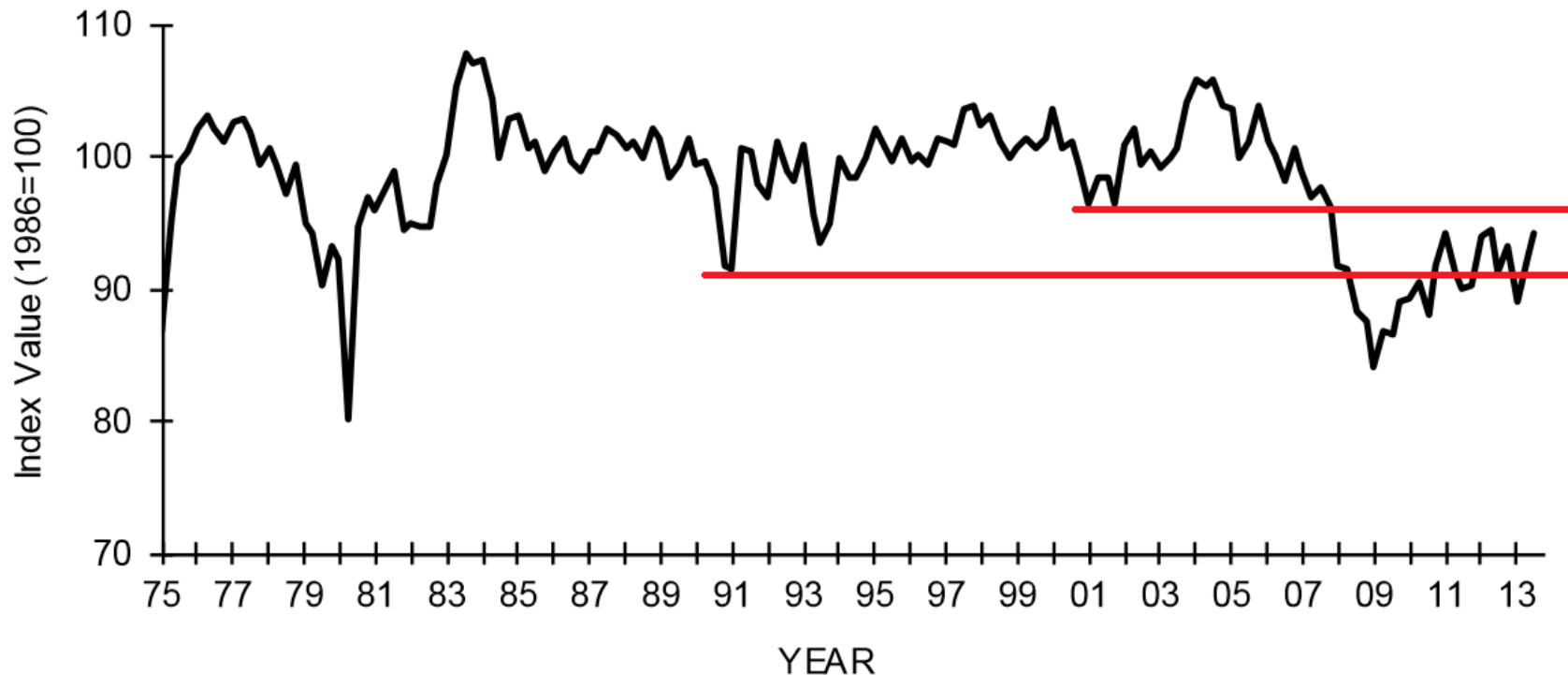
Population-adjusted employment still short 8.9 million jobs

| Comparison of August 2013 Employment Data Since Recession Began (January 2008) | January 2008 | August 2013 | Raw Change | 2008 Levels +0.9% Annual Population Growth Rate | Raw Change if 2008 with Population Adjustment |
|--|-----------------|----------------|---------------|---|---|
| Employment | 146,378 | 144,170 | -2,208 | 153,085 | -8,915 |
| Labor Force | 154,063 | 155,486 | 1,423 | 161,122 | -5,636 |
| Labor Participation Rate | 66.2% | 63.2% | -3.0% | | |
| Unemployed Workers | 7,685 | 11,316 | 3,631 | 8,037 | 3,279 |
| Unemployment Rate | 5.0% | 7.3% | 2.3% | | |
| Unemployed Workers 27+ Weeks | 1,388 | 4,290 | 2,902 | 1,452 | 2,838 |
| 27+ Week Unemployed as % of Total Unemployed | 18.1% | 37.9% | 19.8% | | |
| U-6 Unemployment Rate | 9.2% | 13.8% | 4.6% | | |
| No longer in workforce | 78,554 | 90,473 | 11,919 | 82,153 | 8,320 |

© 2013 Strategies for Management, Inc.; raw data from Bureau of Labor Statistics; recession declared as December 2007; January 2008 used as start point for more recent BLS population estimate for that period; employee data are in thousands (000s).

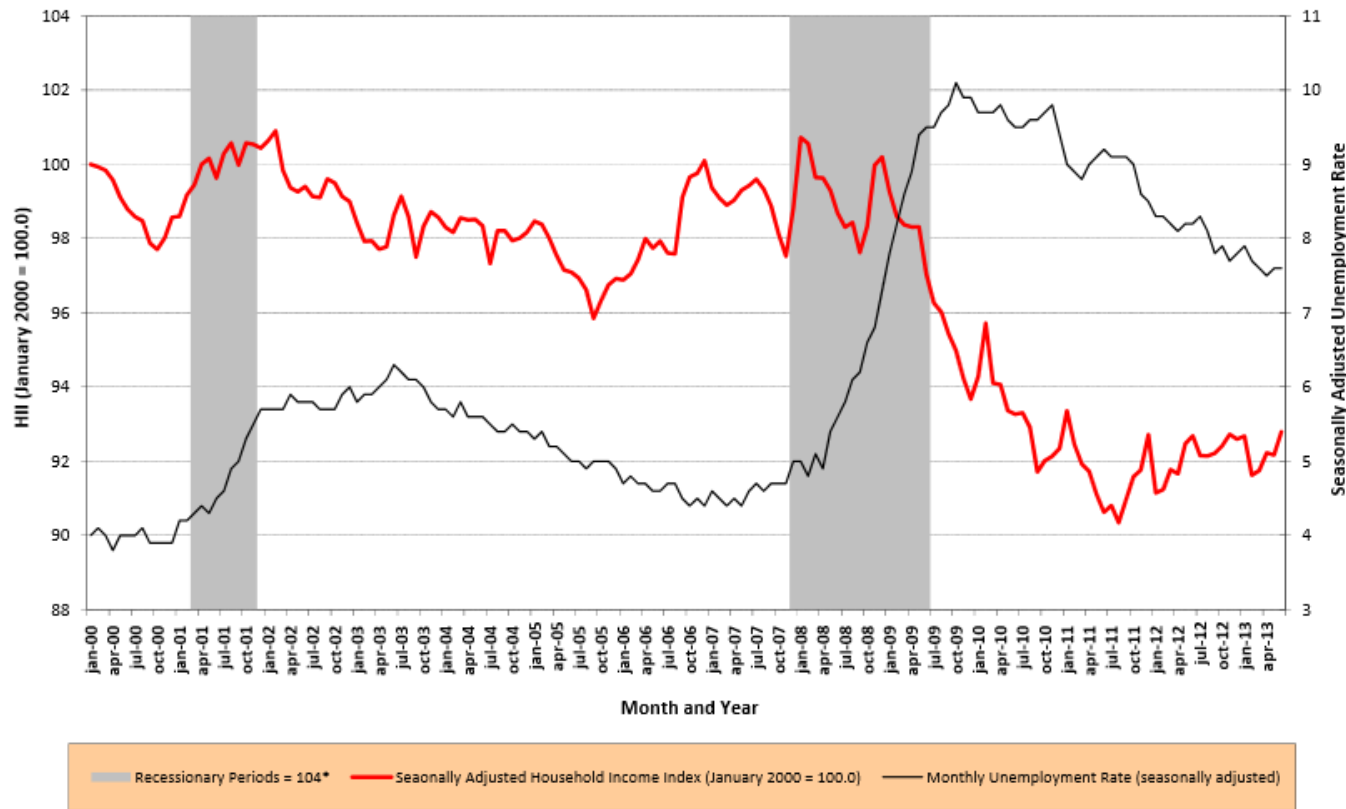
NFIB Small Business Index

trapped between recession bottoms



Incomes remain stagnant

Figure 1.
Median Household Income Index (HII) and Unemployment Rate by Month: January 2000 to June 2013

