

State of the industry 2013

NAPIM

Management Information Committee

- **John Jilek Jr**
Ink Solutions
- **Tony Laurino**
Sun Chemical Corp
- **Kim Stone**
Flint Group
- **Jane Krasner**
Toyo Ink
- **James Leitch**
Braden Sutphin Ink Co.
- **John Sergeant**
Modern Color
- **Bryce Kristo**
INX

Source Data for Report

- **Quarterly Sales Report**
 - > Collected Quarterly from members
- **Outlook Survey**
 - > Collected once a year in January from members
- **Operating Ratio Survey**
 - > Collected once a year in January from members
- **U.S. Commerce Dept., Bureau of Labor Statistics, OSHA**
- **NAPL State of the Industry Report**
- **PIA Flash Reports**





- ❖ **Certified Public Accountants and Consultants are located in Washington, DC and Chicago. They specialize in exclusive service to the nonprofit associations.**
- ❖ **Among their numerous clients are Flexible Packaging Association, American Plastics Council, National Wholesale Druggists' Association and Paperboard Packaging Council.**

Report Elements

- **Global and Industry Issues**
- **Revenue and Growth**
- **Profit**
- **End Use Markets**
- **Foreign Trade**
- **Safety, Health and Environmental**
- **Questions and Comments**

Global and Industry Issues



Top Current Concerns

- Ink Companies concerns heading into 2014:

Overall	2013 Ranking
1. Overall Economic Activity	1
2. Customer Consolidations/Closings	2
3. Credit	5

Market	2013 Ranking
1. Raw Material Costs	1
2. Market Dynamics	4
3. Market Competition	2

Internal	2013 Ranking
1. Qualified Workers	3
2. Healthcare Costs	1
3. Transportation Costs	6

From: Outlook Survey



Top Current Concerns

- TAM Companies concerns heading into 2014:

Overall	2013 Ranking
1. Overall Economic Activity	1
2. Customer Consolidations/Closings	2
3. Imports	3

Market	2013 Ranking
1. Raw Material Costs	1
2. Government Regulations	4
3. New Print Technologies	6

Internal	2013 Ranking
1. Qualified Workers	5
2. Healthcare Costs	1
3. Transportation Costs	2

From: Outlook Survey



Ink Companies say Printers Value

This years ranking:	Last years ranking
1. Consistent Product Quality	2
2. Price	1
3. Quick Deliveries	4

TAM Companies say Ink Companies Value

This years ranking:	Last years ranking
1. Consistent Product Quality	2
2. Price	1
3. Technical Support	3

From: Outlook Survey



NAPL Members Biggest Concerns

- Companies surveyed listed over 20 concerns heading into 2014. The most frequently cited:

Concern	Percent
Rising cost of healthcare benefits	60.2%
Economy/general business conditions	57.0%
Rising postal rates/postal issues	52.7%
Rising cost of doing business: federal/state/local taxes, regulations, etc.	48.4%
Our ability to increase sales	46.2%
Uncertainty about our obligations under/consequences of the Affordable Care Act	46.2%

From: NAPL State of Industry Report

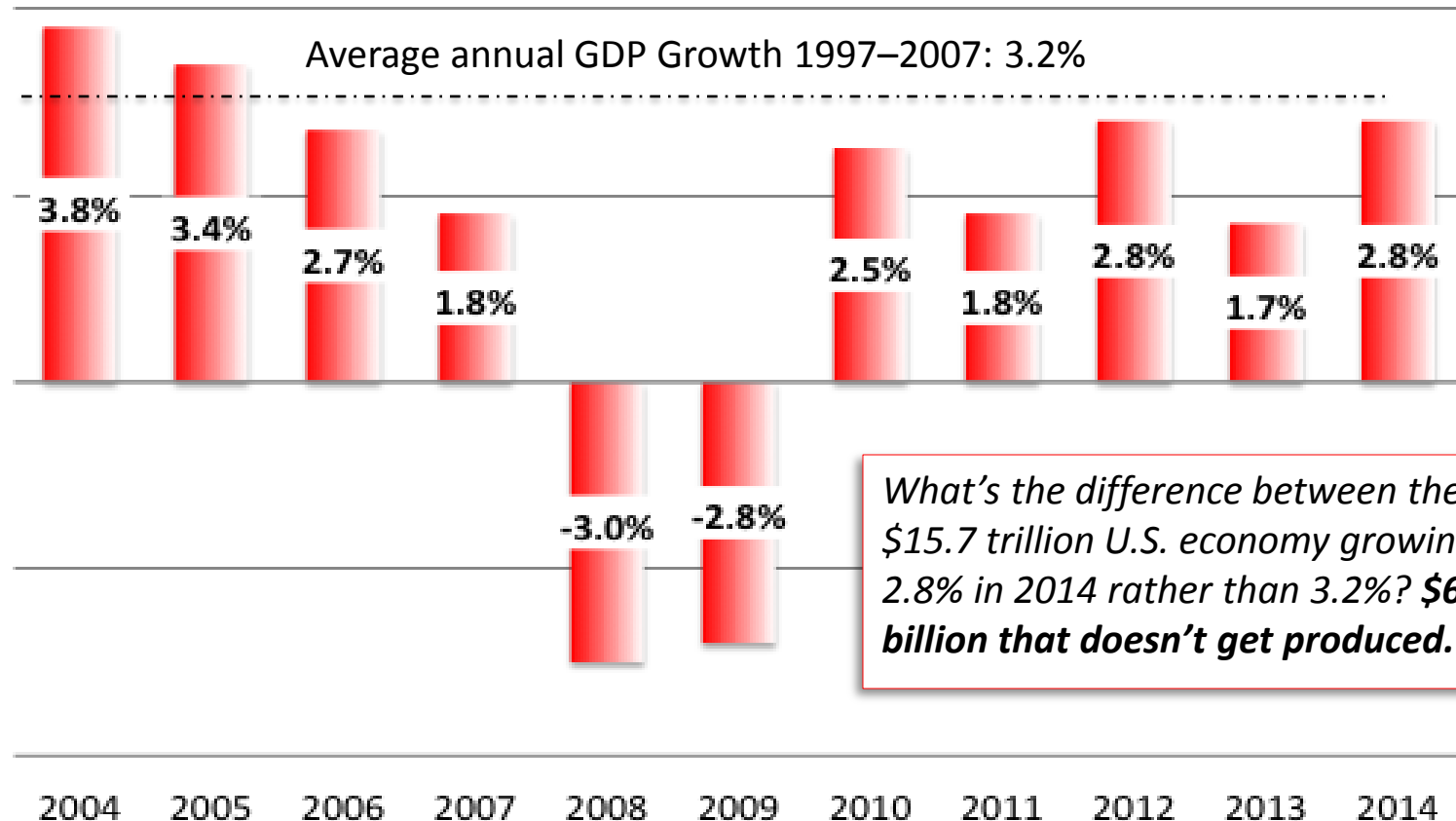


OVERALL ECONOMIC ACTIVITY IN 2013

- Real GDP increased 1.9 percent in 2013 (that is, from the 2012 annual level to the 2013 annual level), compared with an increase of 2.8 percent in 2012.
- The increase in real GDP in 2013 primarily reflected positive contributions from Personal Consumption Expenditure (PCE), exports, nonresidential fixed investment, residential fixed investment, and private inventory investment that were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.
- The deceleration in real GDP growth in 2013 primarily reflected a deceleration in nonresidential fixed investment, a larger decrease in federal government spending, and decelerations in PCE and in exports that were partly offset by a deceleration in imports and a smaller decrease in state and local government



Failure to Reach Takeoff Speed



*What's the difference between the \$15.7 trillion U.S. economy growing at 2.8% in 2014 rather than 3.2%? **\$62.9 billion that doesn't get produced.***

Percent change in GDP, adjusted for inflation, over previous year. Source of 2013 estimate and 2014 forecast: *Blue Chip Economic Indicators*, Aspen Publishers, New York, N.Y., January 2014

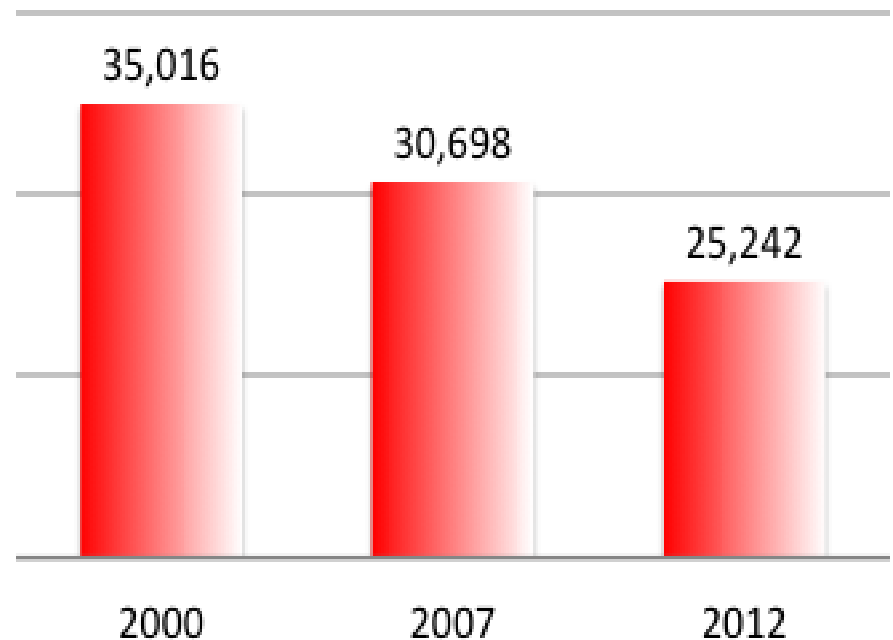
The Economy: Failure to Reach “Takeoff Speed”

- Even though the Great Recession ended nearly 5 years ago, the foundations of healthy economic growth—**confidence, clarity, and the willingness to take risk**—are still not in place.
- End of recession doesn’t mean all’s well. It simply means contraction has stopped. **Economic recovery can be vigorous, feeble, or anything in-between.**
- The economy isn’t going back into recession. But it isn’t going to solve anyone’s problems, either.

Our Competition is Being Redefined

- The commercial printing industry has lost over 5,400 establishments (-17.8%) since 2007 and nearly 9,800 establishments (-27.9%) since 2000.
- Nevertheless, the industry is getting **more competitive as the Internet and digitization break down boundaries, letting everyone into everyone else's business—which is why it is more important than ever to STAND APART.**
- We used to know the competition—and it used to look just like us. Not anymore.

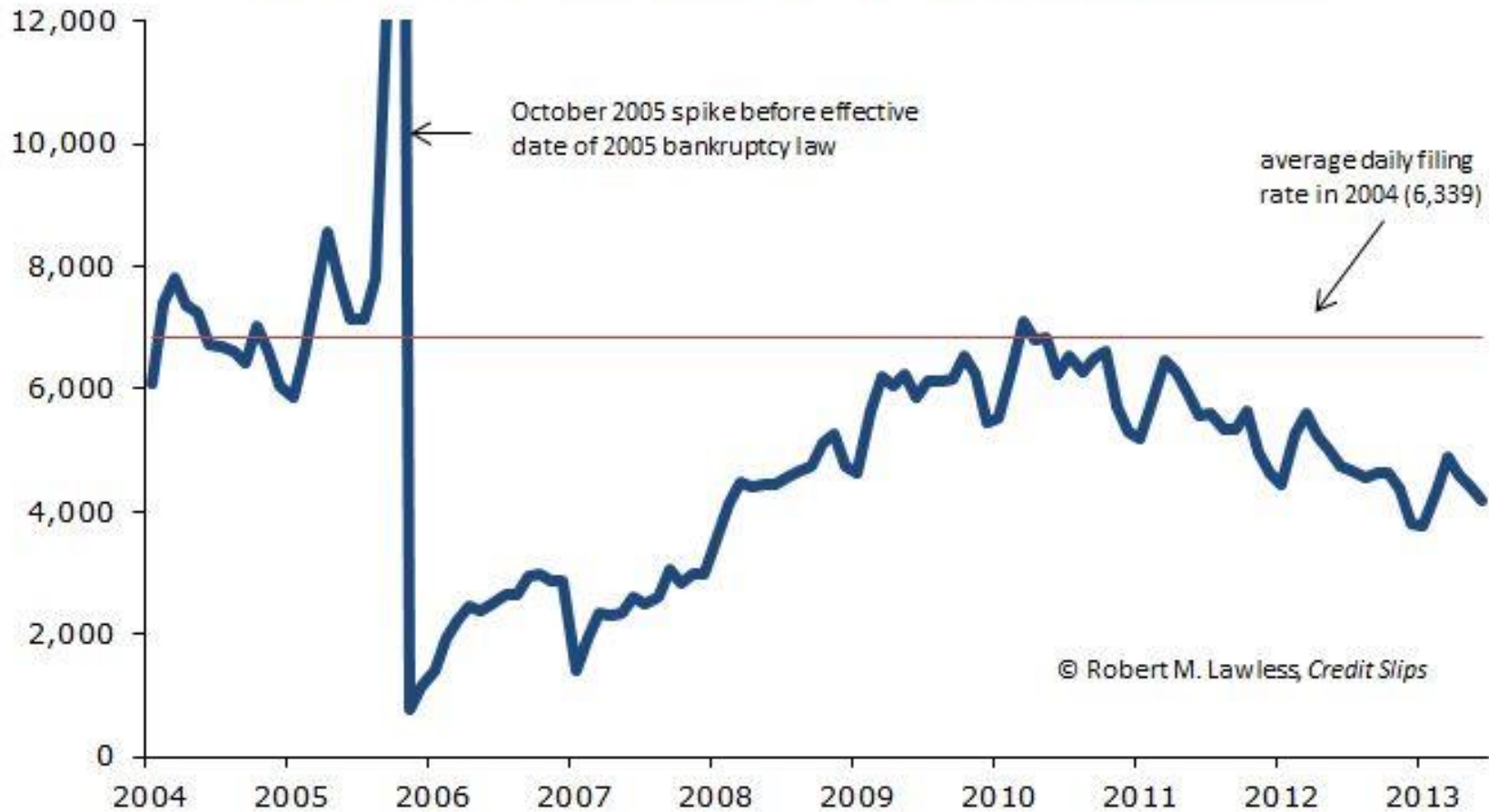
Number of Commercial Printing Establishments



U.S. Daily Bankruptcy Filings

Chart Area

Jan 2004 - June 2013 (population adjusted)



The chart represents the average daily U.S. bankruptcy filing rate from January 2004 to June 2013. Using June 2013 as the base, the filing rates are adjusted to reflect population growth. For comparisons to pre-2005 levels, the thin red line represents the average daily filing rate in 2004 (6,339). The daily filing rate in October 2005 was 31,520, when many people filed to beat the effective date of changes to the bankruptcy law.



Crude Oil Price

107.82 USD/bbl

13 Mar '14



InfoMine.com

Crude Oil Price

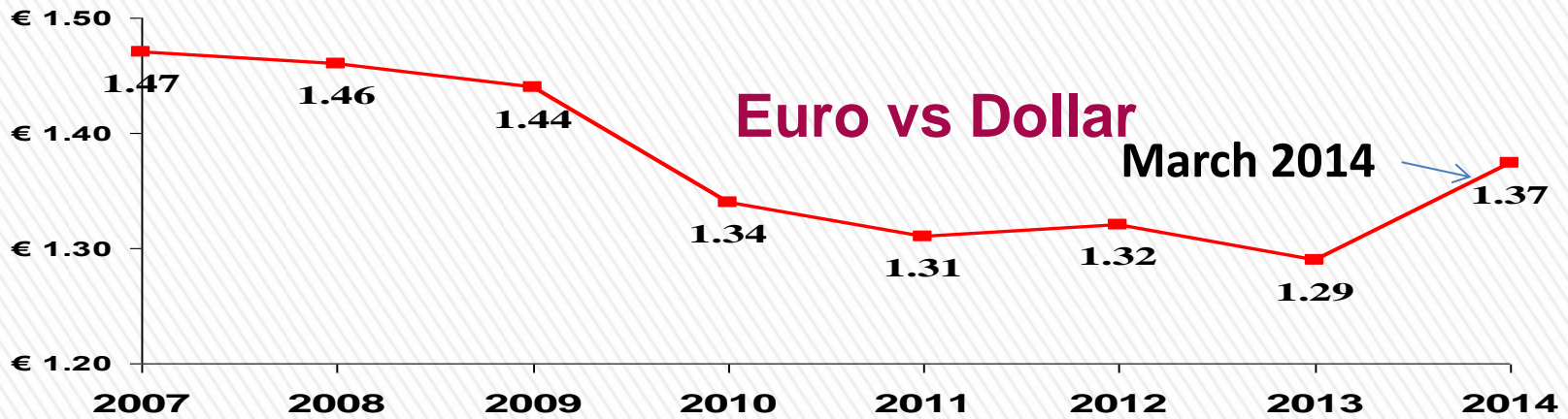
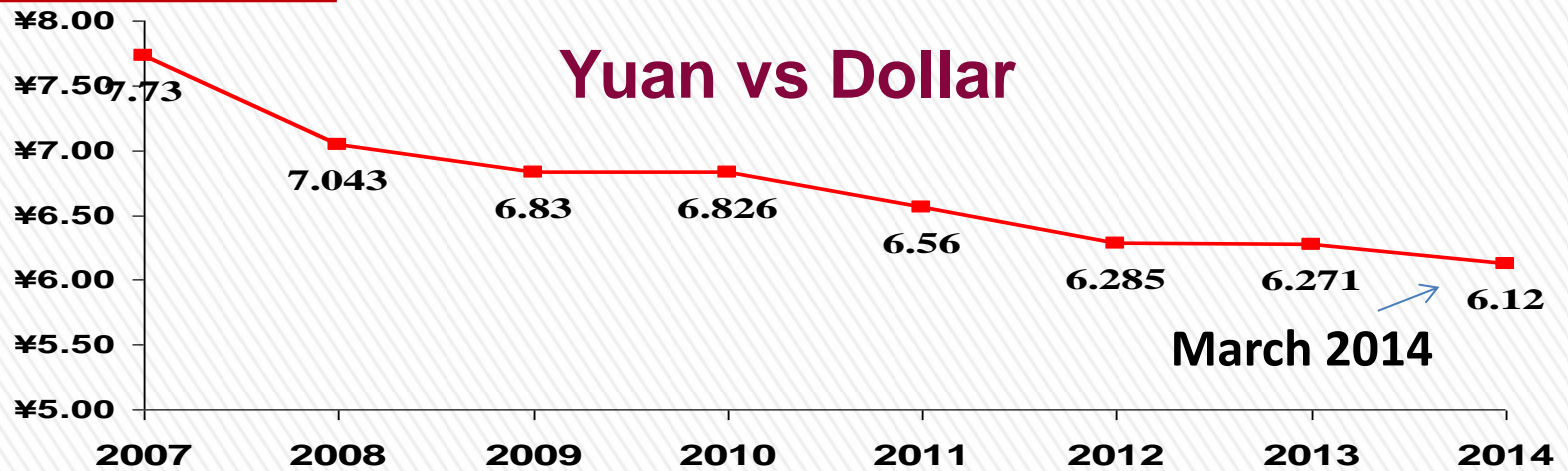
107.82 USD/bbl

13 Mar '14



InfoMine.com

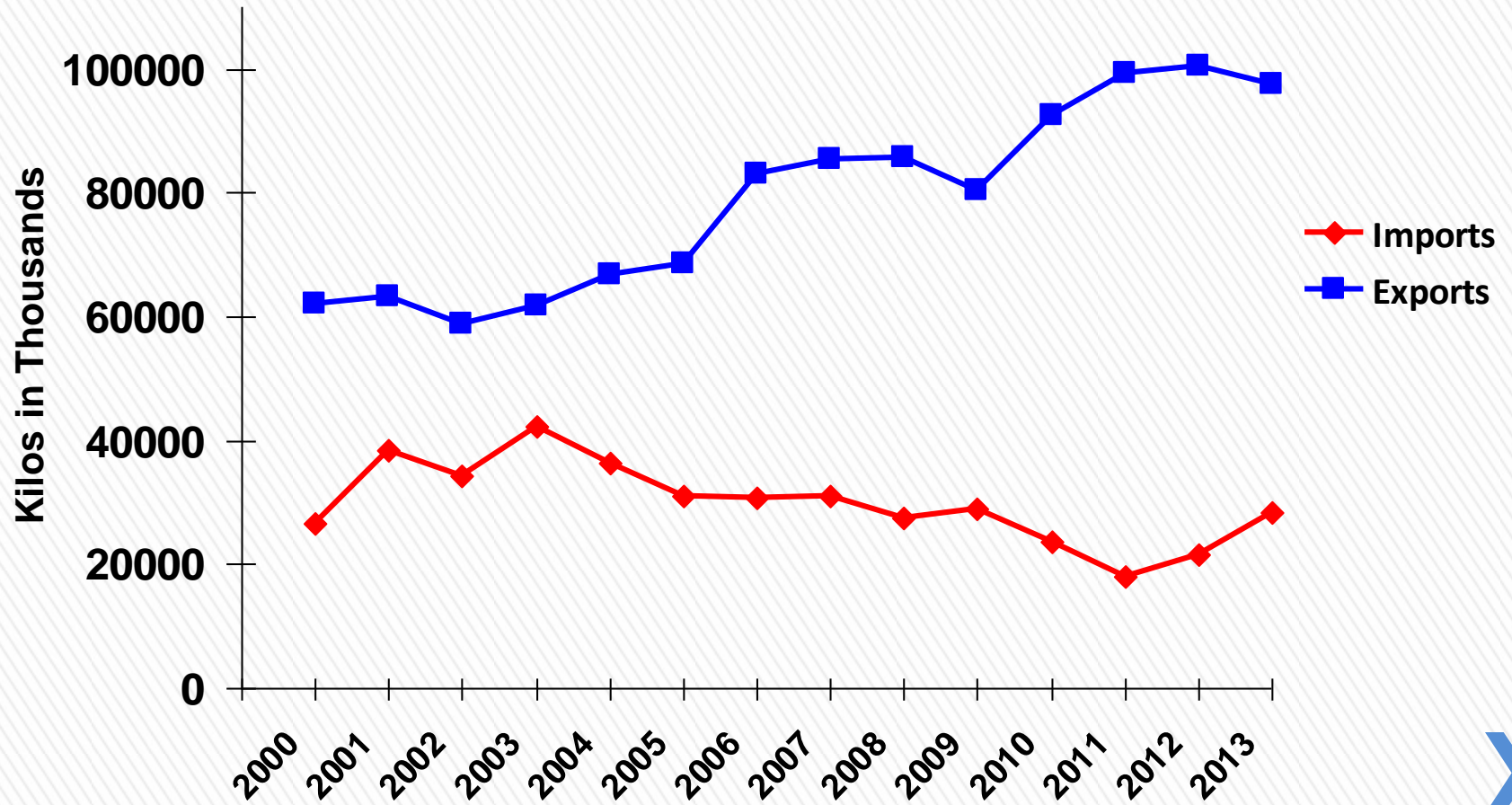
Currencies



Source: GO Currency Converter

Foreign Trade

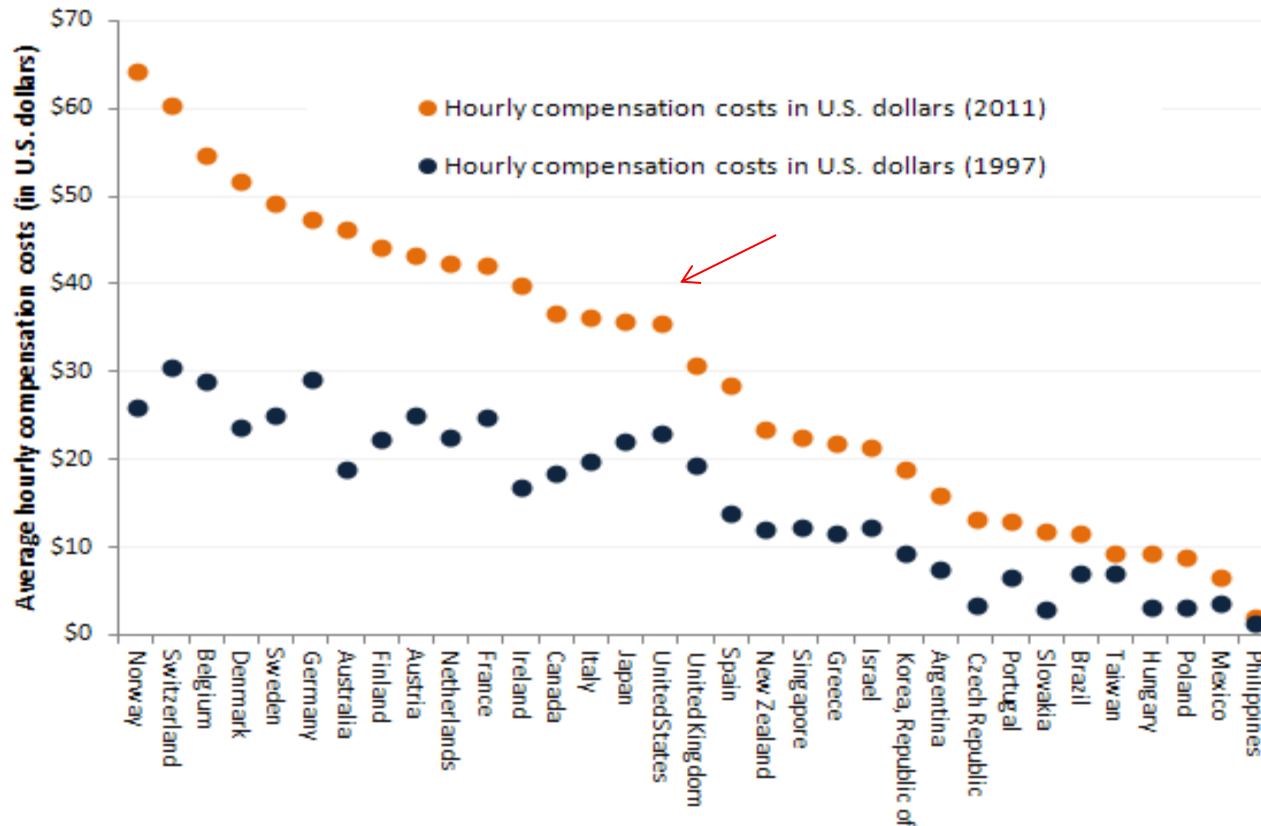
NAICS 32591



* Source – U.S. Census Bureau

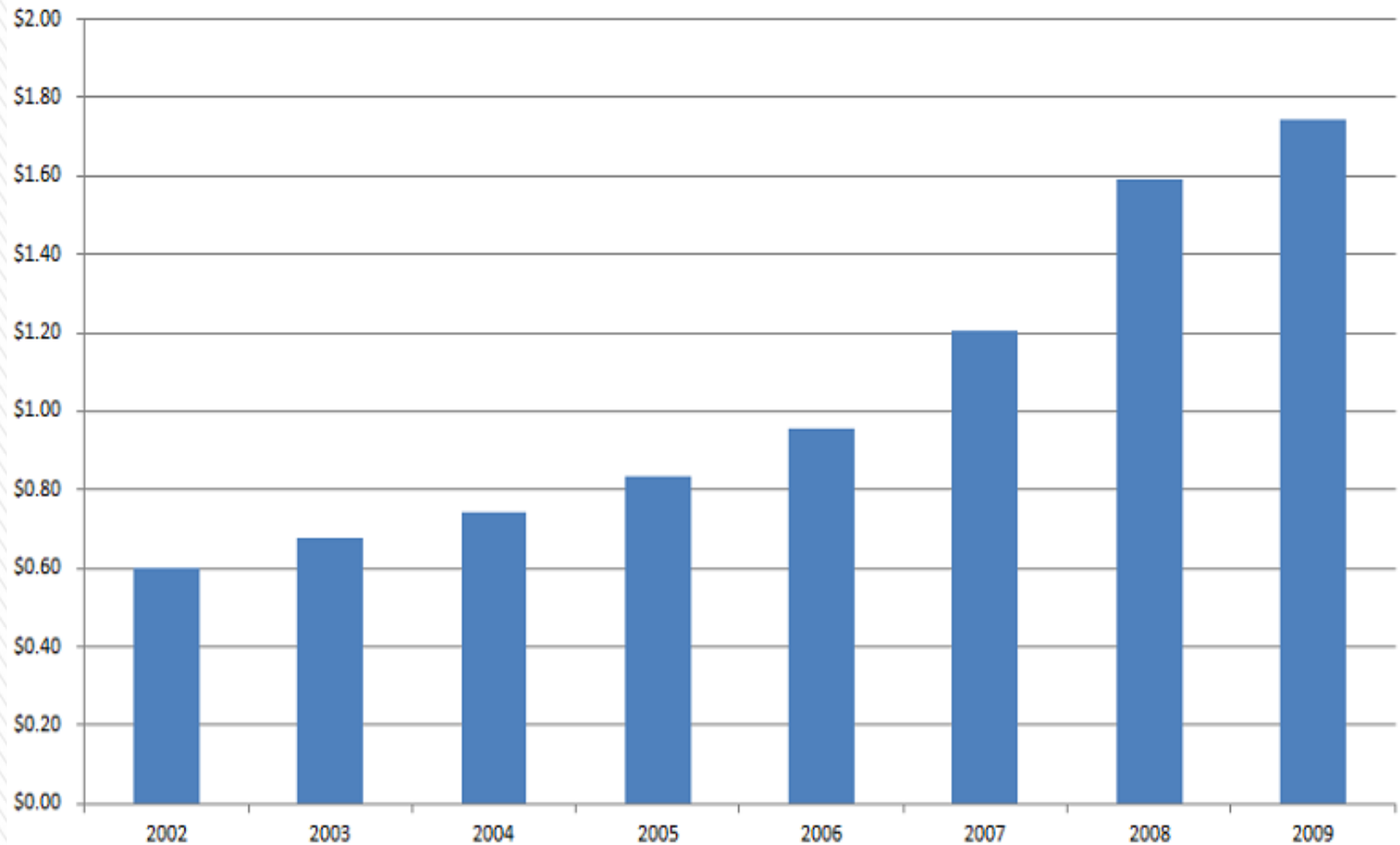
Average hourly compensation costs in manufacturing, U.S. dollars, 1997 and 2011

Average hourly compensation costs in manufacturing, U.S. dollars, 1997 and 2011



Source: U.S. Bureau of Labor Statistics.

Average hourly compensation costs of manufacturing employees in China, U.S. Dollars, 2002-2009



Source: U.S. Bureau of Labor Statistics, International Labor Comparisons.

Quote from NAPL: “*Creating Our Own Recovery*”

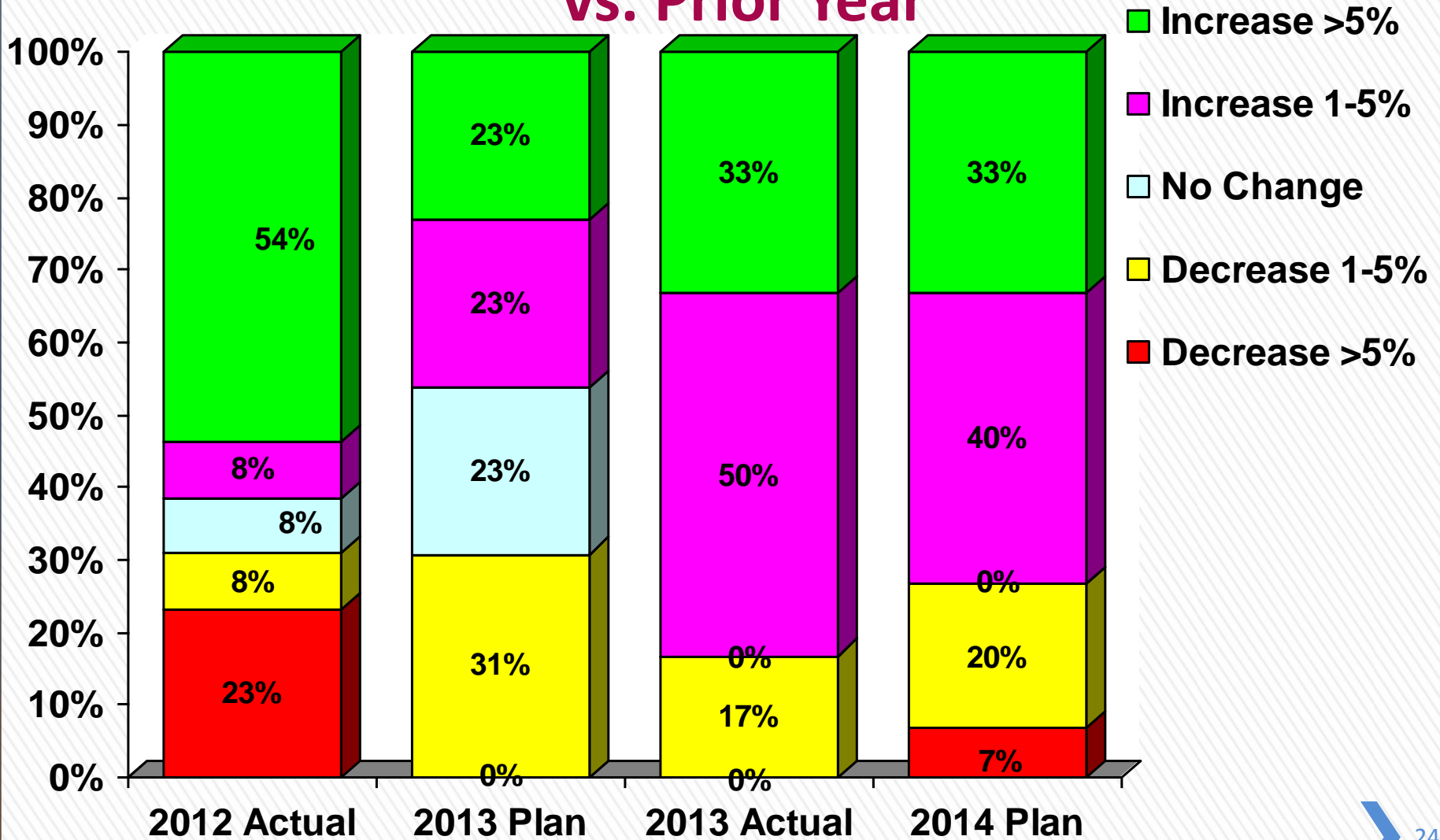
Our industry is being redefined.