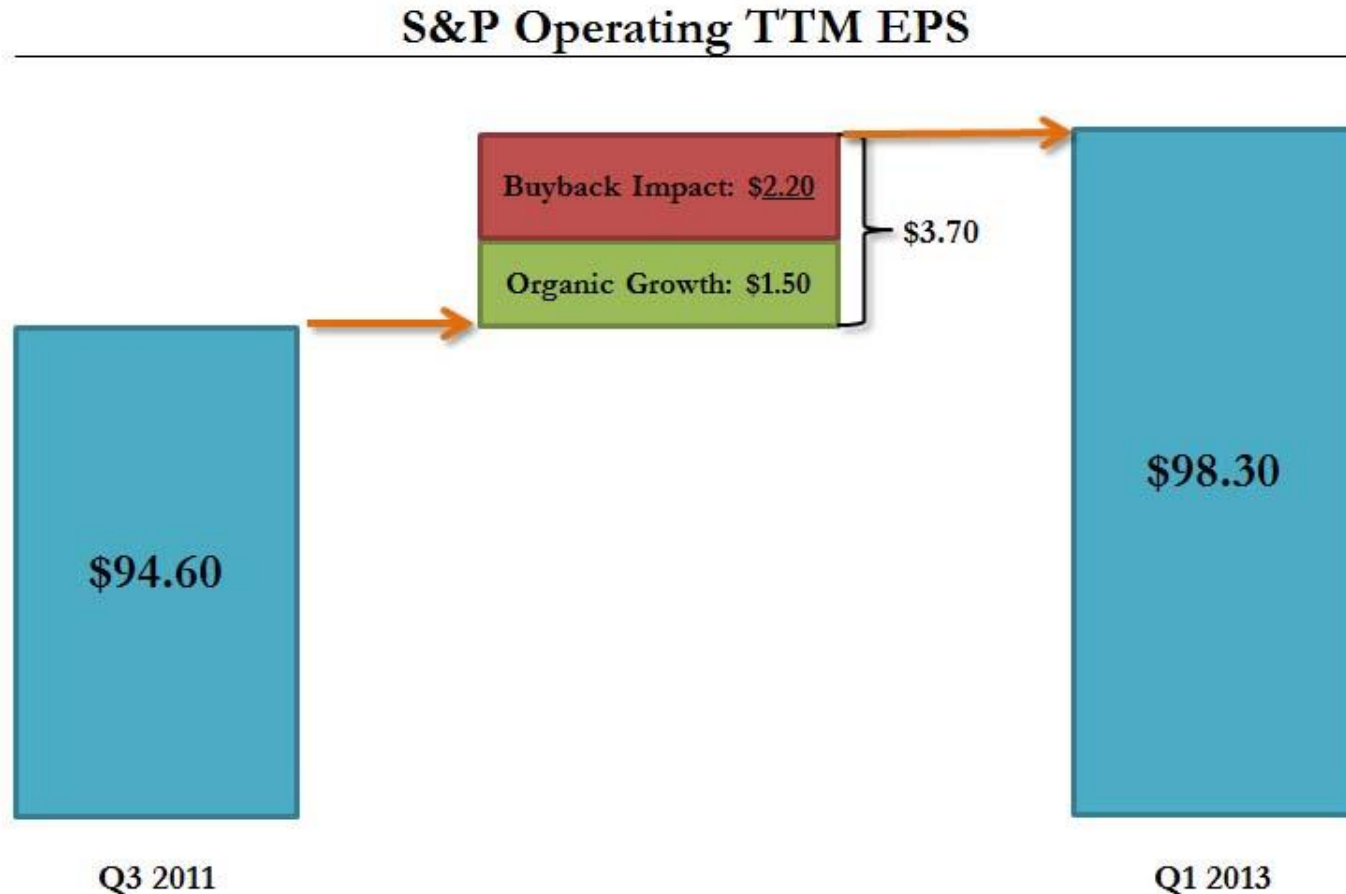


Sources: For income data: Sentier Research, LLC estimates of annual household income derived from the monthly Current Population Survey (CPS) conducted by the U.S. Census Bureau; for labor force data: the U.S. Bureau of Labor Statistics.

Don't believe what you read: stock market is not near highs

| <i>Are stocks at "all-time highs"?</i> | ALL TIME CPI- ADJUSTED HIGHS | CLOSE ON 8/30/2013 | VS ALL- TIME |
|--|---|-------------------------------|-------------------------|
| Russell 2000 | 952 | 1,011 | 6.2% |
| NASDAQ | 6,461 | 3,590 | -44.4% |
| S&P 500 | 2,052 | 1,633 | -20.4% |
| DJIA | 15,958 | 14,810 | -7.2% |

JP Morgan: 60% of stocks rise is buyback-related



Adjust your financials for inflation

| Inflation Multipliers | Year | Multiplier |
|-----------------------|-----------|------------|
| | 2007 | 1.112 |
| | 2008 | 1.111 |
| | 2009 | 1.082 |
| | 2010 | 1.066 |
| | 2011 | 1.035 |
| | 2012 | 1.017 |
| | 2013-July | 1.000 |

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The Counterproductive Economic Environment

Emphasizes efficiency, not expansion; survival, not growth



- **Efficiency investments get first preference**

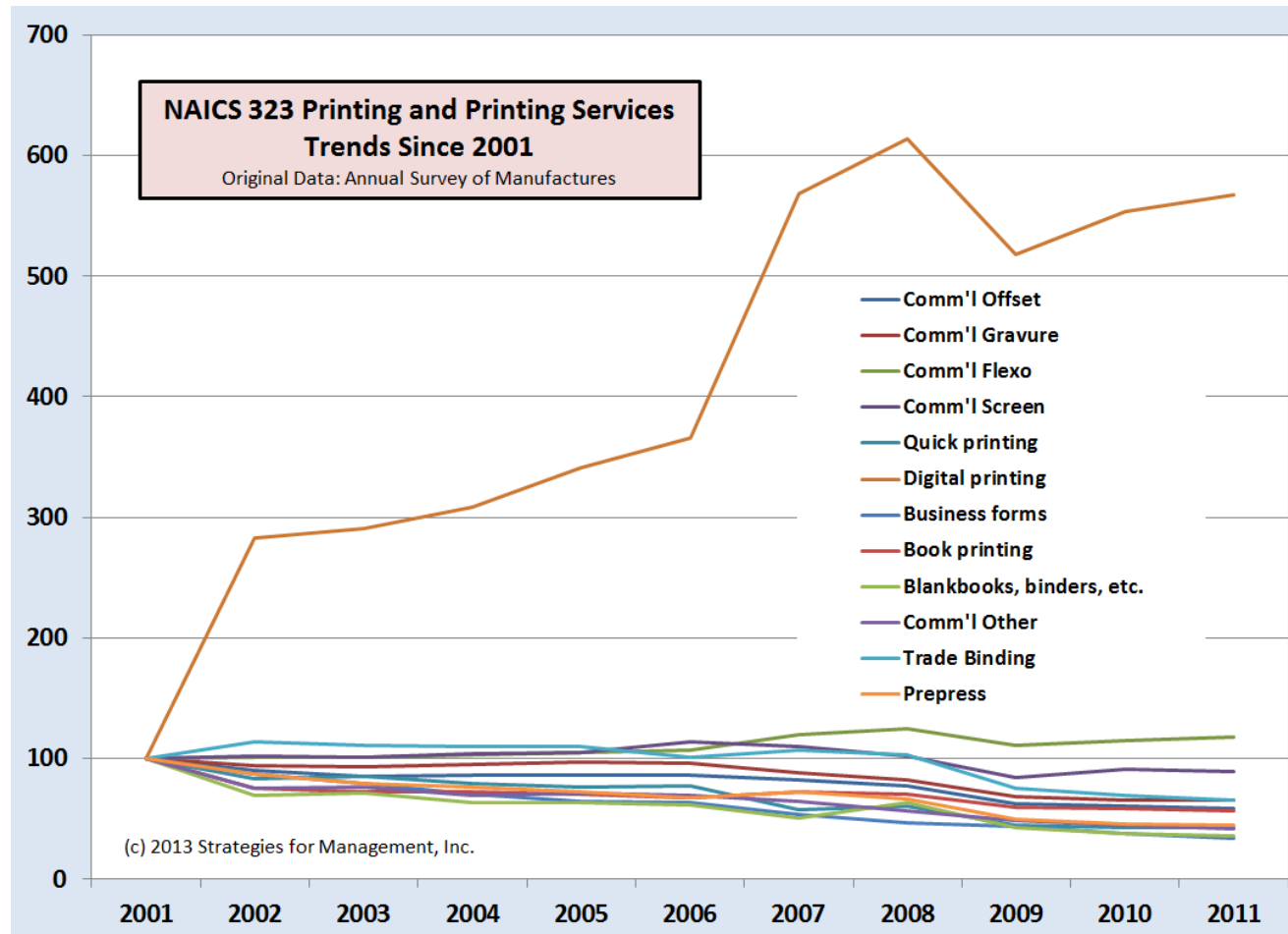
- Changes to operations and procedures
- Paybacks are immediate, predictable, measurable
- Change/shift costs to reduce overheads, increase flexibility