Our industry is becoming something fundamentally different from what it was—something more complex and even more competitive than it was—**creating historic opportunities for the prepared and profound threats for the unprepared**—no matter how big, established, or successful the unprepared have been.

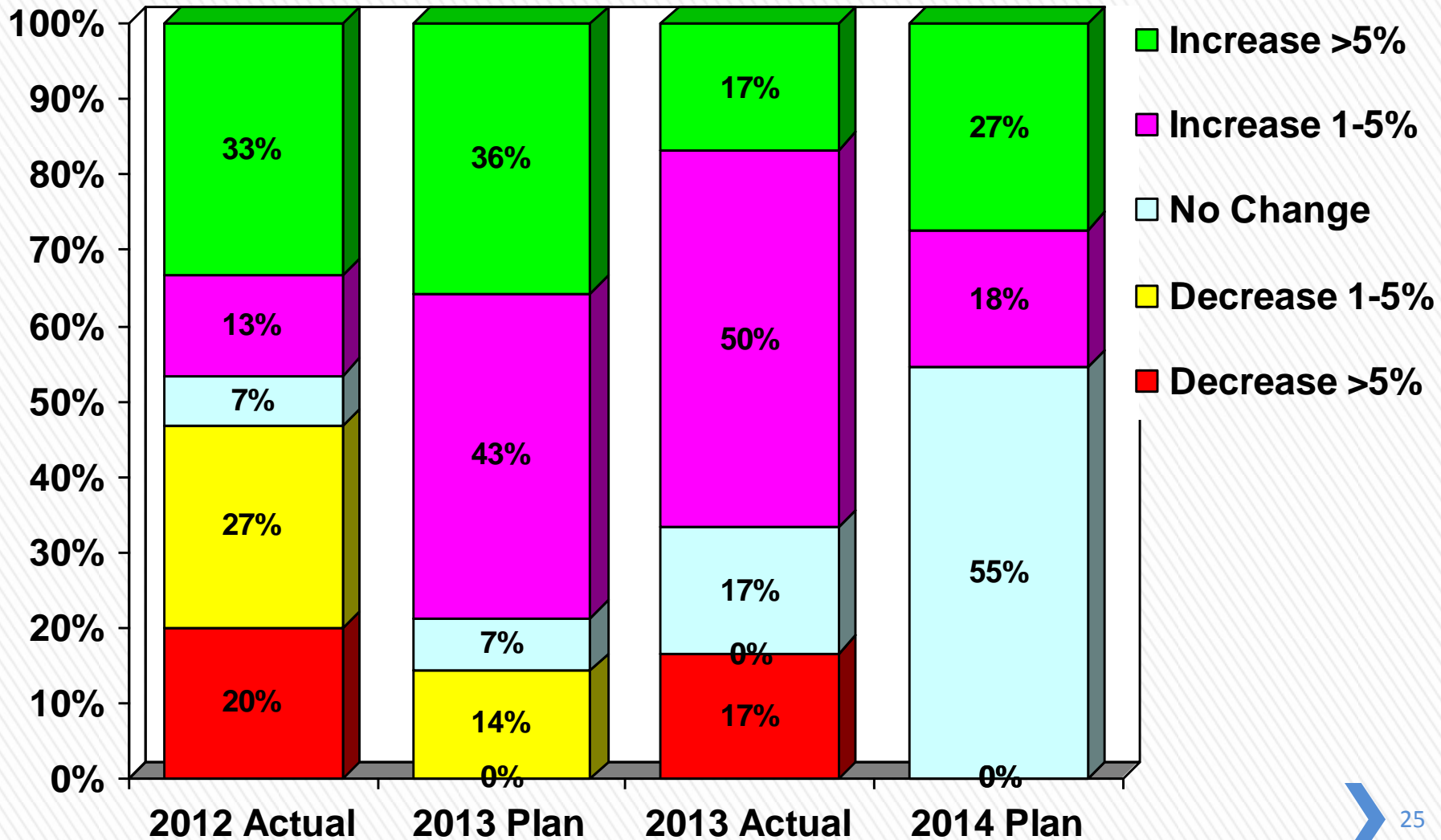
- The economy isn’t going to do it for us.
- Consolidation isn’t going to do it for us.
- We have to do it for ourselves in an industry that is **not simply changing but is being redefined.**

Revenue and Growth

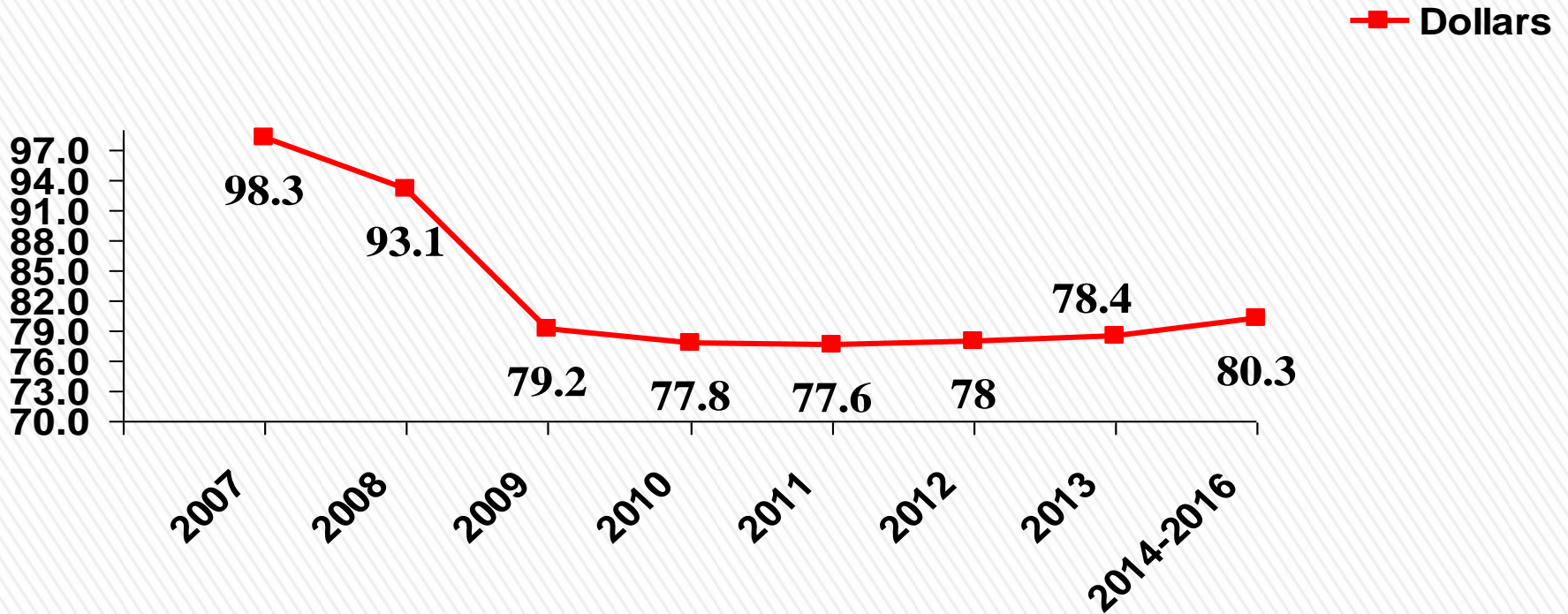
Ink Companies' Sales Change vs. Prior Year



Suppliers' Sales Change vs. Prior Year

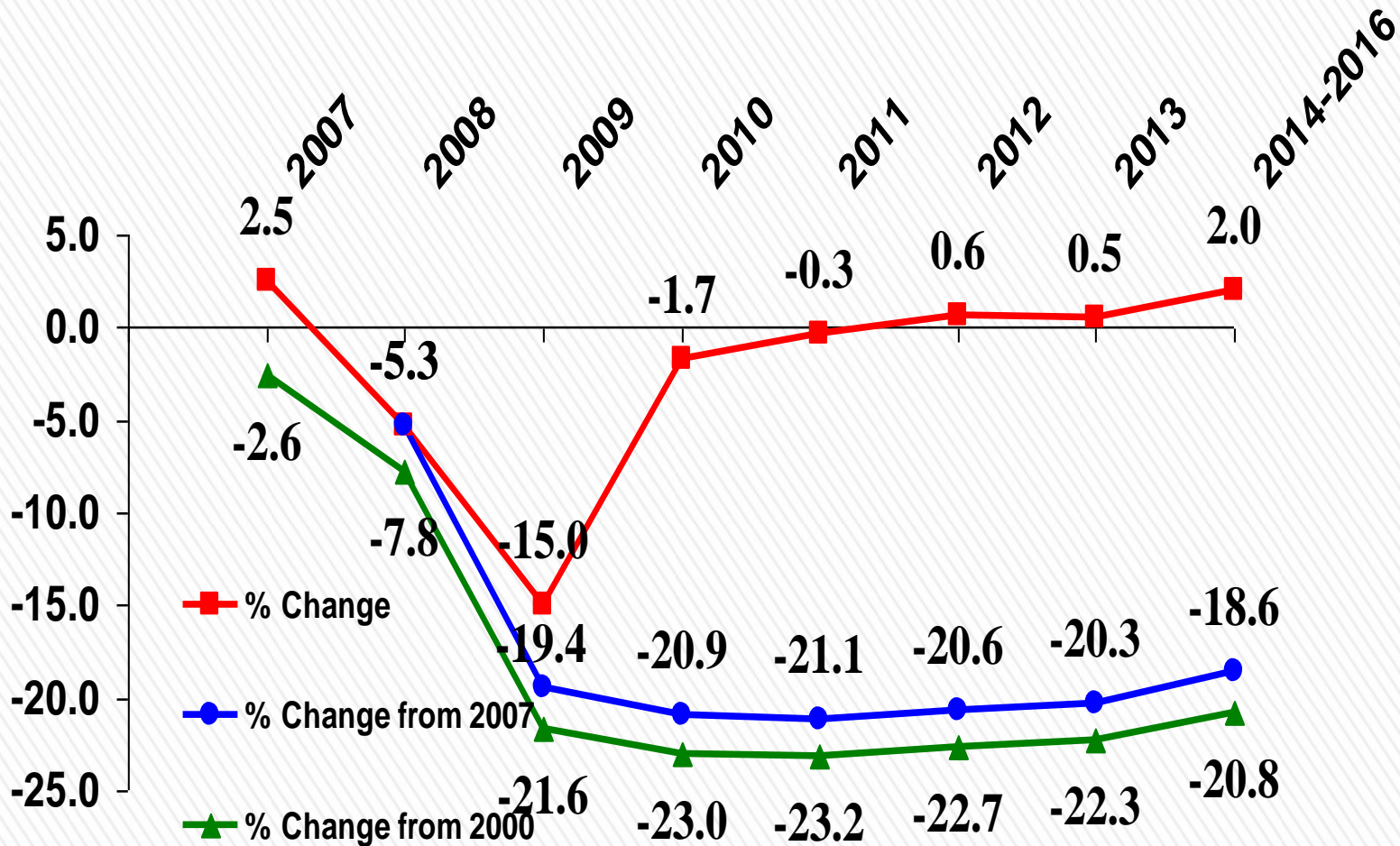


U.S. Print Sales*



* Source – NAPL Commercial Printing Industry Sales

U.S. Print Sales (%)*



* Source – NAPL Commercial Printing Industry Sales

Outlook for Commercial Printing Industry Sales

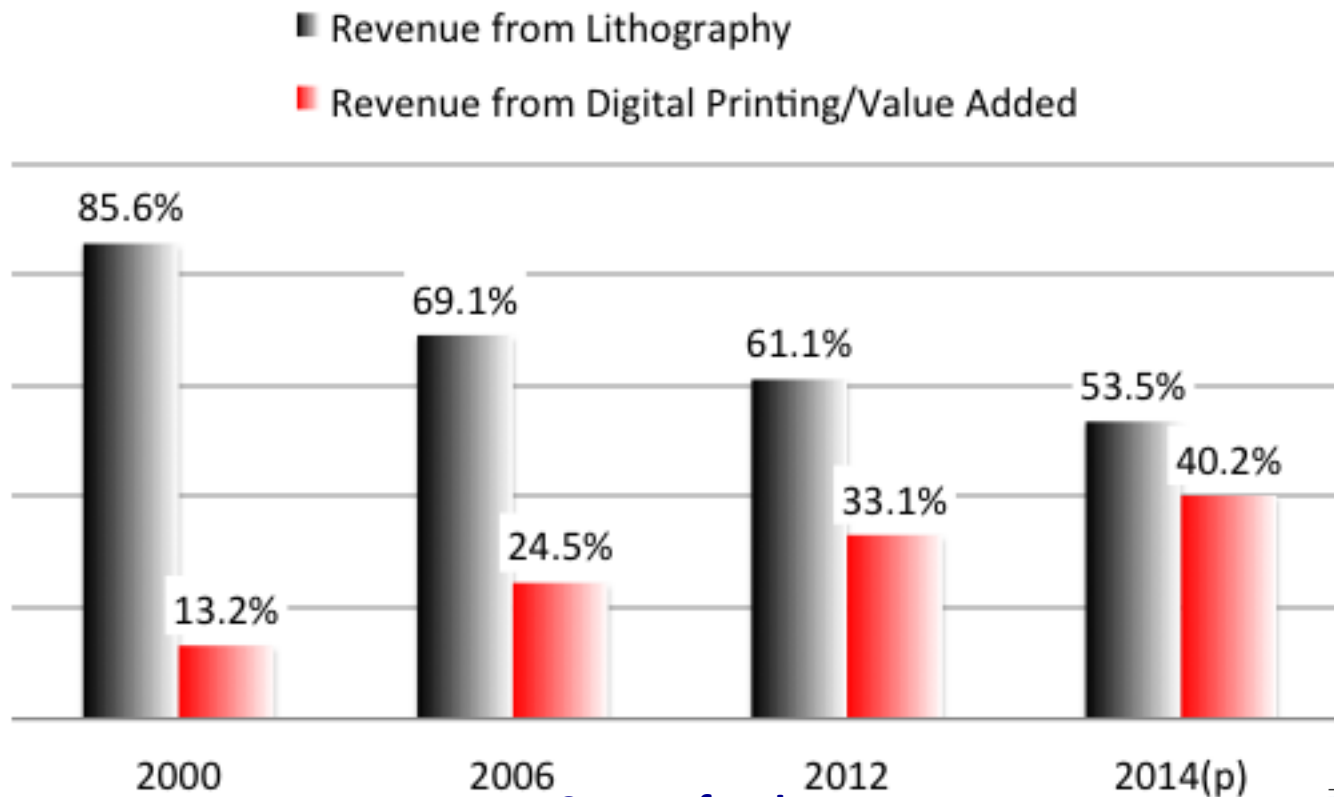
Sales (billions)			% Change Since ...	
Year	Change	Volume	2007 (pre-recession)	2000 (all-time high)
2014	1.0% – 3.0%	\$79.2 – \$80.8	-18.6%	-20.8%
2013	0.5%	\$78.4	-20.2%	-22.3%
2012	0.6%	\$78.0	-20.6%	-22.7%
2011	-0.3%	\$77.6	-21.1%	-23.2%
2010	-1.7%	\$77.8	-20.9%	-23.0%
2009	-15.0%	\$79.2	-19.5%	-21.6%
2008	-5.3%	\$93.1	-5.3%	-7.8%
2007	2.5%	\$98.3	-----	-2.6%

From: NAPL State of Industry Report



Our Services Are Being Redefined (cont.)

- Printing companies surveyed by NAPL expect lithography to provide 53.5% of their revenue this year, down from 85.6% in 2000.



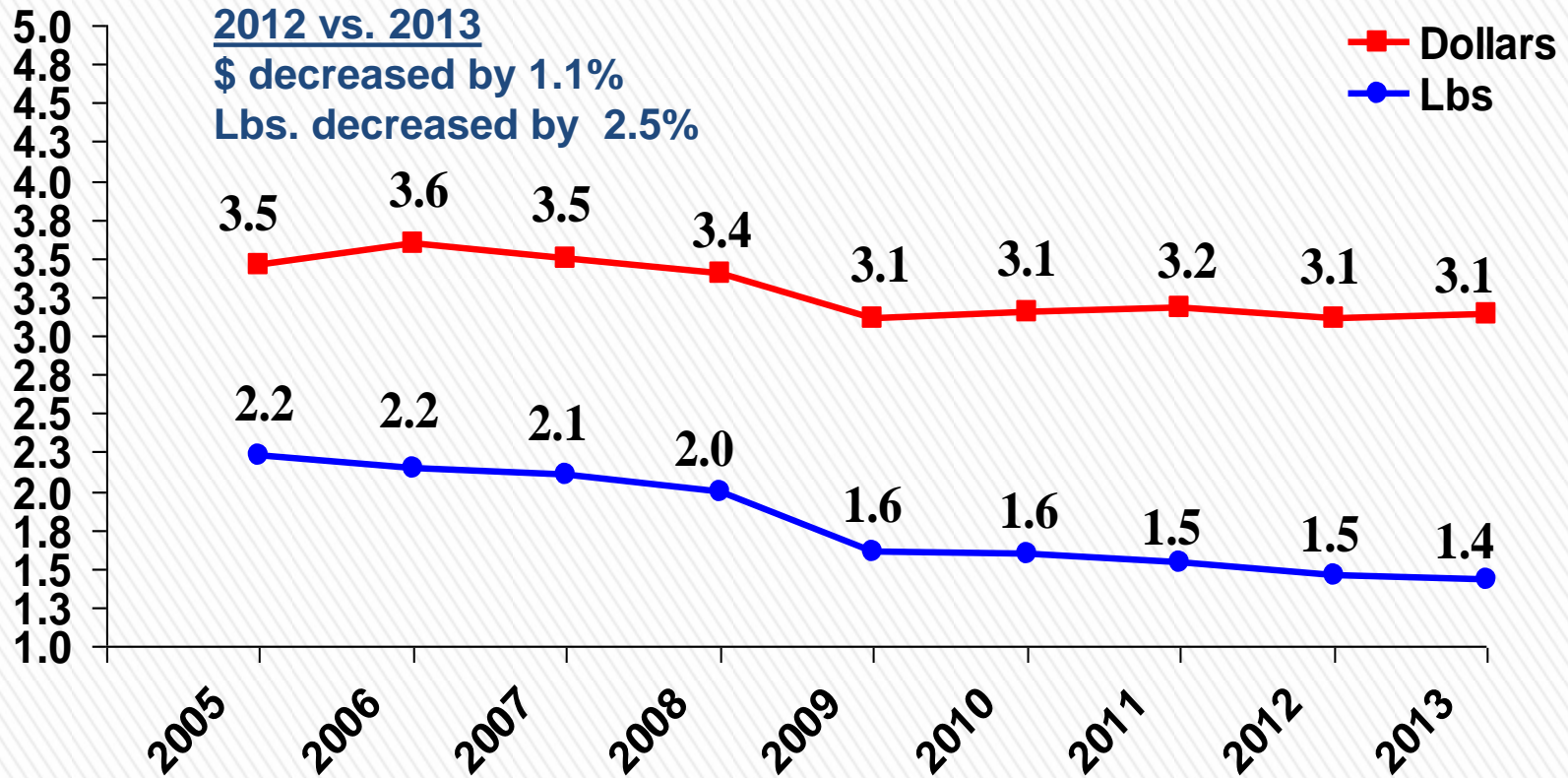
From: NAPL State of Industry Report

Sales

- Increased 4.1%, on average, last year for companies surveyed. Expect to increase 8.2%, on average, this year.
- Increased for 56.3% last year. This year 87.1% expect to increase sales.
- **Great variation from company to company:** Sales up 13.4% for top 20% and down 4.7% for bottom 20% last year.

2013 vs. 2012		2014 (expected) vs. 2013	
Average	4.1%	Average	8.2%
Top 20%	13.4%	Top 20%	10.0%
Bottom 20%	- 4.7%	Bottom 20%	4.9%
Increase	56.3%	Increase	87.1%
Decrease	30.0%	Decrease	12.4%
No Change	13.7%	No Change	10.5%

U.S. Printing Ink Sales*



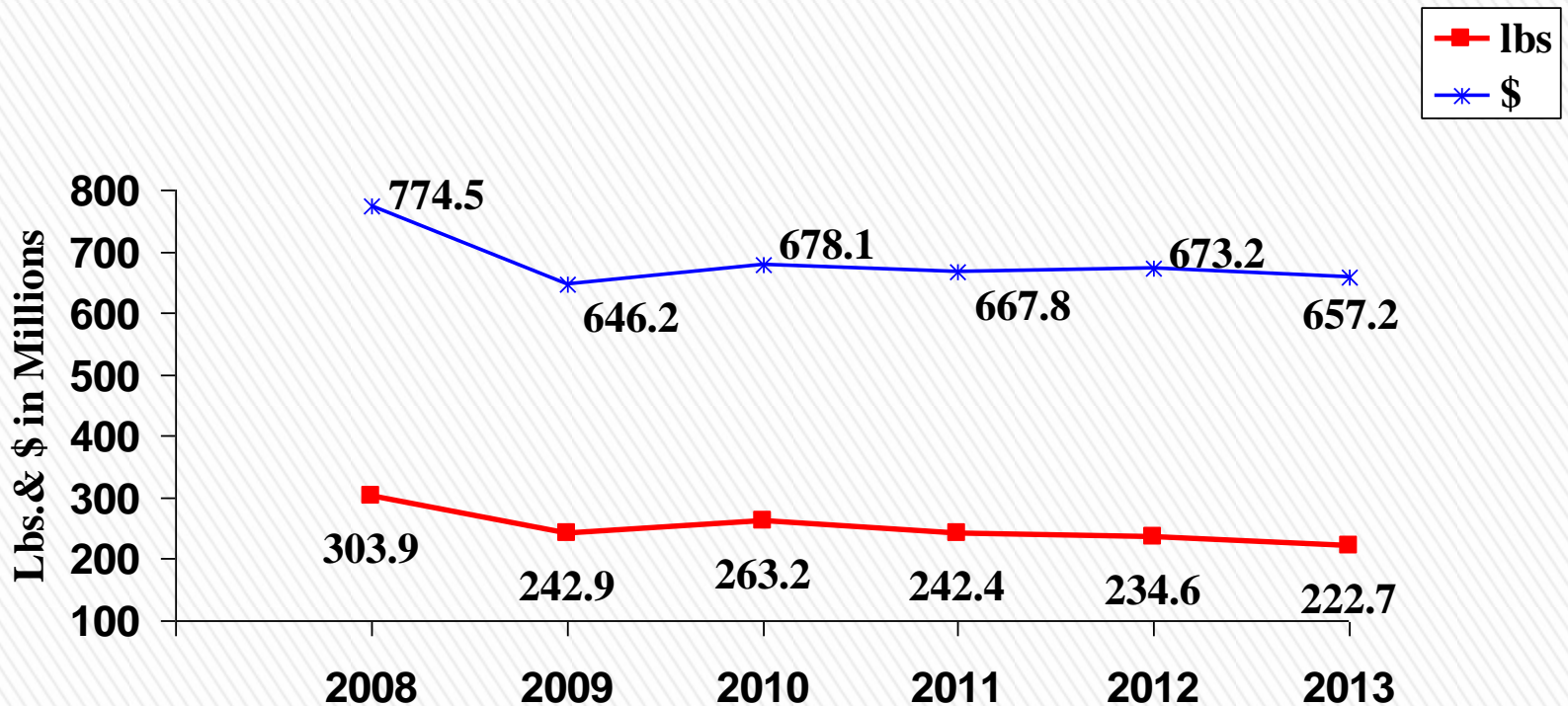
* Excludes screen, textile, digital, & non impact inks