- **Expansion risk investments discouraged**

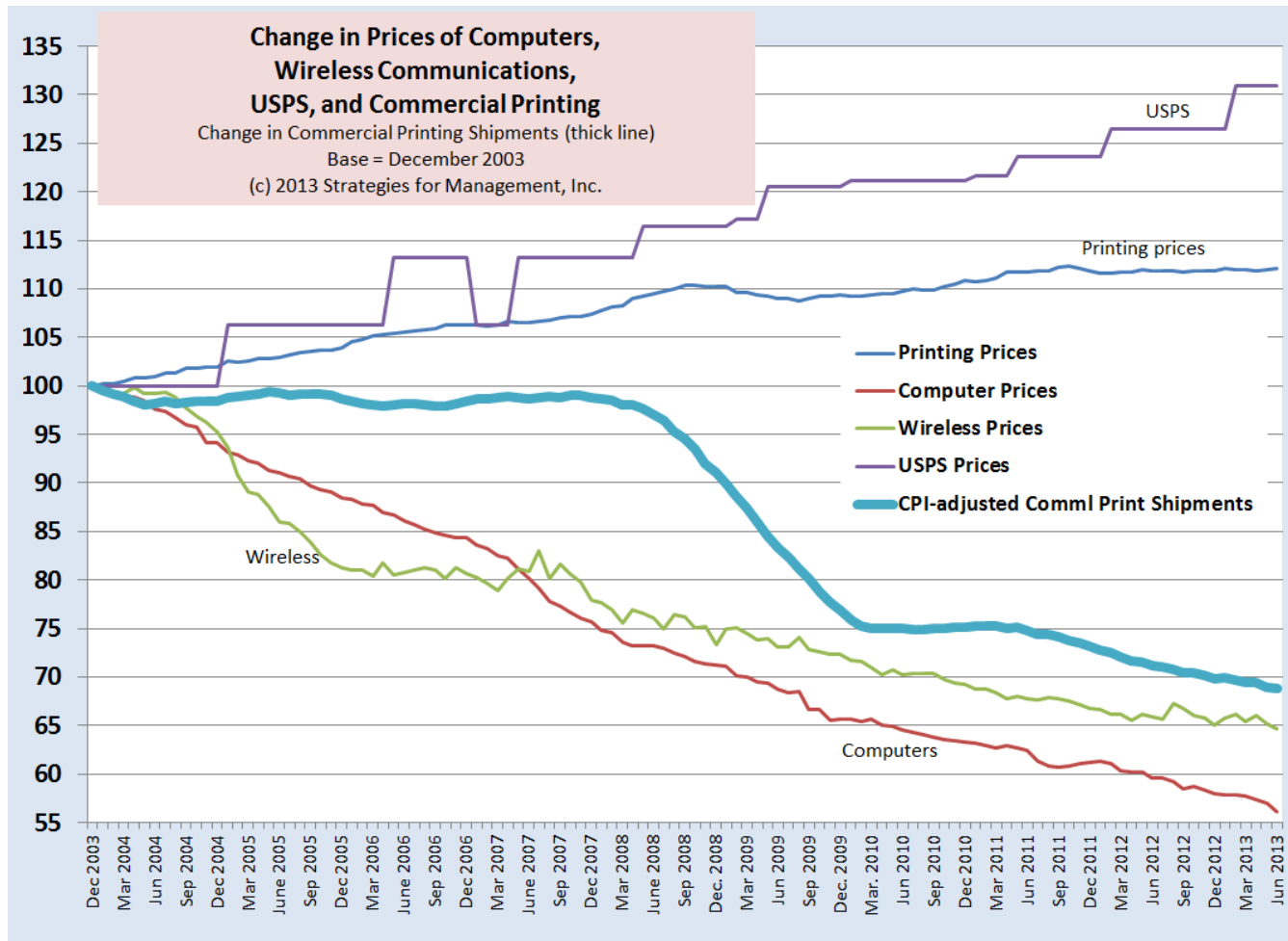
- High future tax rates, high inflation expectations, higher expected & known regulatory compliance costs
- Future demand for new initiatives harder to forecast
- Net present value of future returns must be extraordinary to surpass effects of taxes, inflation, and total labor costs to make risk worthwhile
 - Raises bar for all future expansion projects
 - Early negative cash flow years are hard to tolerate
 - Higher risk projects go unexplored
 - Only “safe” projects get funded, risk projects go elsewhere



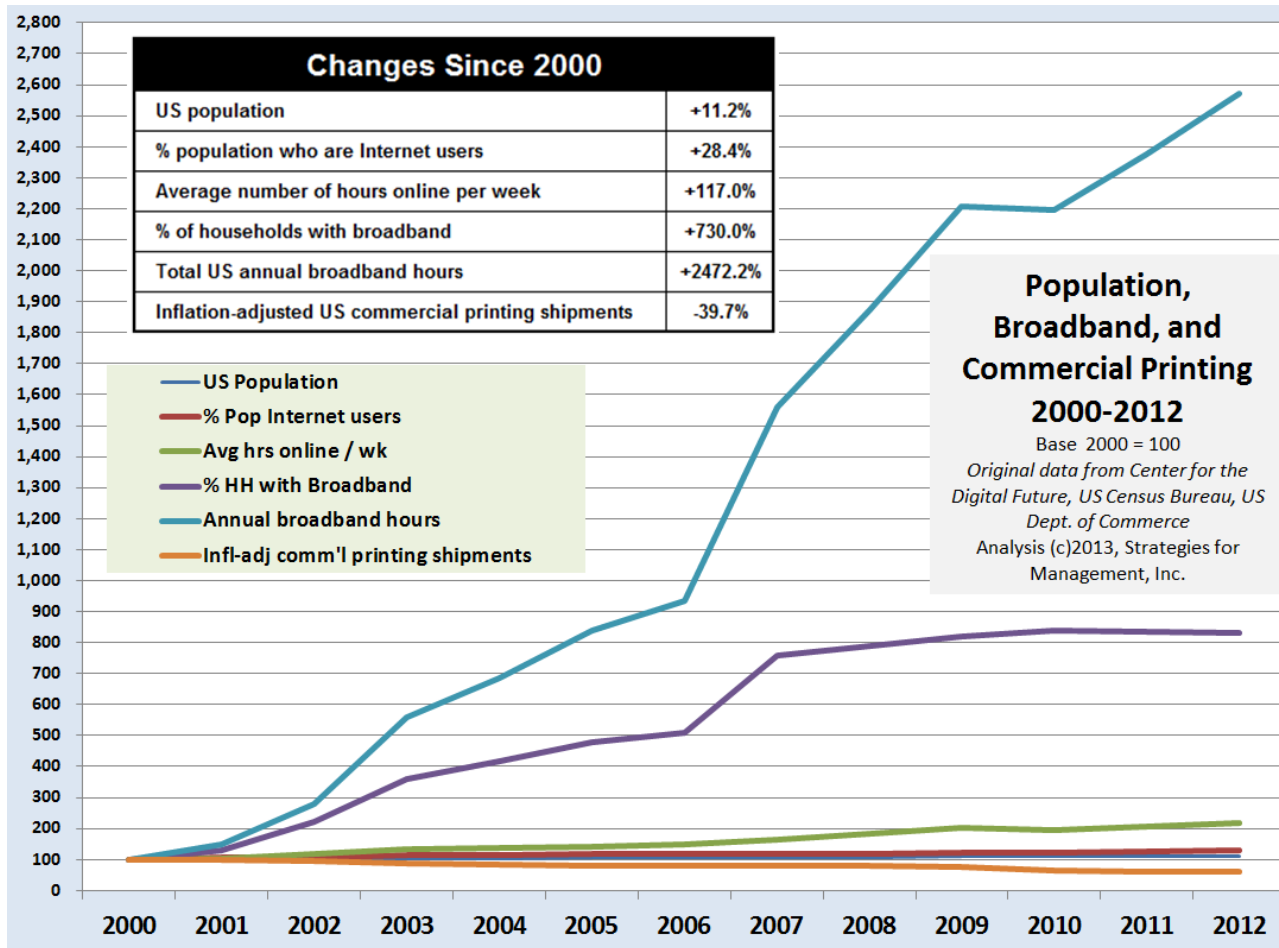
Commercial digital printing growing share of shrinking pie