Source - NAPIM QSR; Extrapolated to represent the US Printing Ink Market

LITHO INK In Pounds

2013 = -2.3%

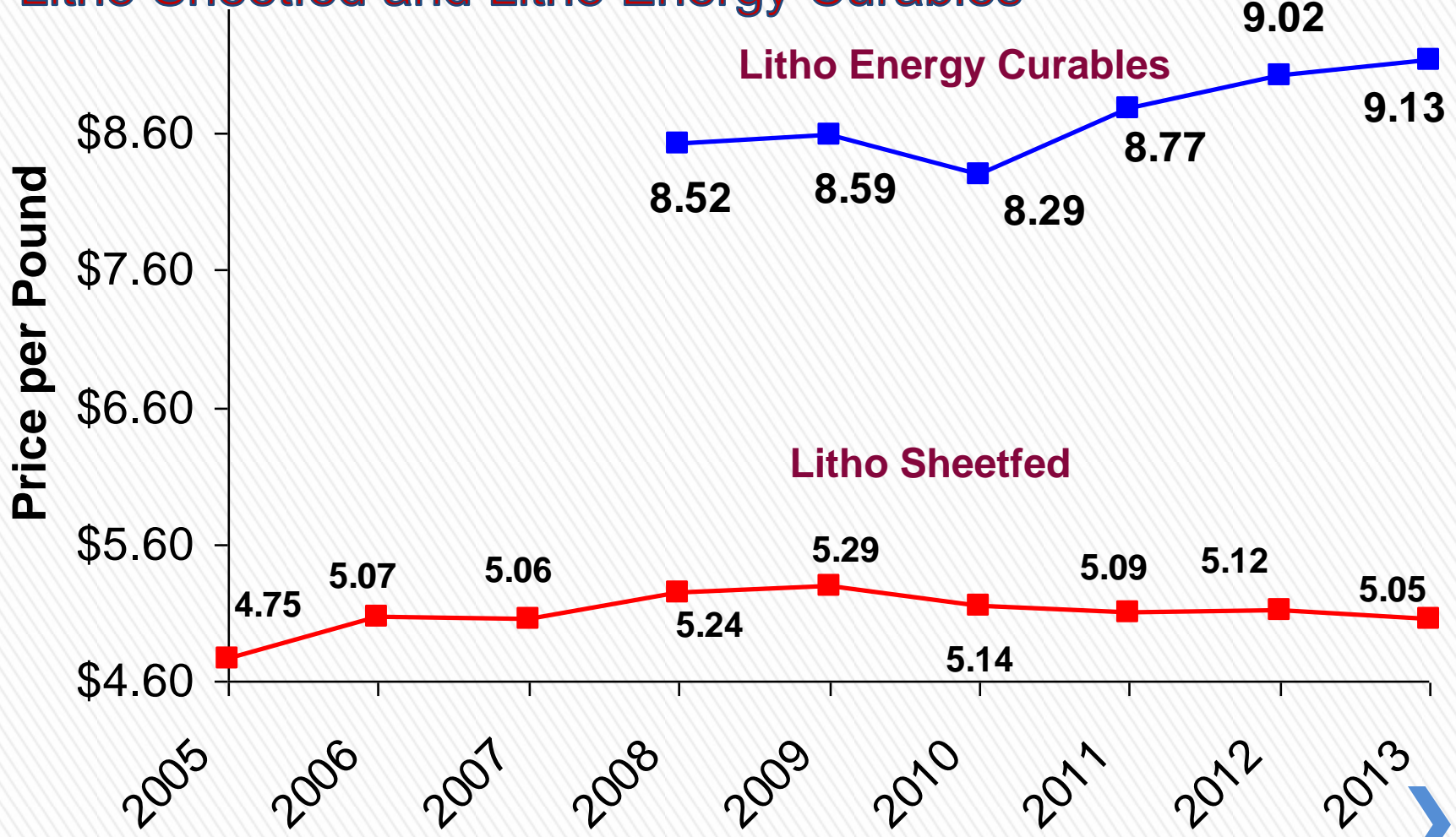
2012 = .8%



Source - NAPIM QSR: Not Extrapolated

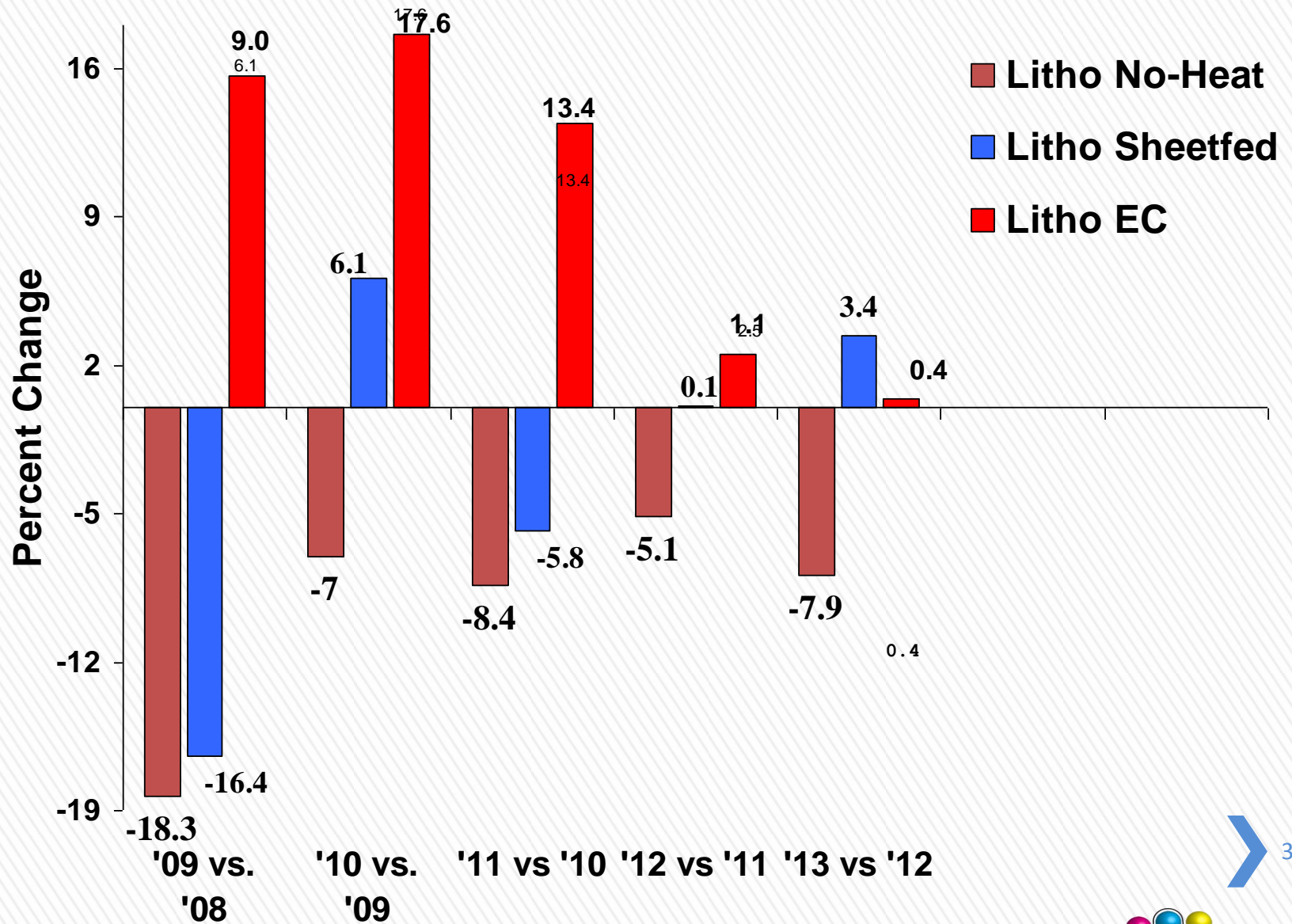
Average Selling Prices

Litho Sheetfed and Litho Energy Curables



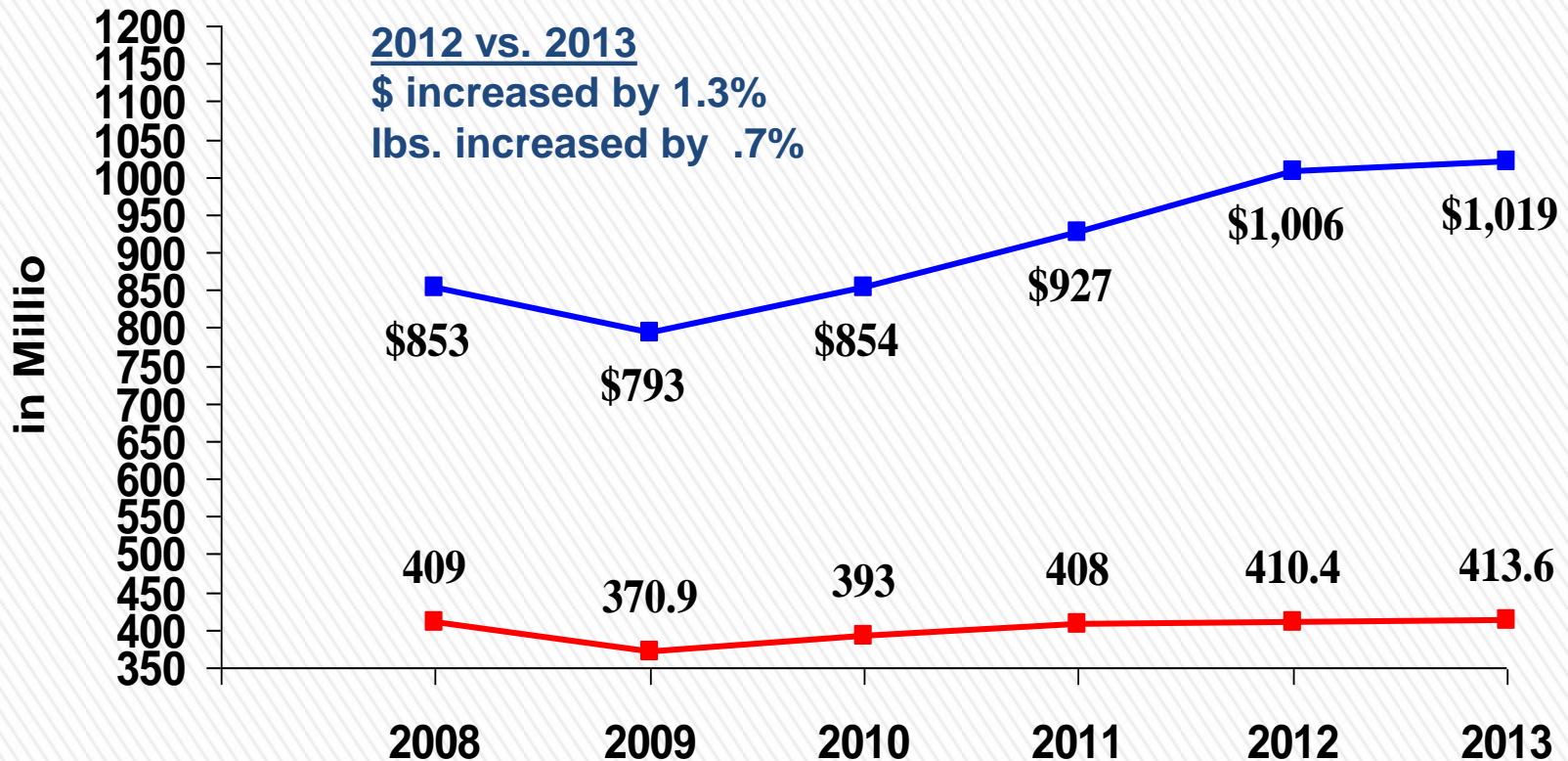
*Based on NAPIM QSR Sample.

Litho Ink Segments Based on Lbs.

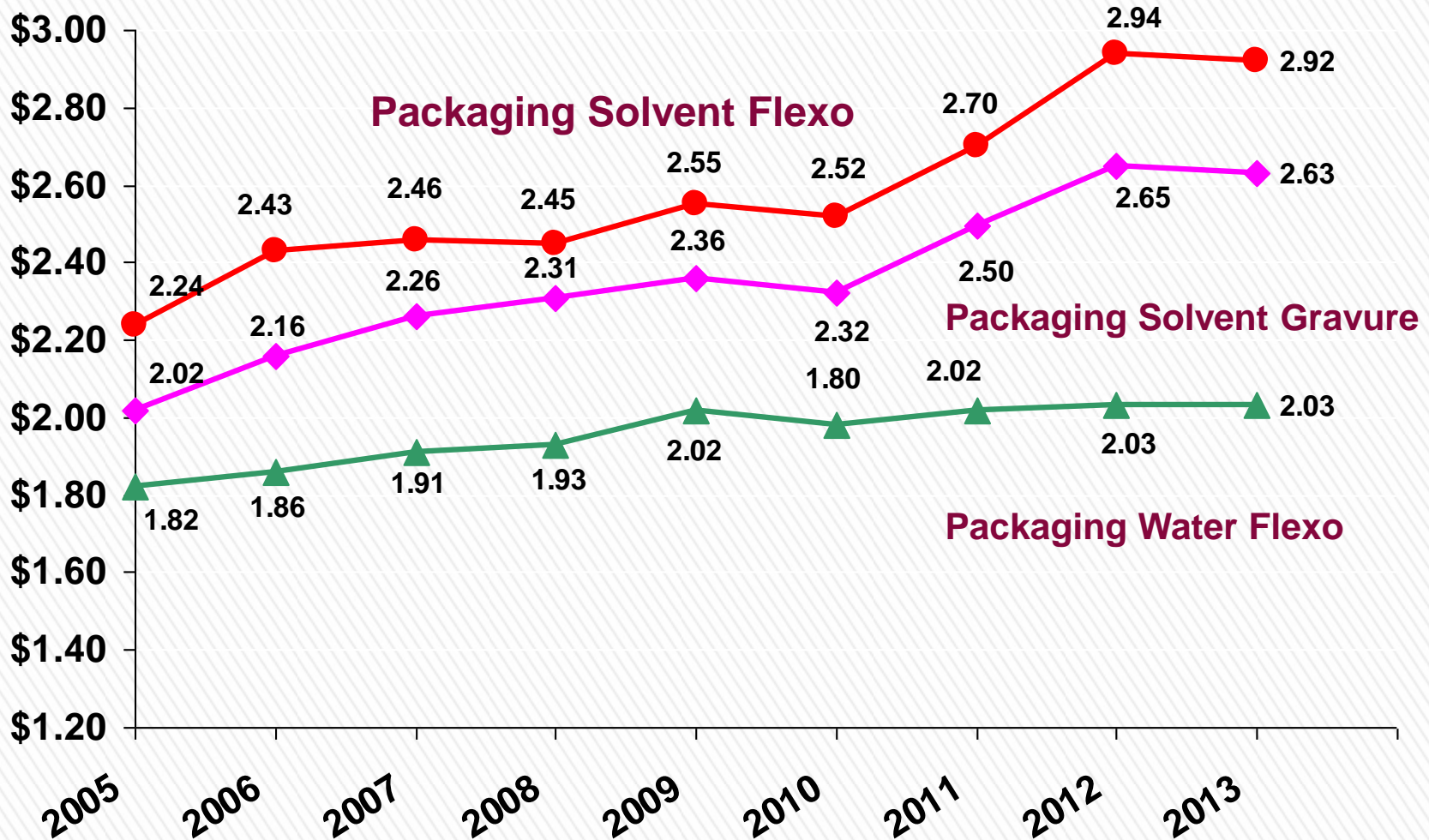


Source - NAPIM QSR

Packaging INK (Flexo & Gravure) In Pounds & Dollars

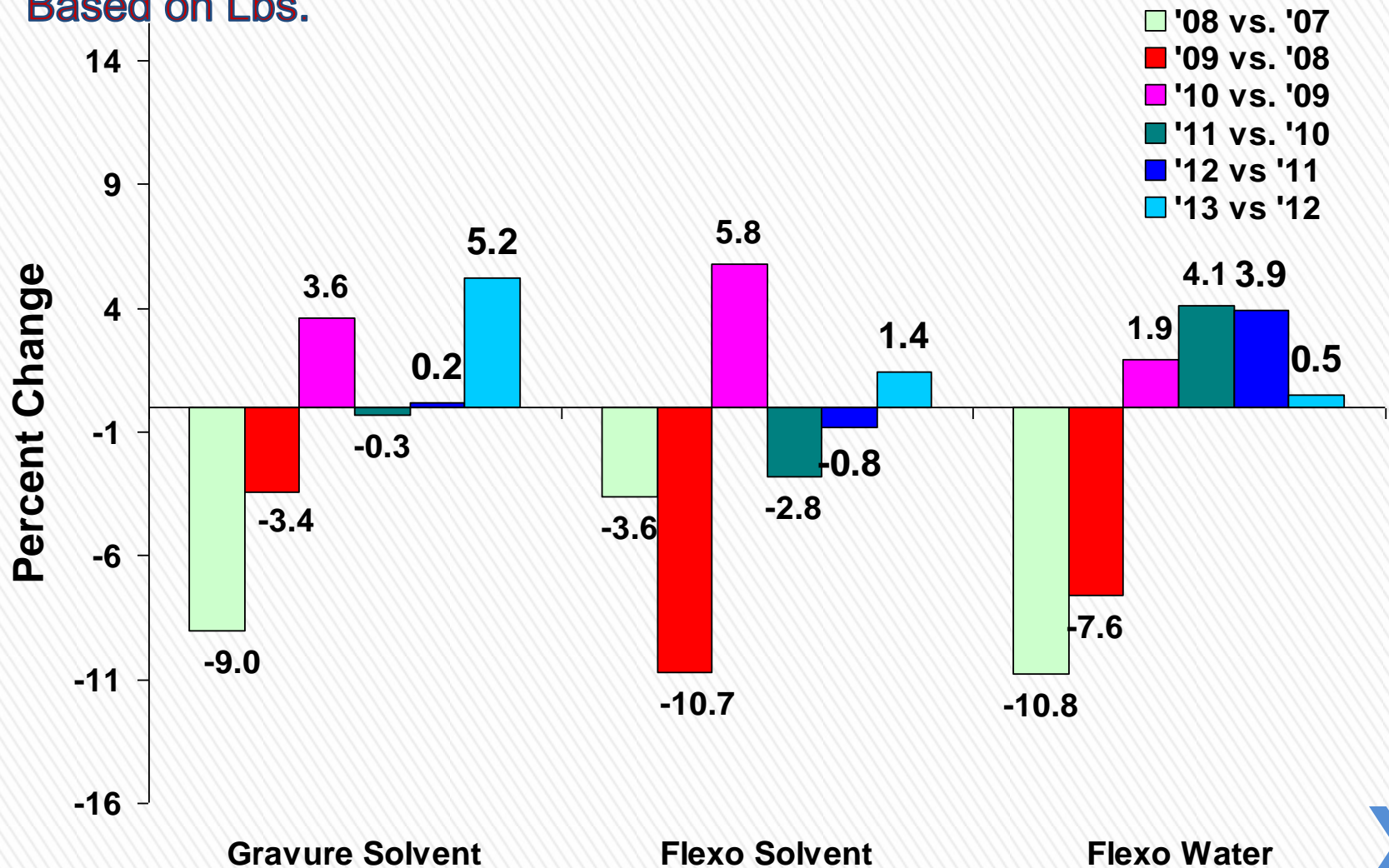


Average Selling Prices Packaging Gravure & Flexo



Packaging Ink Segments

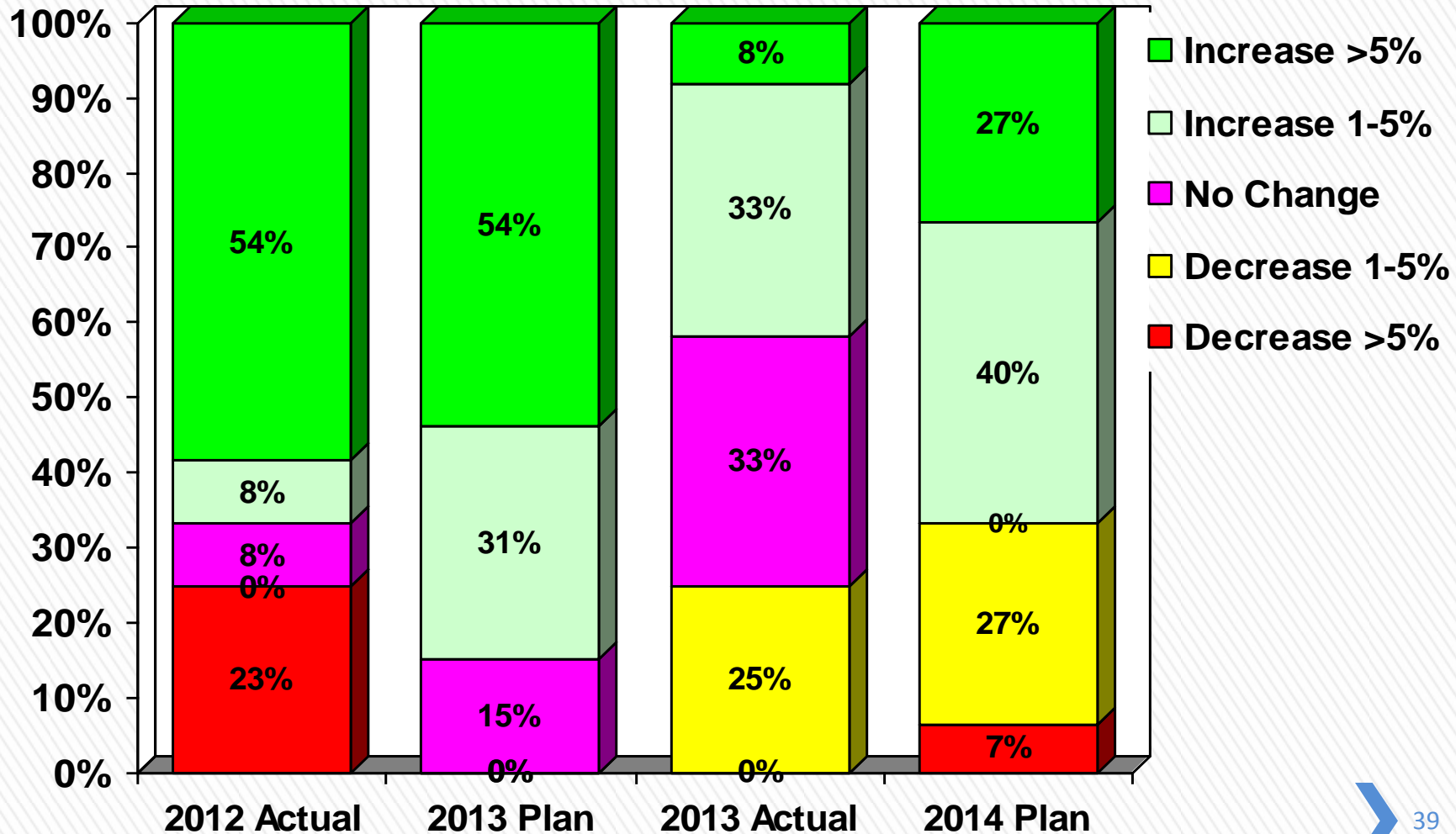
Based on Lbs.