Constantly widening gap between hard copy and digital media prices



Broadband hours growth stronger effect on print volume than economics

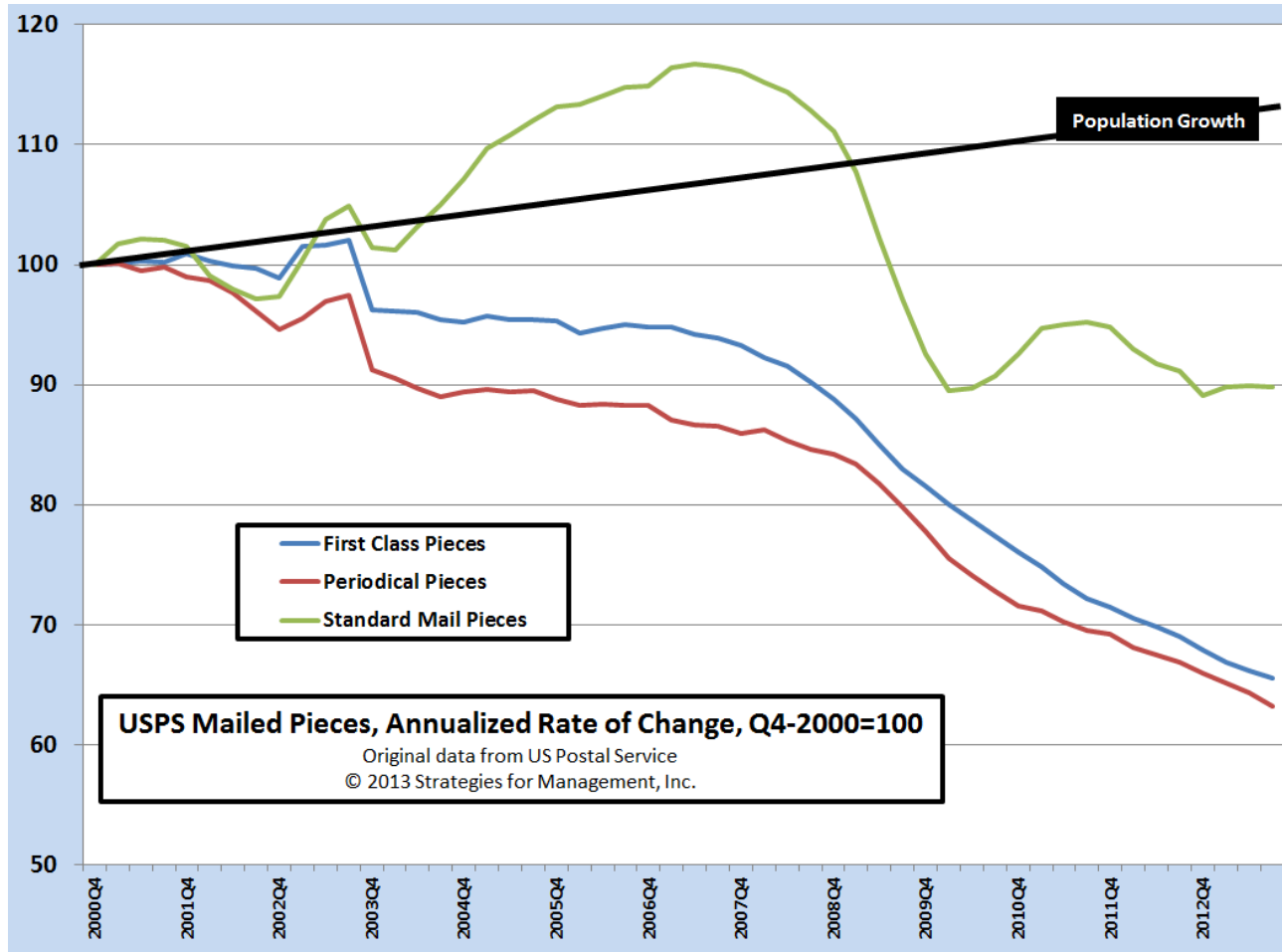


Every 5 hour increase in US broadband hours = \$1 decrease in commercial print

Don't fall for the “preference” fallacy

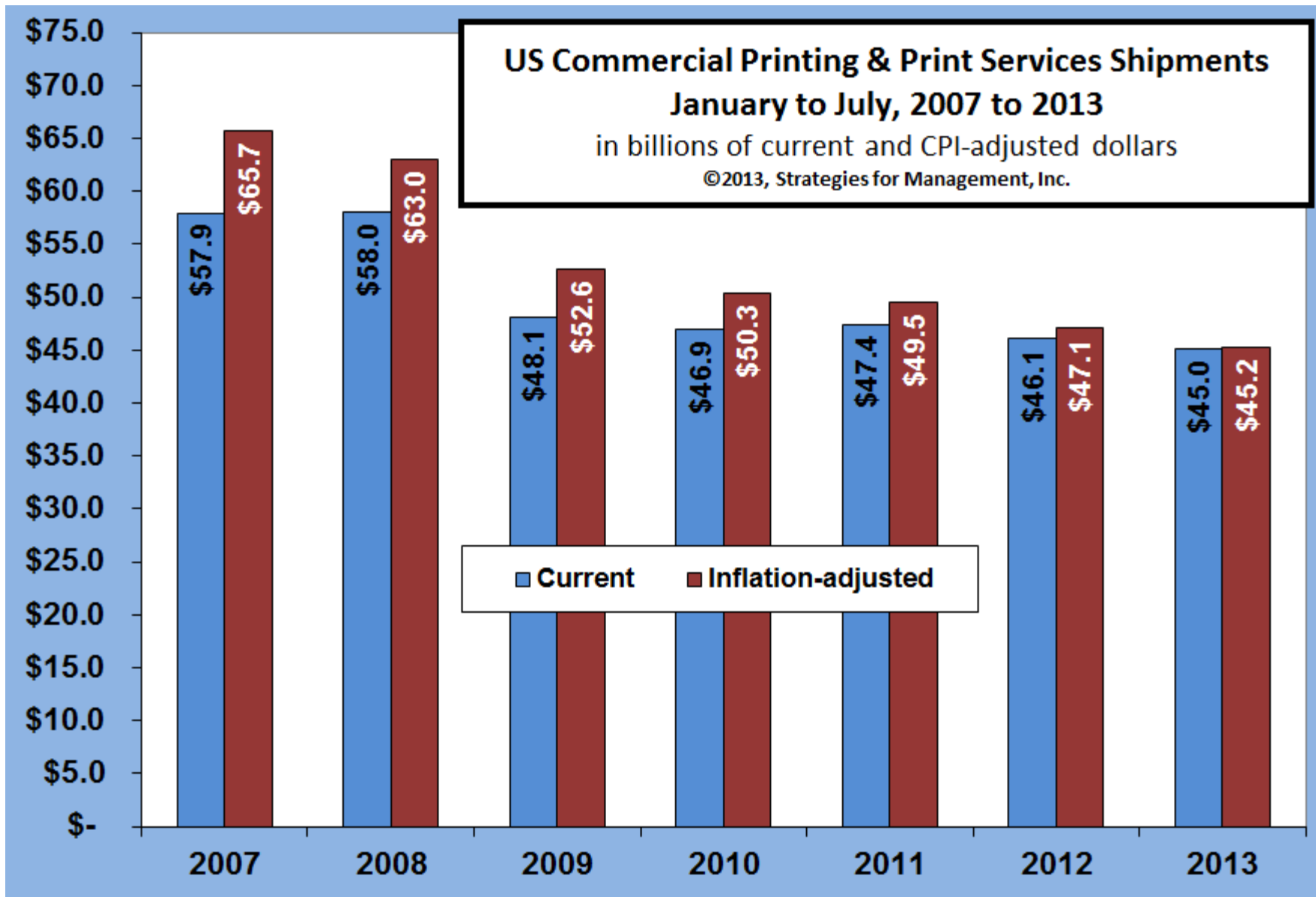
- Preferences and behaviors are not the same
- Overall print revenues are a function of
 - Size
 - Page count
 - Sides printed
 - Colors/effects
 - Frequency
- 100% of the market preferred print when there were no alternatives