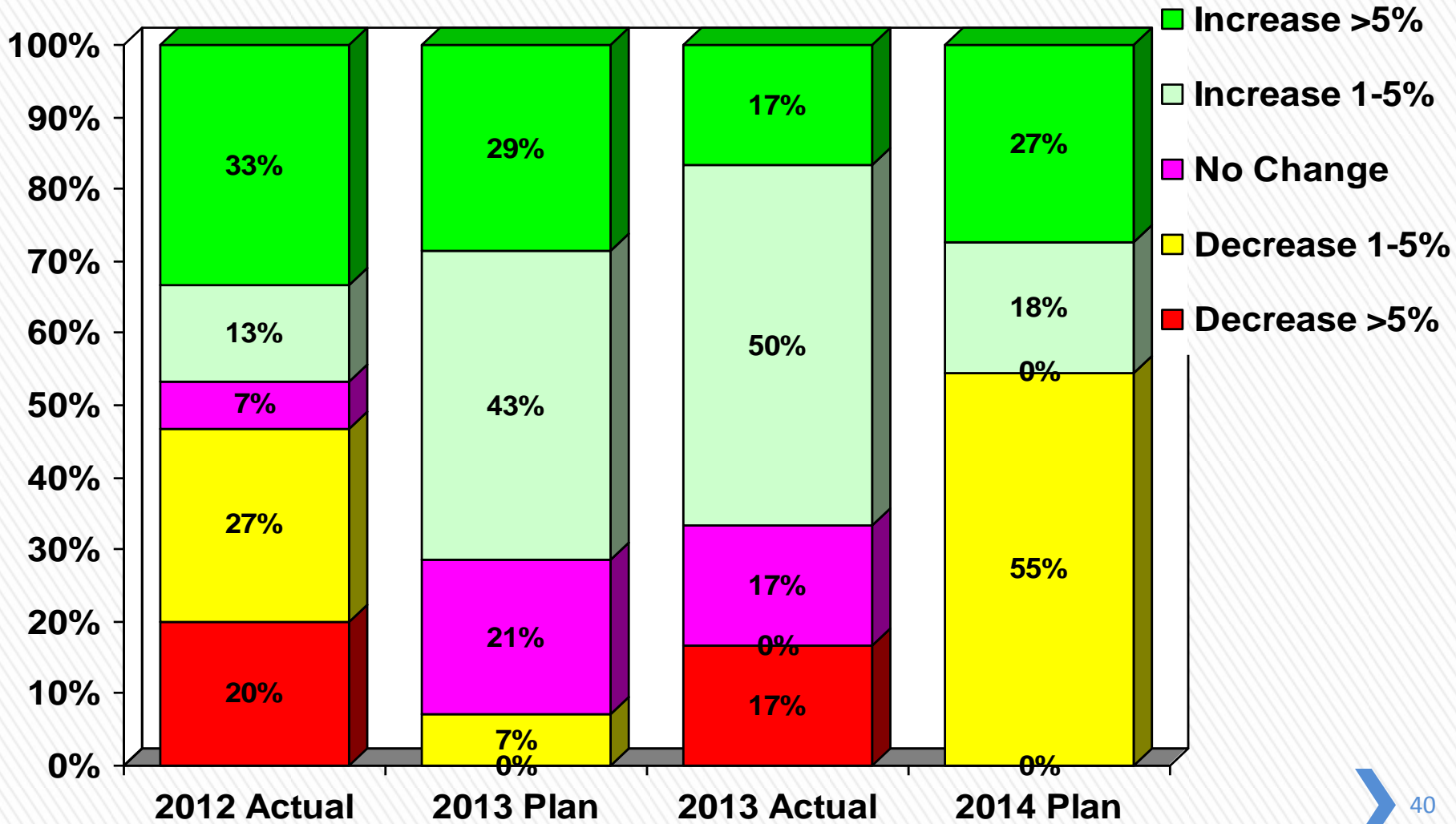
Source - NAPIM QSR

Profitability

Ink Companies' Profit Change vs. Prior Year

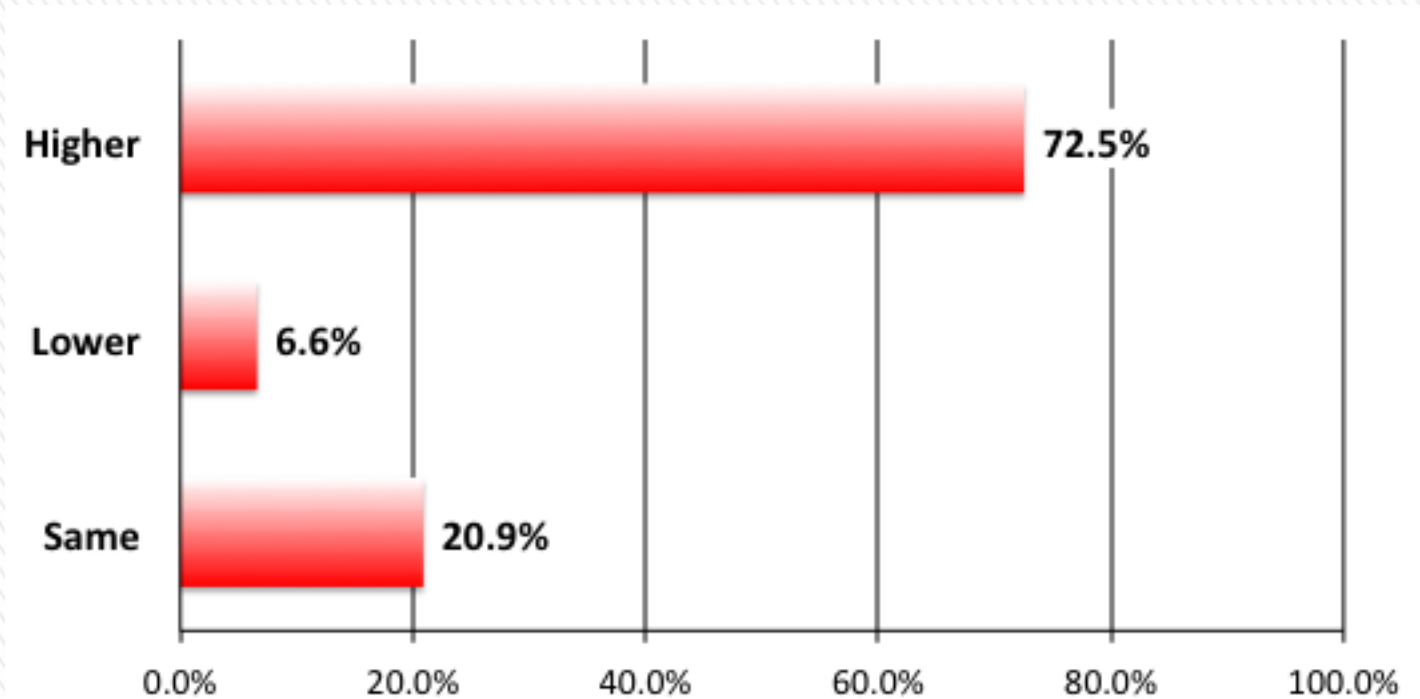


Suppliers' Profit Change vs. Prior Year



Printer Profitability

- Over 72.0% of companies surveyed expect to increase profitability this year.
- How do you expect your 2014 pre-tax profitability to compare to your 2013 pre-tax profitability?



From: NAPL State of Industry Report

Printer Profitability

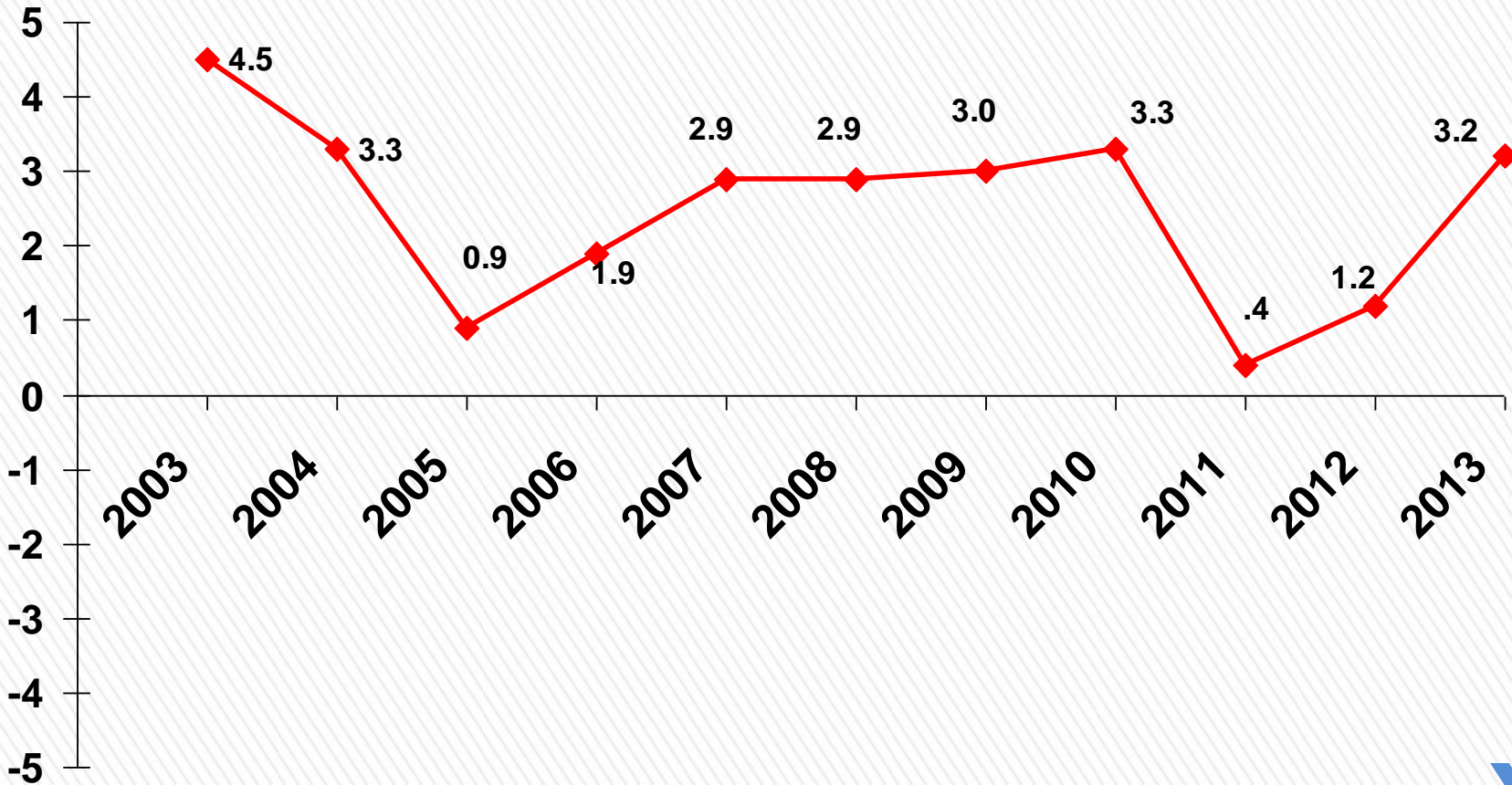
- Nearly 42.0% expect an improved economy to boost profits this year—but **just 4.1% are counting entirely on the economy.**
- The consensus: **Profitability gains will be because of what we do, not what the economy or industry does.**

Why My Company's Profitability Will Increase in 2014	Percent
Gain market share by selling/marketing more effectively, getting more valuable to our clients, capturing new clients, etc.	52.7%
Better economy/business conditions	41.8%
Create a more profitable sale mix.	36.3%
Lower our costs/get more efficient/do more with less	33.0%
Pick up work from failed competitors	31.9%
Raise our prices	20.9%
Lower our prices (to increase volume)	0.0%