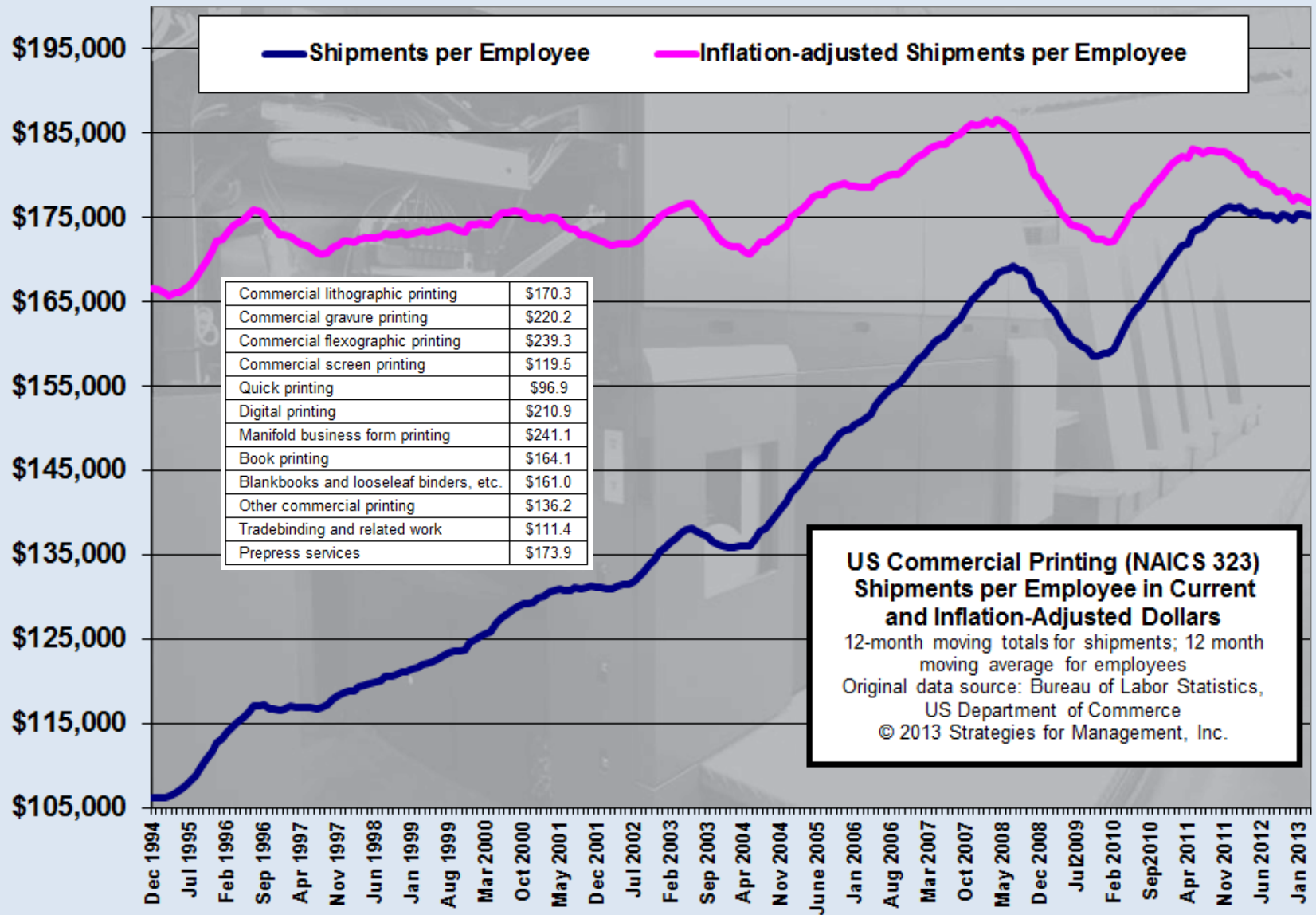
USPS pieces since 2000



Statistical relationships with CPI-adjusted commercial printing shipments

| A change in the PPI in the amount of... | in the category... | yields a change in annual US commercial printing shipments of... | with an r^2 value of... |
|---|-------------------------|--|---------------------------|
| -1 decrease | computer equipment | -\$349 million | 77.3% |
| -1 decrease | wireless communications | -\$1.1 billion | 67.2% |
| +1 increase | USPS | -\$920 million | 92.3% |

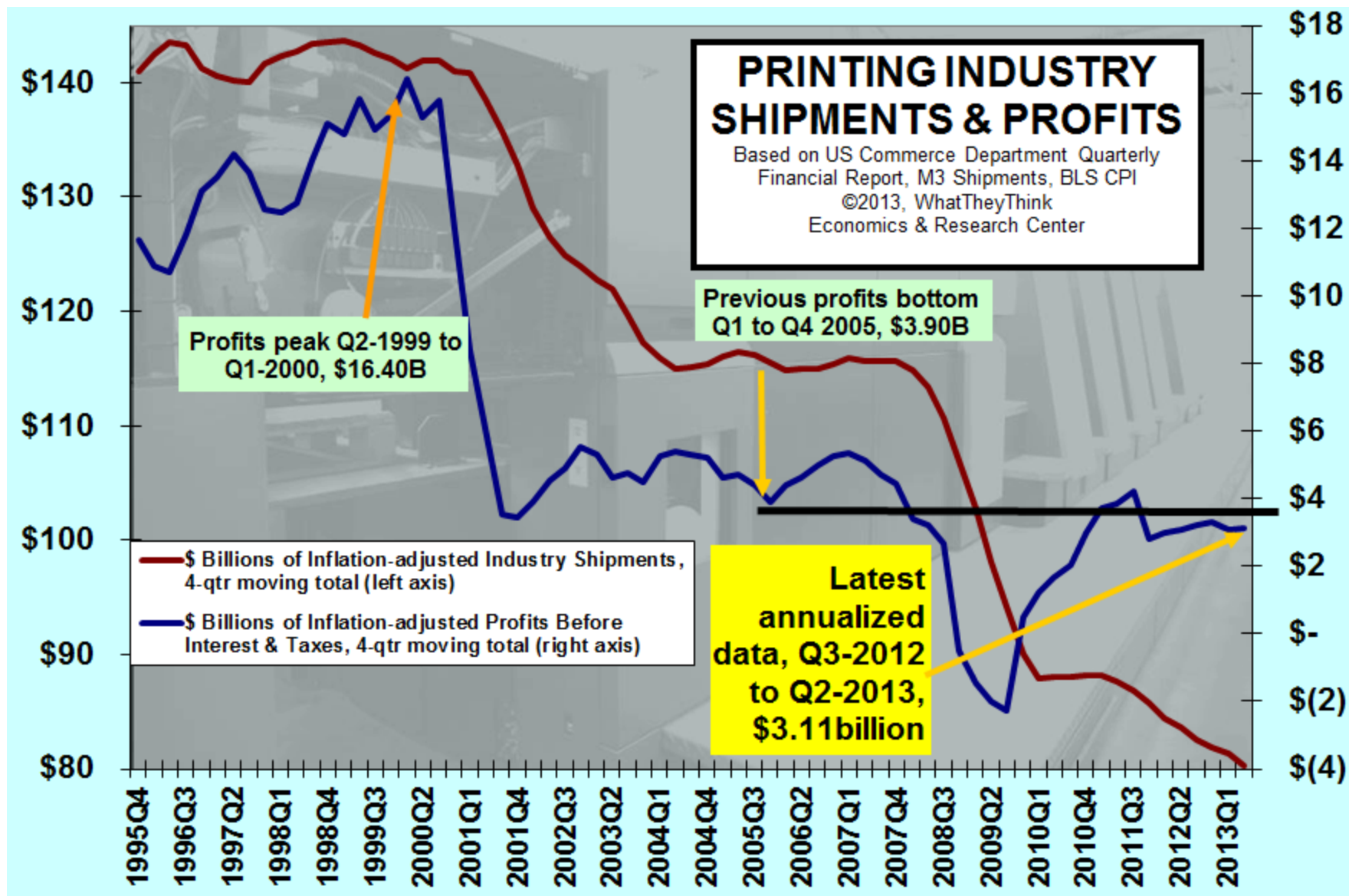


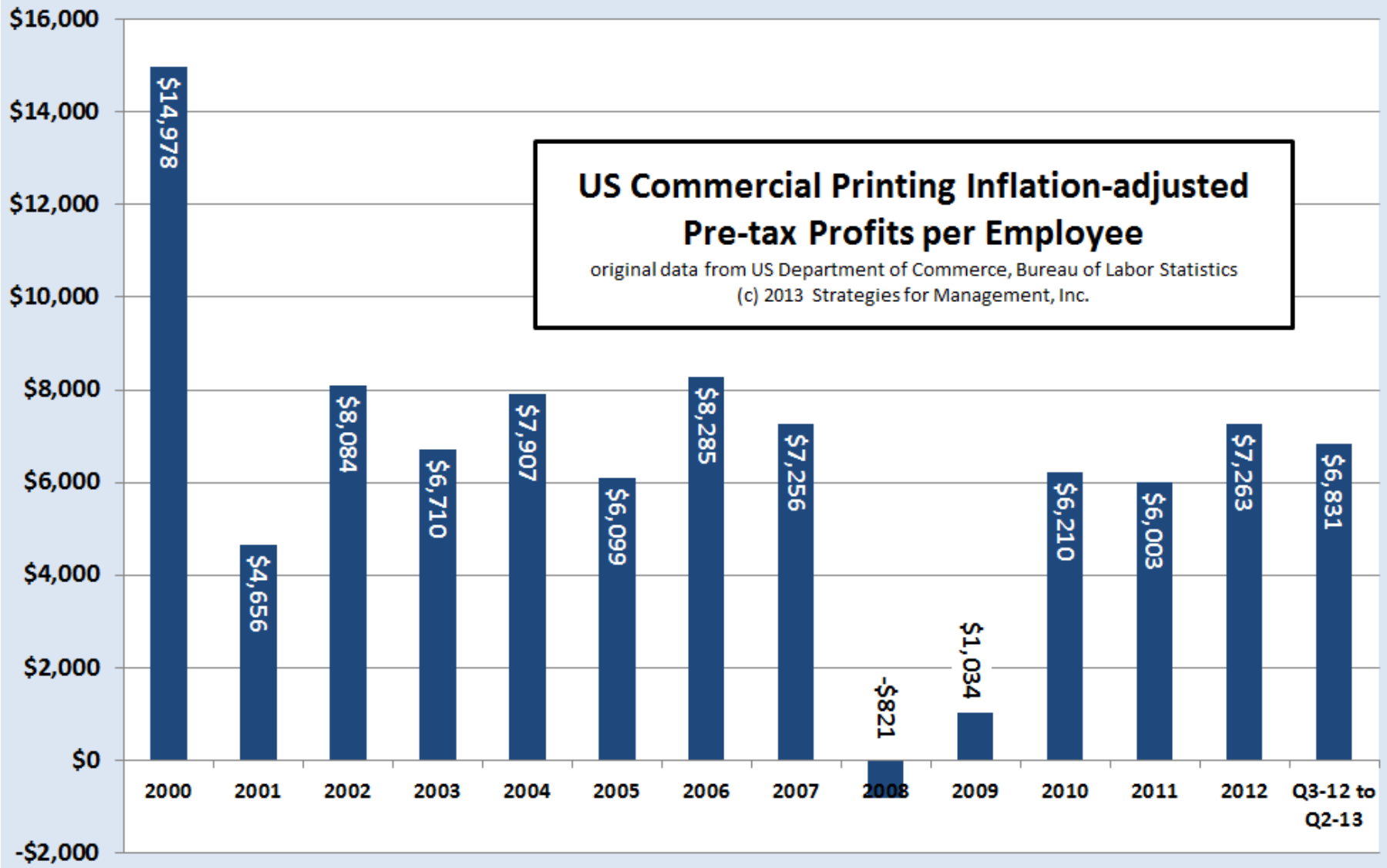


CapEx as % of sales declining

| Capital Equipment Expenditures '98-'11 | Capex as % of Shipments | New Capex | Used Capex |
|--|-------------------------|-----------|------------|
| 1998 | 4.9% | 91.5% | 8.5% |
| 1999 | 4.3% | 94.6% | 5.4% |
| 2000 | 4.0% | 95.7% | 4.3% |
| 2001 | 3.6% | 92.6% | 7.4% |
| 2002 | 4.1% | 80.1% | 19.9% |
| 2003 | 4.0% | 88.1% | 11.9% |
| 2004 | 3.7% | 94.0% | 6.0% |
| 2005 | 3.6% | 96.4% | 3.6% |
| 2006 | 3.6% | 96.5% | 3.5% |
| 2007 | 4.2% | 96.2% | 3.8% |
| 2008 | 4.0% | 94.4% | 5.6% |
| 2009 | 3.1% | 83.7% | 16.3% |
| 2010 | 2.9% | 95.9% | 4.1% |
| 2011 | 3.0% | 93.5% | 6.5% |
| Mean 1998-2011 | 3.8% | 92.4% | 7.6% |
| Mean 1998-2004 | 4.1% | 90.9% | 9.1% |
| Mean 2005-2011 | 3.5% | 93.8% | 6.2% |

Based on US Dept of Commerce Annual Survey of Capital Expenditures, NAICS 323; analysis © 2013 Strategies for Management, Inc.





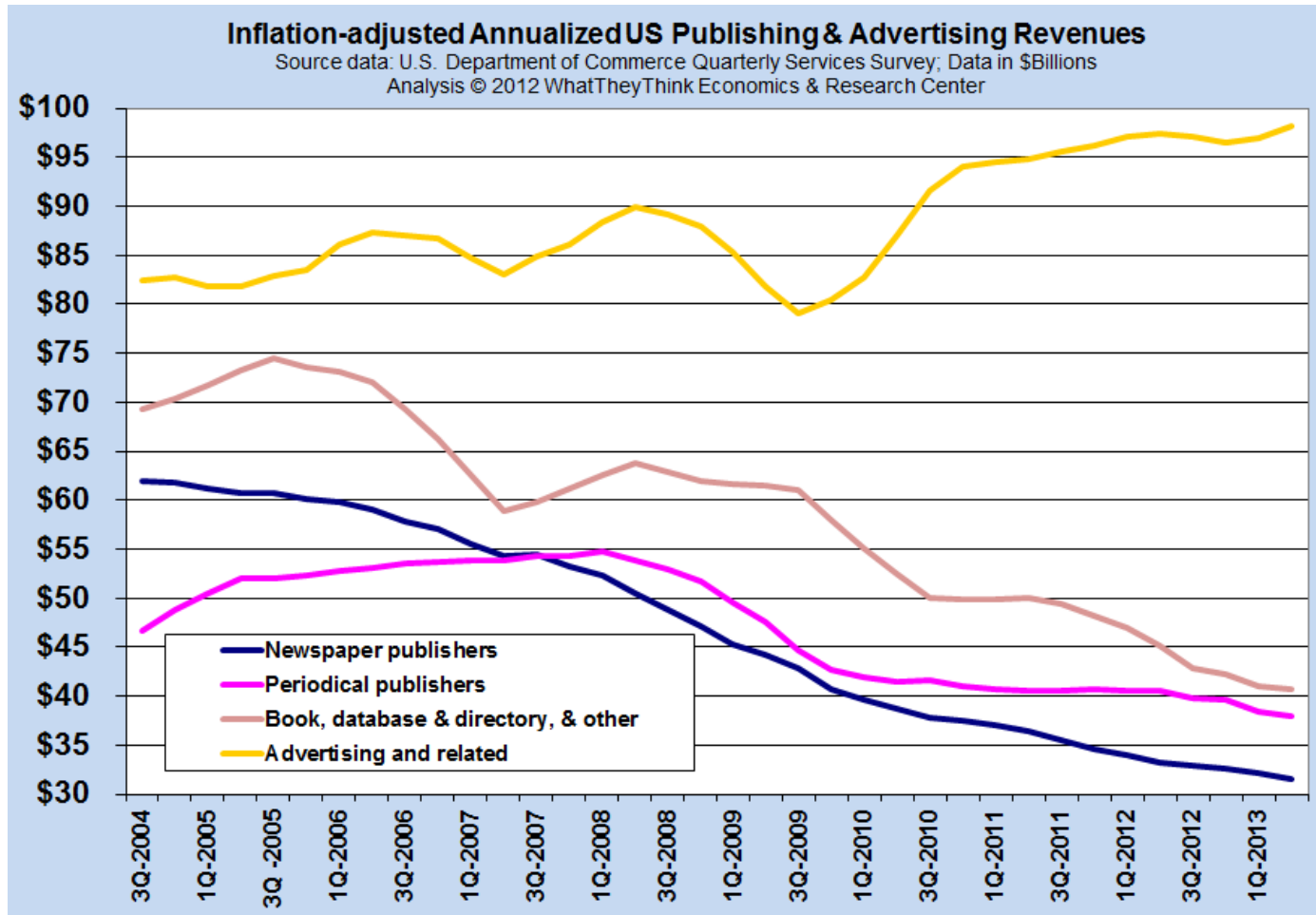
US commercial printing shipments forecasts

| Note: 2012 shipments were \$80.6B | FORECASTS BY STATISTICAL MODELS | | | SFM Qualitative Forecast UPDATED 8/2013 |
|--|--|-------------------|---|--|
| | Conservative | Aggressive | GDP (+2.5%) REVISED MODEL begins with 2000 | |
| 2013 | \$78.1 | \$74.0 | \$115.9 | \$78.5 |
| 2014 | \$73.6 | \$63.4 | \$110.3 | \$74.0 |
| 2015 | \$69.7 | \$55.2 | \$104.5 | \$68.0 |
| 2016 | \$66.1 | \$46.5 | \$98.6 | \$61.0 |
| 2017 | \$62.6 | \$37.3 | \$92.5 | \$56.0 |
| 2018 | \$59.4 | \$27.8 | \$86.2 | \$51.0 |
| 2019 | \$56.3 | \$17.8 | \$79.9 | \$47.0 |