From: NAPL State of Industry Report

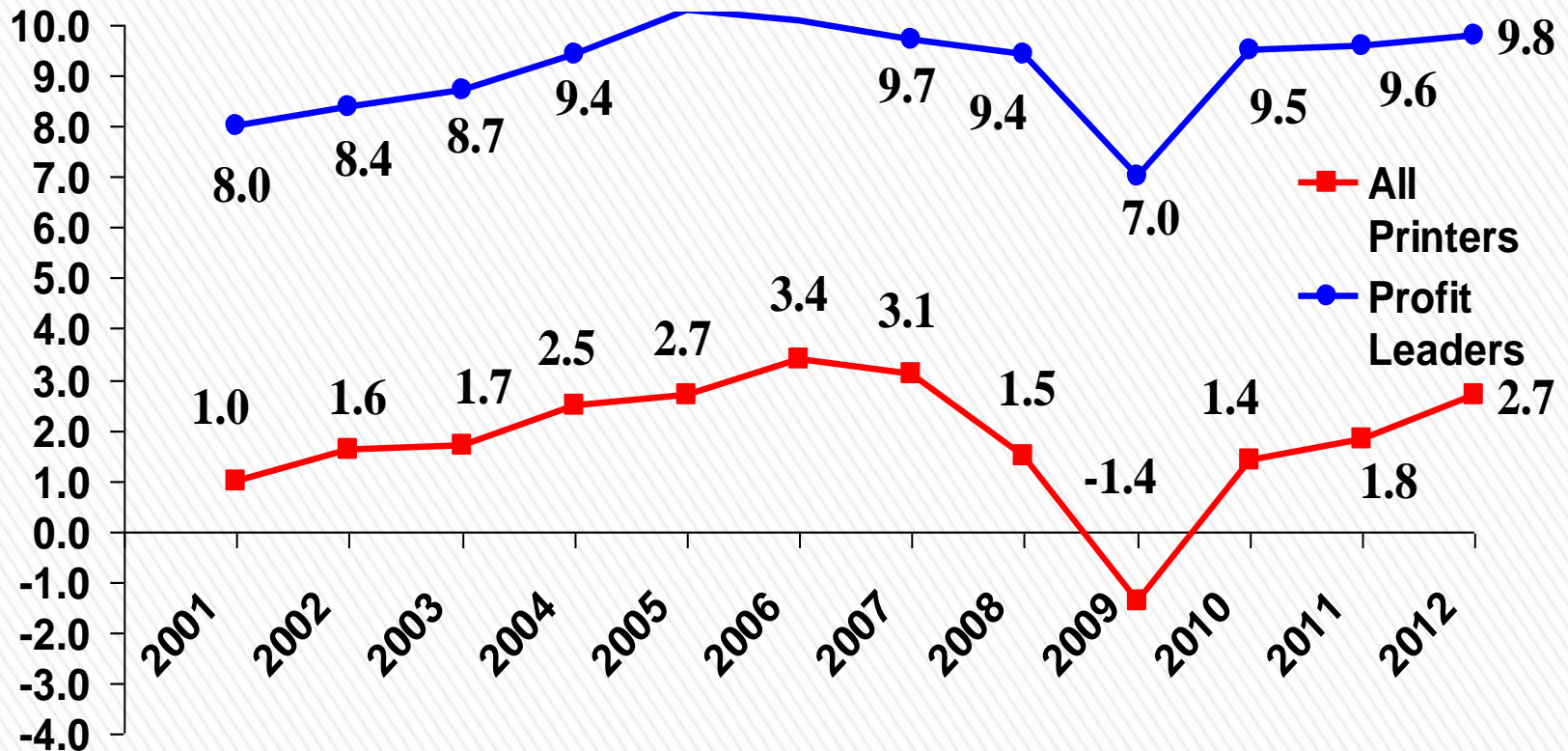


Ink Companies' Historical Earnings Before Interest & Taxes



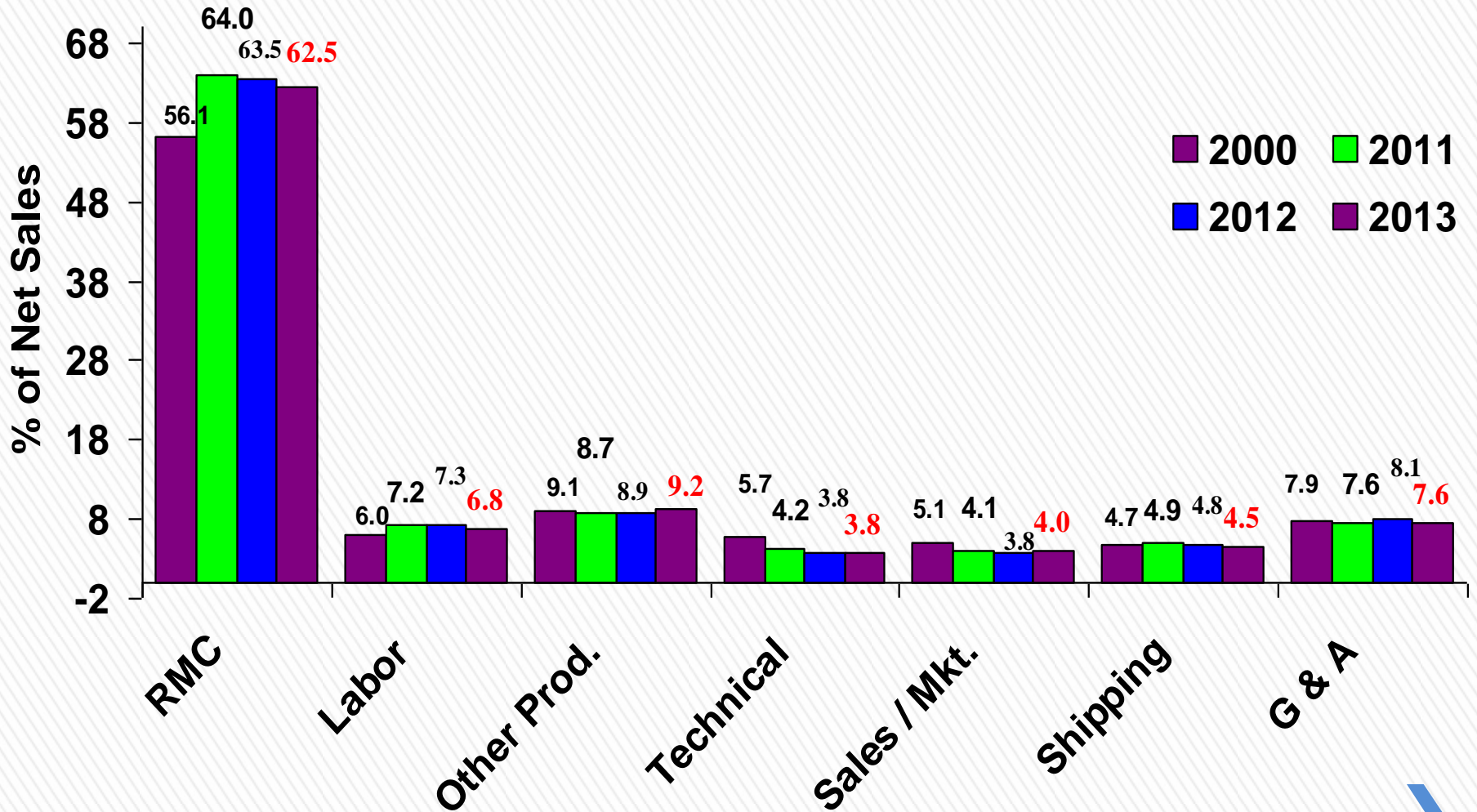
Average Percent

Profit Trends (%) – Printers with PIA



* Source – Printing Industries of America

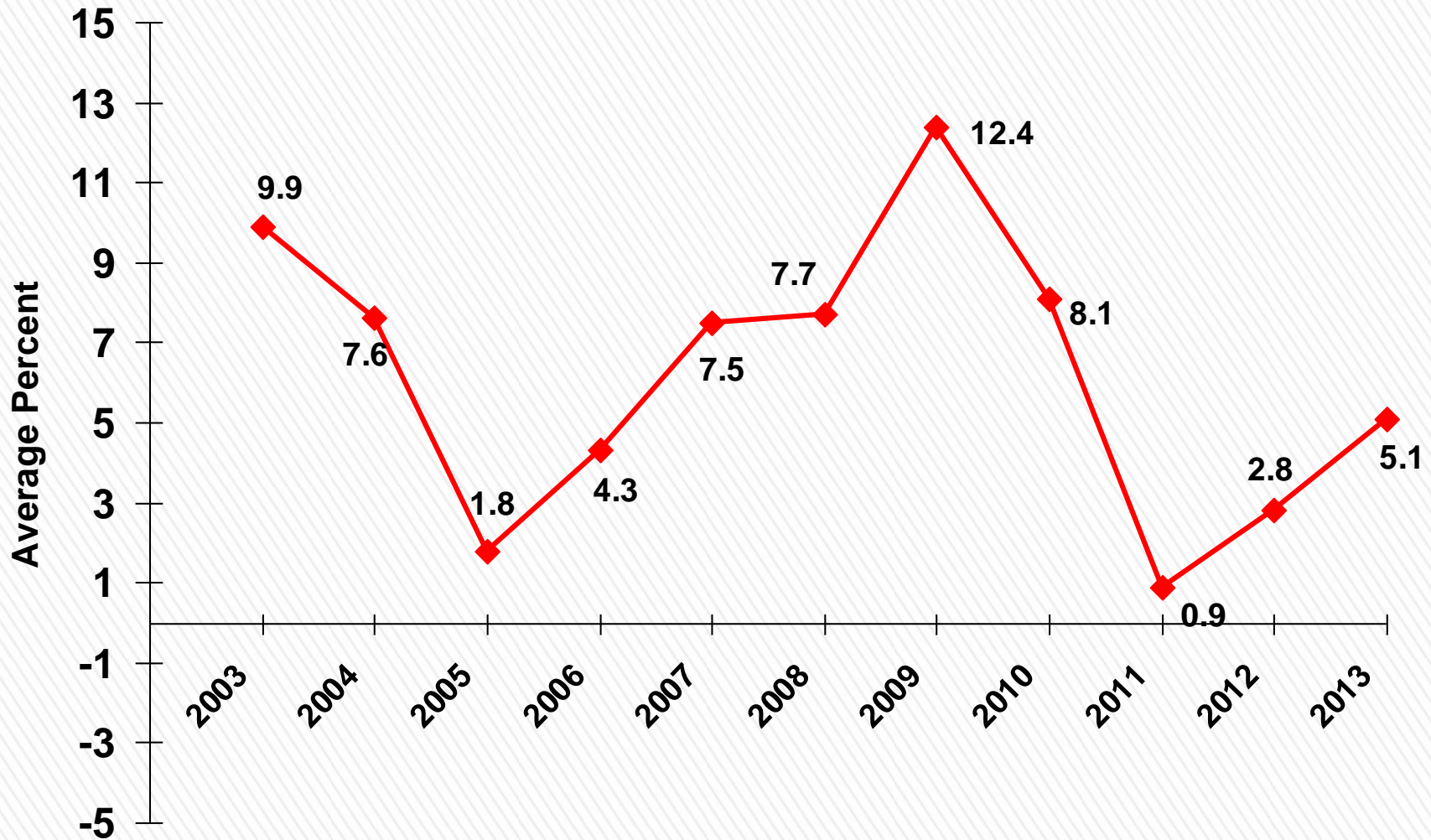
Average Oper. Cost 2013 ALL Ink



BENCHMARKING INFORMATION

	2012	2005	2000	1999	1998
Sales Dollars per Employee (\$)	424,875	331,749	297,342	262,266	253,044
under 50	293,933	232,053	207,818		140,324
over 50	435,545	353,779	308,553	270,866	264,491
Sales Dollars per Salesmen (\$)	5,009,111	3,152,408	2,988,585	2,819,668	2,557,228
under 50	2,094,270	2,063,059	1,660,781		1,162,485
over 50	5,424,281	3,413,666	3,204,697	3,031,943	2,733,953
Accounts Receivable (days)	52.50	52.3	49.0	48.1	48.9
under 50	46.40	53.6	45.4		46.3
over 50	57.70	49.5	52.5	49.6	51.2
Accounts Payable (days)	57.80	48.4	51.2	46.8	48.8
under 50	47.00	52.0	50.7		49.5
over 50	68.60	40.5	51.6	51.9	48.2
Average Inventory on Hand (days)	92.00	84.8	76.0	84.8	84.2
under 50	135.10	107.2	84.1		93.2
over 50	90.10	82.1	75.4	84.4	83.8
# of Reporting Companies	11	11	14	20	20
Total Sales	1,928,507,610	2,305,986,116	2,519,377,548	2,436,192,757	2,319,405,661

Return on Net Assets: Based on EBIT



Source - NAPIM Operating Ratio Report

End Use Markets

From NAPL: “Our Services Are Being Redefined”

- We’re offering services we would not have considered five years ago. And we will be offering services in five years that we aren’t considering today.
- We’re getting involved in our clients’ work earlier and staying involved longer. How people communicate is changing. **If it affects how people communicate it affects us—and is an opportunity for us.**

Participants in the AMSP/NAPL State of the Industry Survey offer:

- Content Creation/Management
- Mobile Advertising
- Wide Format
- Response Management
- Strategy & Planning
- Signage
- Social Media Marketing
- Data Management/Analytics
- Packaging
- Inbound/Content Marketing
- SEO/SEM
- Tag and Label
- Multi-Channel Delivery
- Video for the Web
- 3D Printing

From: NAPL State of Industry Report



Services Offered

- Participants offer 14 services, on average.
- Three-quarters offer 10 or more services.
- Services offered by at least two-fifths:

Service	Offering	Service	Offering
Mailing	87.5%	Art/design/creative	63.3%
Variable Data	80.0%	Database Management	53.3%
Digital Color	77.5%	Marketing Services	44.2%
Fulfillment	72.5%	Email Marketing	42.5%
Offset Lithography	67.5%	Wide Format	41.7%

From: NAPL State of Industry Report

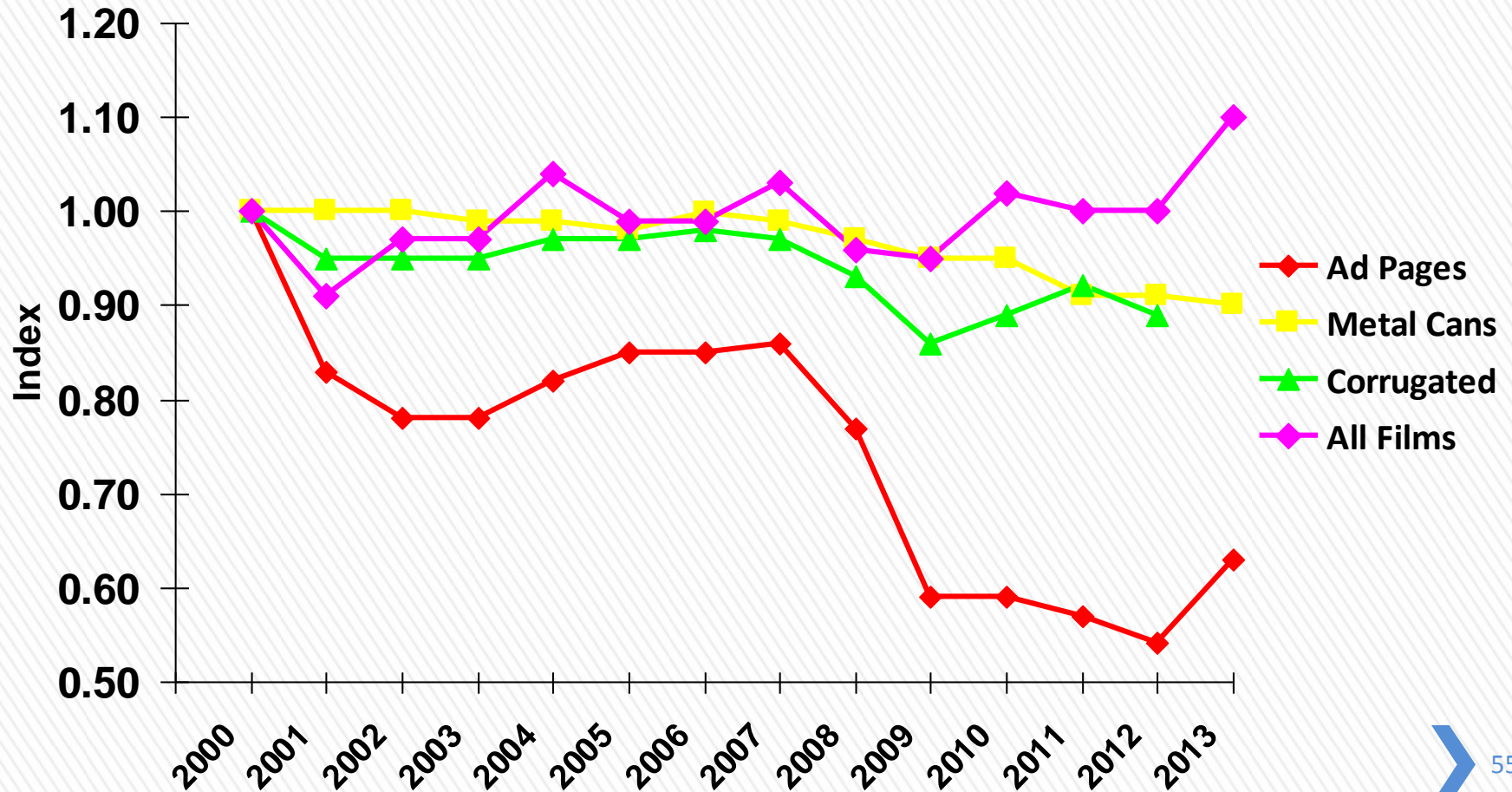


Services Offered (cont.)

- Services also offered:

Service	Offering	Service	Offering
Data Management/Analytics	37.5%	Content Creation/Management	17.5%
Packaging	35.8%	Digital Asset Management	16.7%
Web Storefront	34.2%	Response Management	15.0%
Web-to-Print	30.8%	Inbound/Content Marketing	12.5%
Strategy & Planning	28.3%	Mobile Advertising	10.8%
Multi-Channel Delivery	25.8%	SEO/SEM	10.0%
Signage	23.3%	SMS	10.0%
Web Page Creation/Hosting	22.5%	Video for the Web	7.5%
Social Media Marketing	19.2%	3D Printing	4.2%