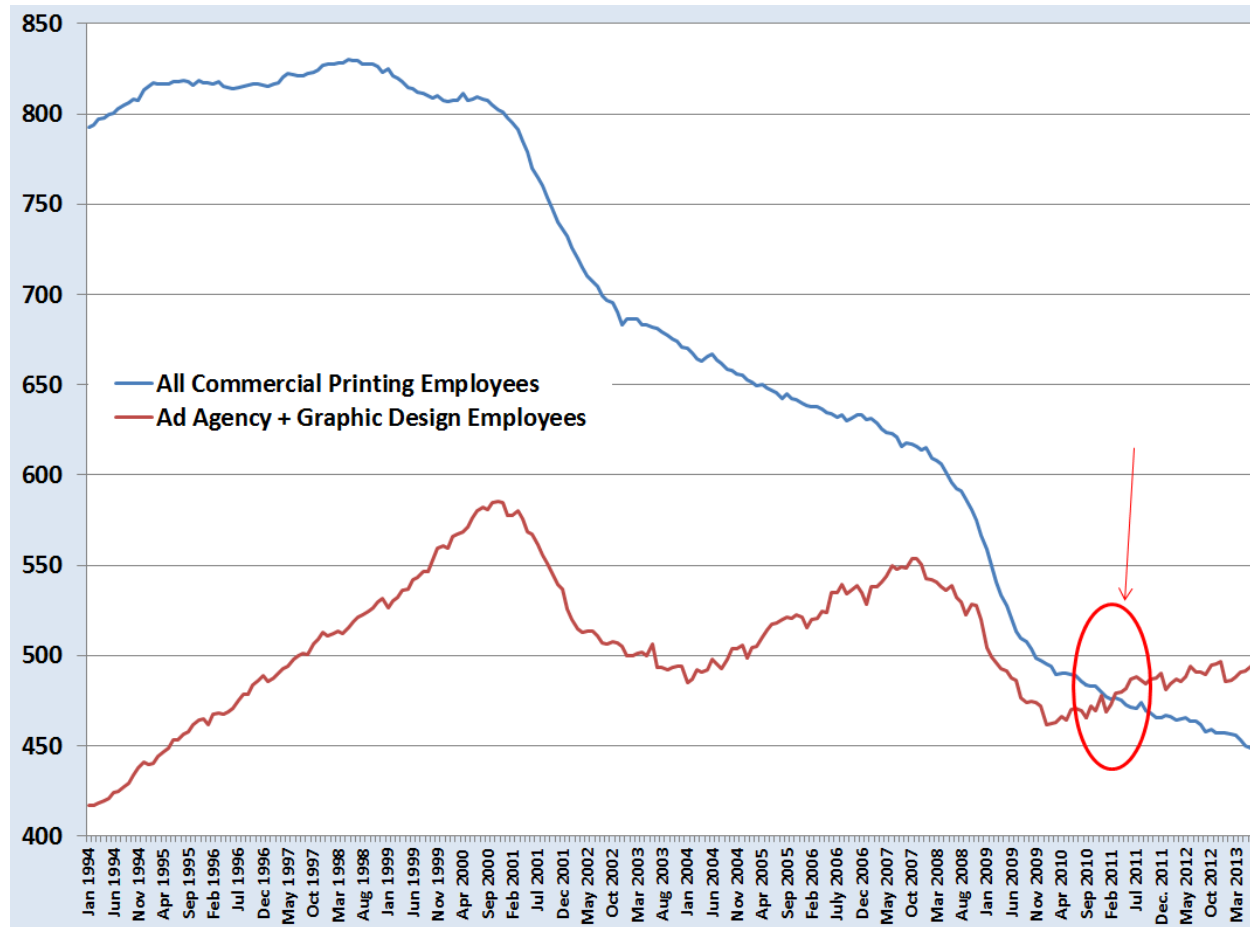
Industry employment

| <i>Employment in thousands of workers</i> | Jul. 2012 | Jul. 2013 | Y/Y Change | Aug. 2012 | Aug. 2013 | Y/Y Change |
|---|--------------|--------------|---------------|--------------|--------------|---------------|
| Printing, all | 463.5 | 448.0 | -3.3% | 462.0 | 445.4 | -3.6% |
| Printing, production | 317.1 | 307.8 | -2.9% | 315.1 | 305.8 | -3.0% |
| Printing less production | 146.4 | 140.2 | -4.2% | 146.9 | 139.6 | -5.0% |
| Publishing | 738.2 | 727.7 | -1.4% | 738.7 | 726.5 | -1.7% |
| Periodicals | 111.0 | 106.0 | -4.5% | 110.3 | | |
| Newspapers | 223.5 | 215.3 | -3.7% | 222.5 | | |
| Publishing, ex-newspaper | 514.7 | 512.4 | -0.4% | 516.2 | | |
| Graphic design | 59.7 | 60.9 | 2.0% | 59.3 | | |
| Public relations | 52.5 | 56.1 | 6.9% | 52.6 | | |
| Ad agencies, includes PR | 431.1 | 433.6 | 0.6% | 431.4 | | |
| Ad agencies, less PR | 378.6 | 377.5 | -0.3% | 378.8 | | |
| Agency (incl PR) + design | 490.8 | 494.5 | 0.8% | 543.3 | | |
| Direct mail advertising | 48.2 | 46.8 | -2.9% | 49.6 | | |

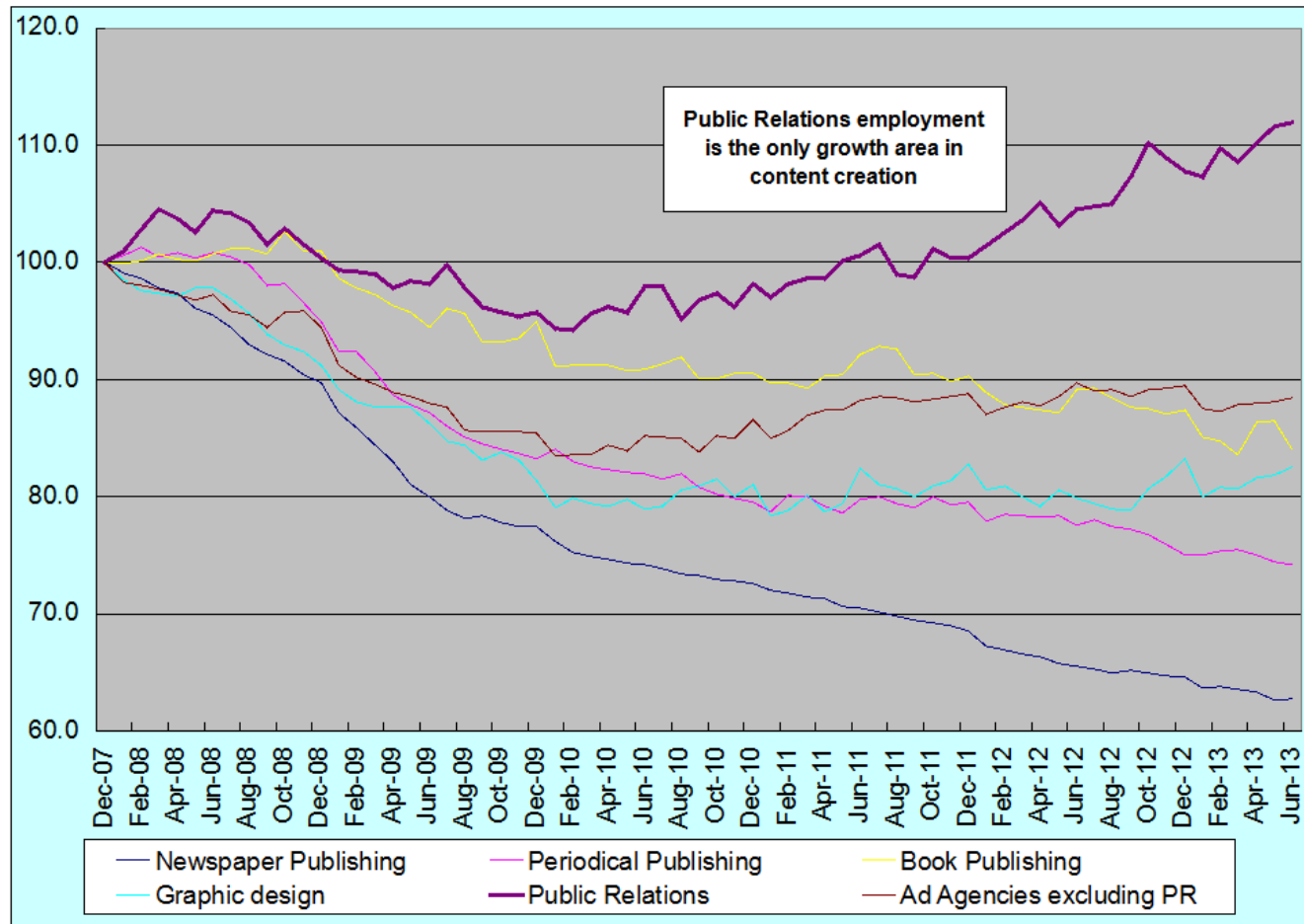
Ad agency revenues rising



Media shift underscored by employment shifts in Agency & Design workers vs. Print



No content category has equaled or exceeded pre-recession levels... except Public Relations



Freelance workers growing

| <i>2011 employment in key content creation industries</i> | Payroll employees | Freelance / sole practitioner | Total | % Freelance |
|--|------------------------------|--|--------------|--------------------|
| Advertising excluding PR | 377,185 | 120,265 | 497,450 | 24.2% |
| Public relations | 52,091 | 16,514 | 68,605 | 24.1% |
| Graphic design | 50,241 | 53,233 | 103,474 | 51.4% |
| Commercial photography | 9,589 | 17,049 | 26,638 | 64.0% |
| Book publishing | 71,996 | 5,215 | 77,211 | 6.8% |
| Periodical publishing | 114,702 | 11,350 | 126,052 | 9.0% |

Original data: 2011 County Business Patterns, Nonemployer Statistics

Analysis © 2013 Strategies for Management, Inc.

**The time for commercial
printing consolidation
is over.**

The time for forward-focused
partnerships / joint ventures
is here.

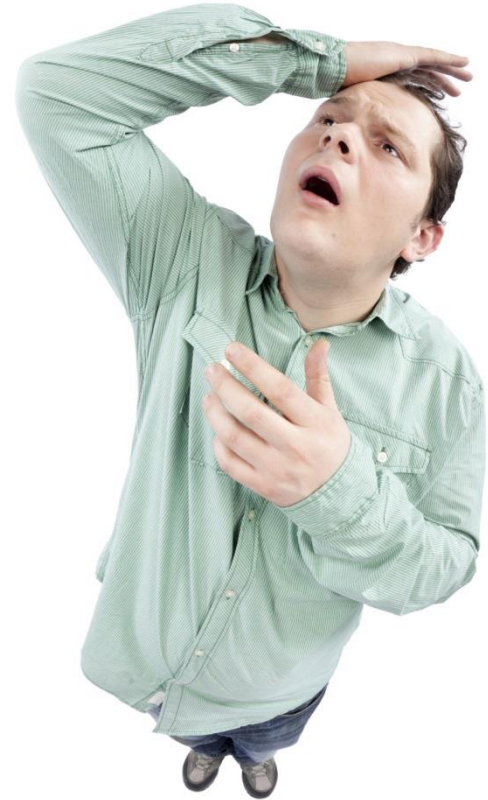
Three types of consolidation

- **Defensive:** Keep the same business with incremental adjustments and fine tuning
- **Offensive:** Join with businesses in new markets with new products that have potential
- **I Give Up:** Tuck-ins



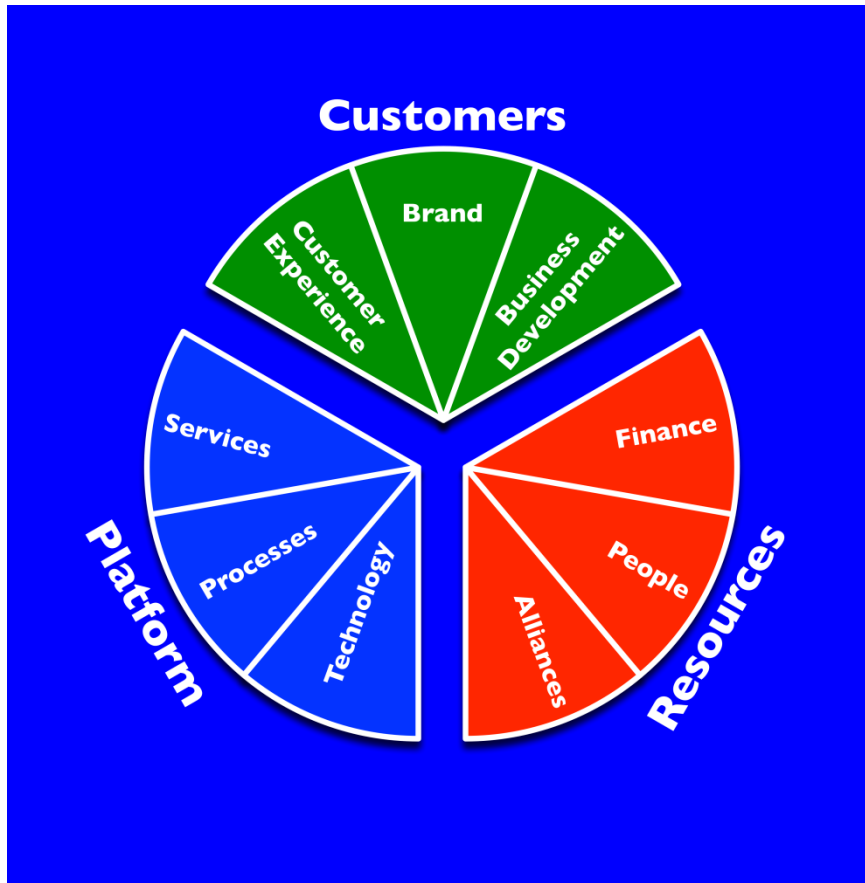
Key concepts about consolidation

- Consolidations don't have the best track record except for the sellers
- Transition costs in consolidations are usually underestimated
- The biggest transition cost is time away from fully engaging the marketplace



Essential point:
There are exceptional print and
media communications companies
that are doing very well.

The UnSquaring the Wheel Model



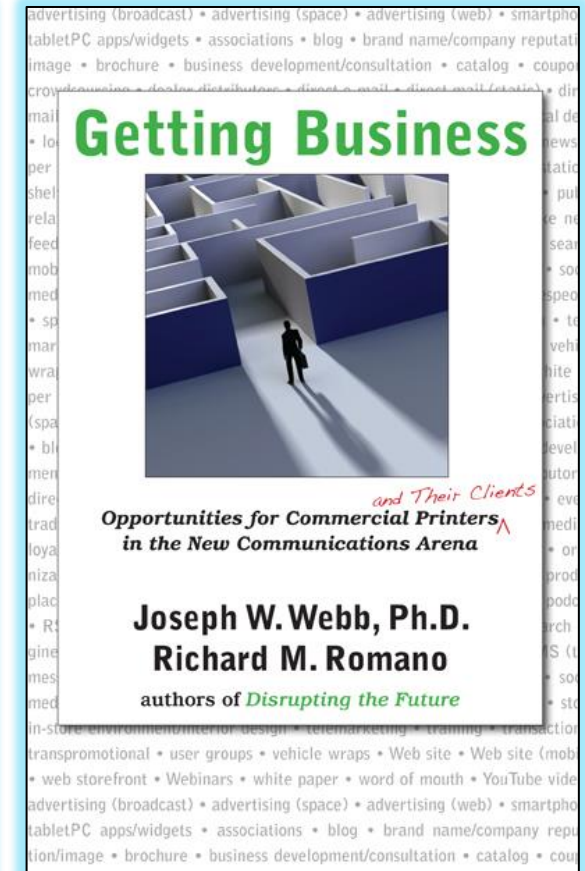
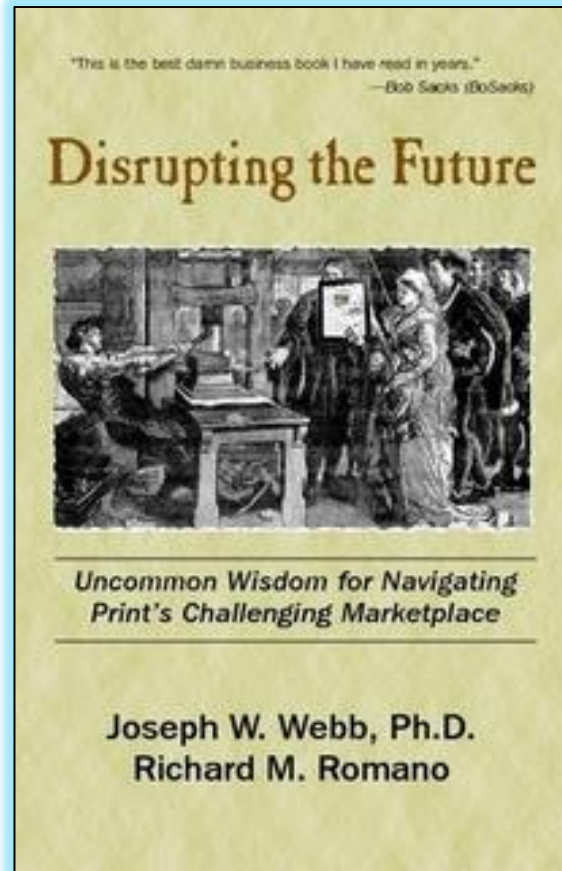
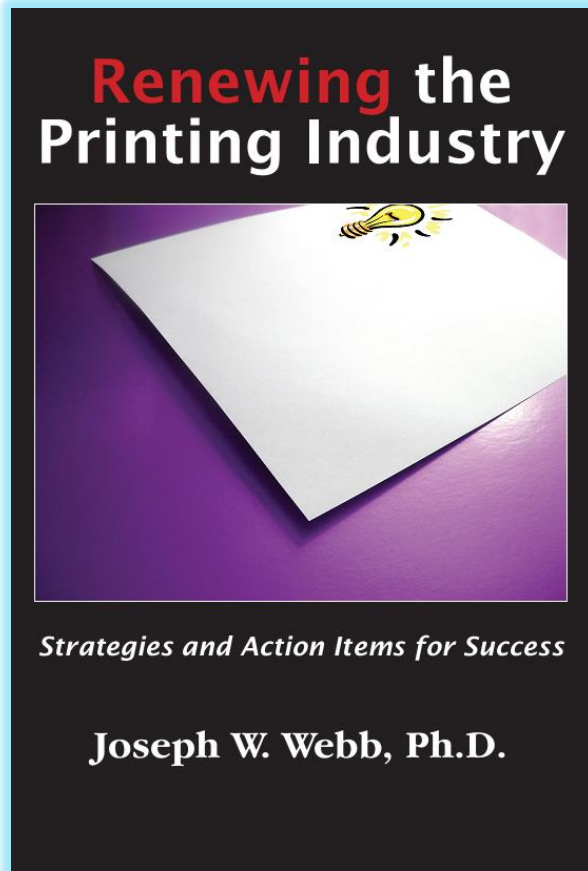
- Introduced at Executive Outlook, RIT press conference
- Wayne Peterson
Black Canyon Consulting
- Prof. Chris Bondy
Chairman, RIT Media Sciences
- Dr. Joe Webb
27 years of Gainful Unemployment

What's playing out...

- Diverse product mixes aided by alliances
- Digital flexibility, shift media dollars quickly
- Shift from sales to business development
- More specialization by “problems,” not business class
- Profit gap widens, increasing profitability among well-positioned establishments
- Financial strength emerges as a competitive weapon

When economies are good,
everyone thinks they're a genius...
When economies are not,
you must be one.

Thank you very much!
QUESTIONS?



Free downloads:
<http://whattheythink.com/disrupting-the-future/>