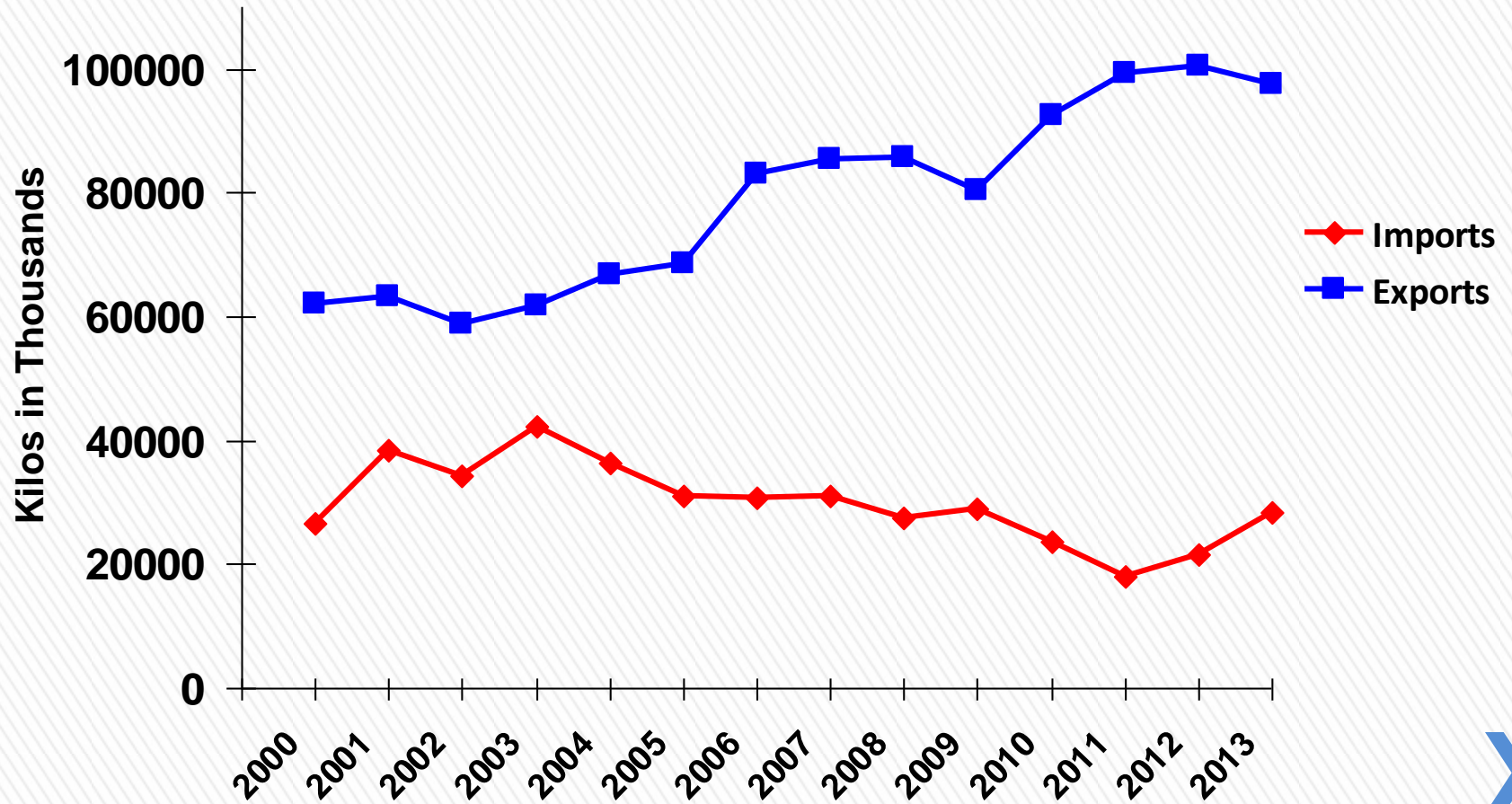
End Use Market Indicators



Foreign Trade

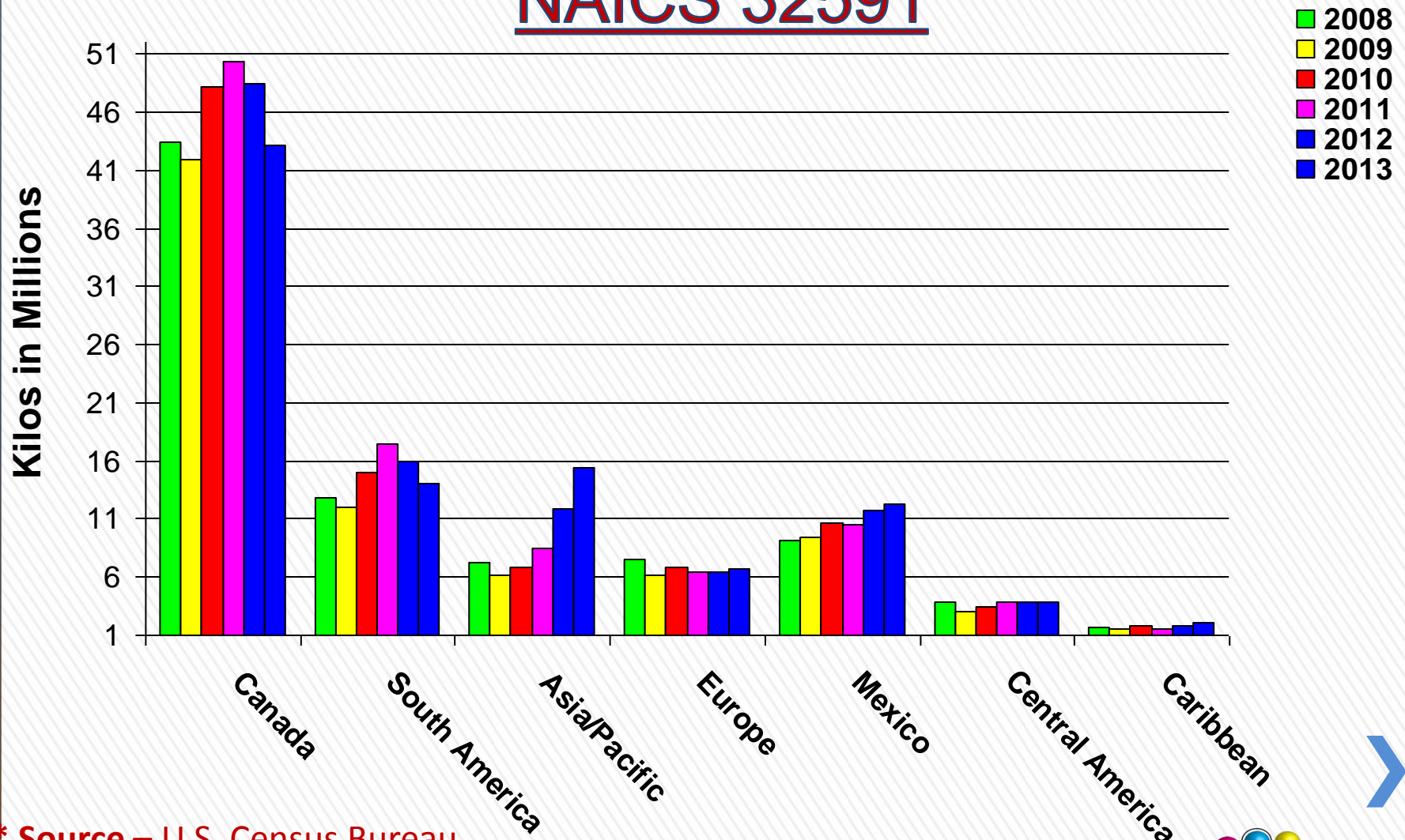
Foreign Trade

NAICS 32591



* Source – U.S. Census Bureau

Major Ink Exports NAICS 32591

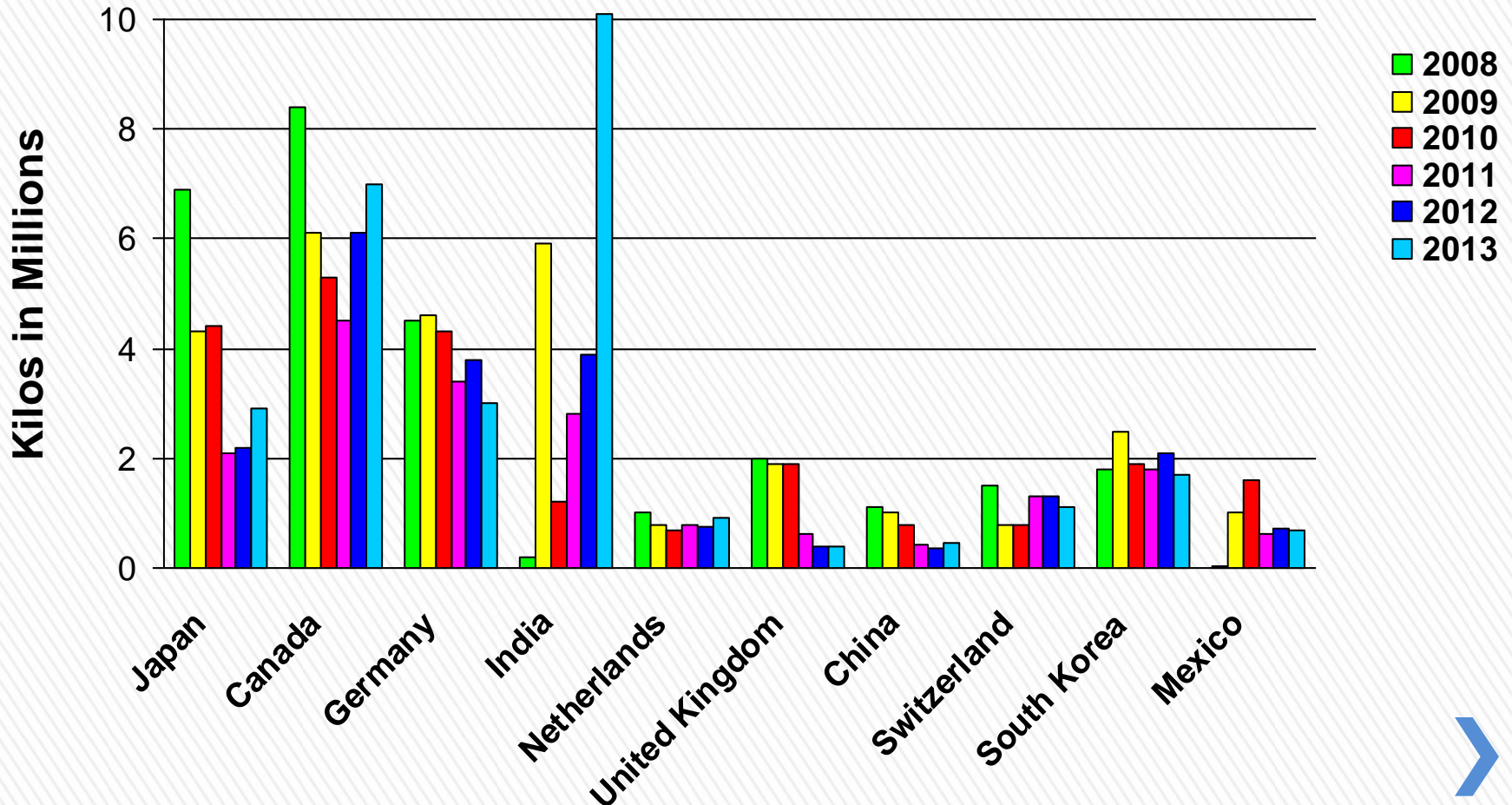


* Source – U.S. Census Bureau

As presented at the 2013 Convention April 7, 2013



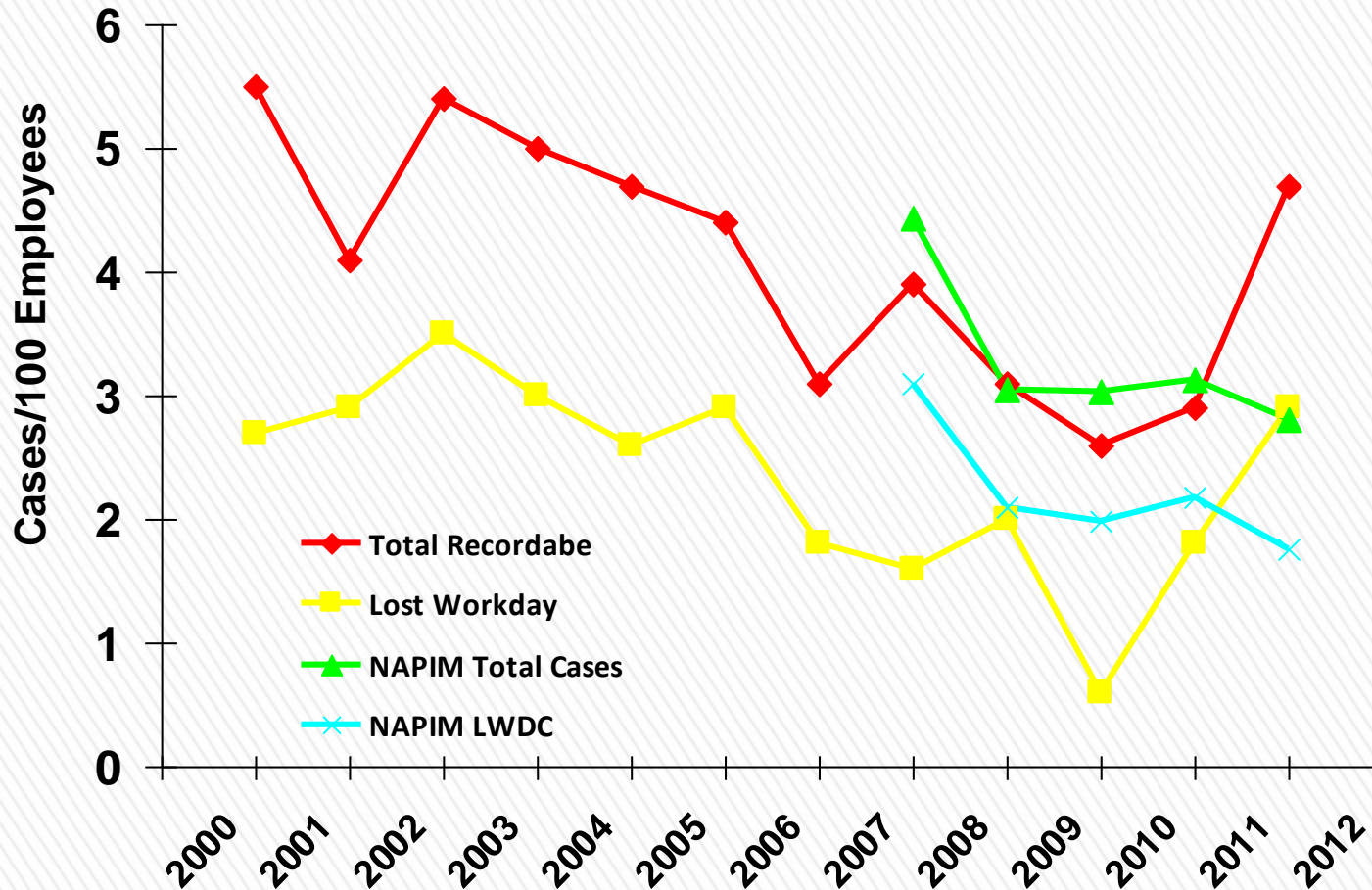
Major Ink Imports NAICS 32591



* Source – U.S. Census Bureau

Safety, Health and Environmental

Ink Industry Illness/Injury Annual Rate



EHS Issues

- OSHA
 - GHS - Status/Impact
- EPA – Hazardous Waste
 - Solvent Contaminated Wipes
- Food Packaging Committee
 - 2013 Technical Conference
 - Food Packaging webinar
- Environmental Issues
 - TSCA Modernization
 - Process Safety Management

Questions or
Comments?

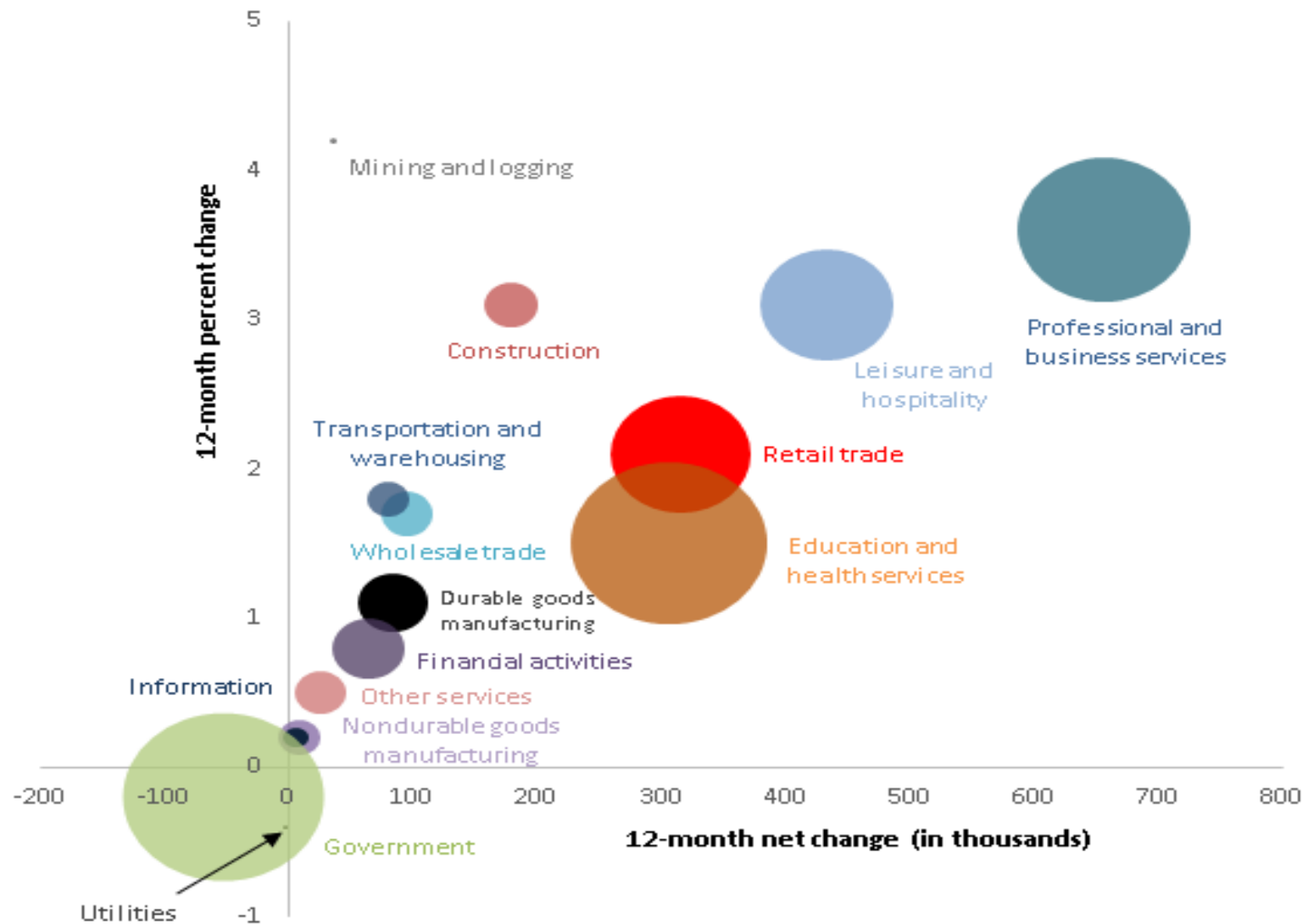
Thank you

Additional slides



Over-the-year net and percent change in nonfarm payroll employment, by industry, seasonally adjusted, January 2013–January 2014

(size of bubble represents industry employment, January 2014)



Source: U.S. Bureau of Labor Statistics.

PRINTING INDUSTRIES OF AMERICA

source - 2012 print atlas

COMMERCIAL PRINT AND RELATED SUPPORT ACTIVITIES	establishments	Shipments	Estimated ink sales
commercial litho printing	10,040	38,781,858	1,454,320
commercial gravure printing	242	2,202,216	82,583
commercial flexographic printing	879	5,514,118	206,779
commercial screen printing	4,478	10,002,262	375,085
quick printing	4,944	4,145,924	155,472
digital printing	2,521	5,940,907	222,784
manifold business forms printing	458	2,486,113	93,229
books printing	530	4,691,932	175,947
blankbook, looseleaf binders and devices mfg	172	1,066,629	39,999
other commercial printing	1,675	2,224,860	83,432
tradebinding and related work	868	2,698,135	101,180
prepress services	1,106	2,669,831	100,119
TOTAL COMMERCIAL PRINT	27,913	82,424,785	3,090,929

