

Industrial Research

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Industrial Services

4Q11 Reprographers Survey

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Please refer to Appendix:
Important Disclosures and Analyst Certification



Overview



- Robert W. Baird, in partnership with the International Reprographic Association (IRgA), is pleased to present the 4Q11 edition of the quarterly Reprographers Survey.
- Thank you to the reprographers who participated in this survey.
- If you have any questions or comments, please email Senior Analyst David Manthey (dmanthey@rwbaird.com) or Research Associate Luke Junk (ljunk@rwbaird.com)
- *This survey is meant to give investors and participants a general indication of current market trends. Individual responses have been edited to protect participants' anonymity.*

Please refer to "Appendix – Important Disclosures and Analyst Certification" on page 19.

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Executive Summary

RESULTS

- The quarterly survey of reprographers suggests business trends were in line with overall expectations during the quarter.
- OVERALL: Participants expect revenue trends to increase modestly (+3.2%) over the next six months vs. the slight growth (+1.3%) seen this quarter.

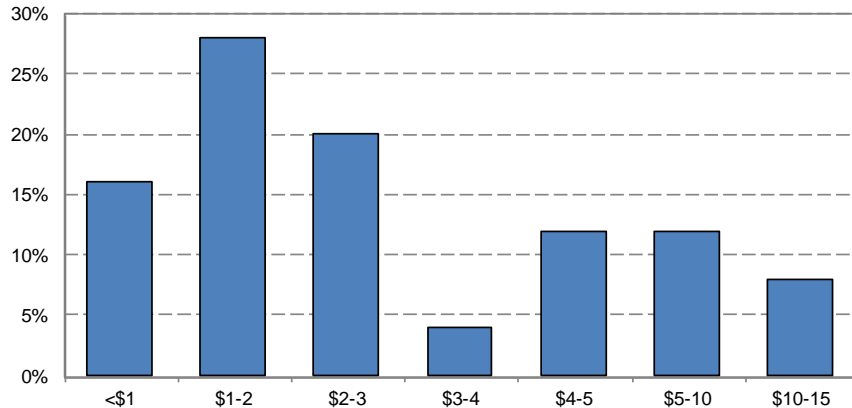
Fourth-Quarter Highlights

- 44% of respondents indicated revenue was either “slightly below expectations” or “well below expectations” during the fourth quarter, much better than the 67% who saw revenue trends come in below expectations during the third quarter.
- Respondents indicated revenue was +1.3% y/y on average during the fourth quarter. Last quarter, the average revenue of respondents was -0.1%.
- The average six-month revenue growth forecast of reprographers was 3.2%, continuing the positive momentum from the +1.6% six-month forecast last quarter.
- 96% of respondents indicated they maintained their net realized prices, while the remaining 4% saw higher net realized prices during the fourth quarter.
- Respondents continued to indicate that Retail and Office sectors were the most concerning non-residential sectors going forward.

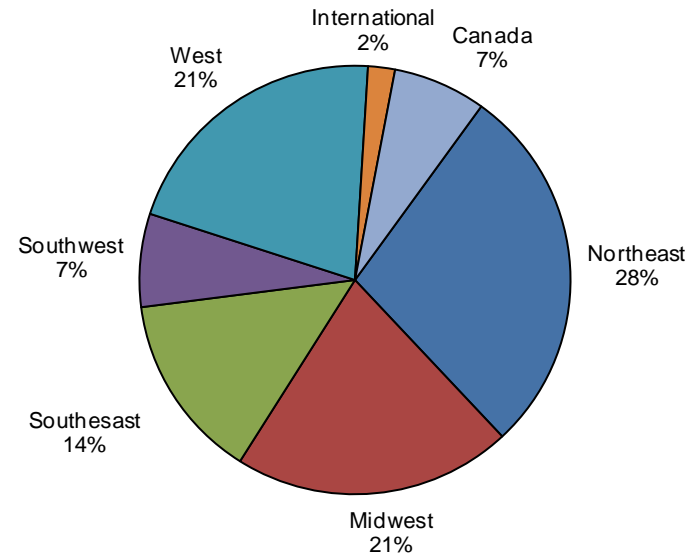
Survey Participants

- The participants in the Baird-IRgA survey are senior executives at reprographic firms or senior managers at regional divisions of reprographic firms.
- 60% of participants' firms generate annual revenue of less than \$3 million with 92% generating annual revenue of less than \$10 million.
- When combined, participants represent more than \$90 million in annual revenue and serve all regions of the United States and parts of Canada.
- Participants offer Reprographic, Facilities Management and Digital Services as well as other services such as equipment sales.

What is the annual revenue of your business in \$US millions?



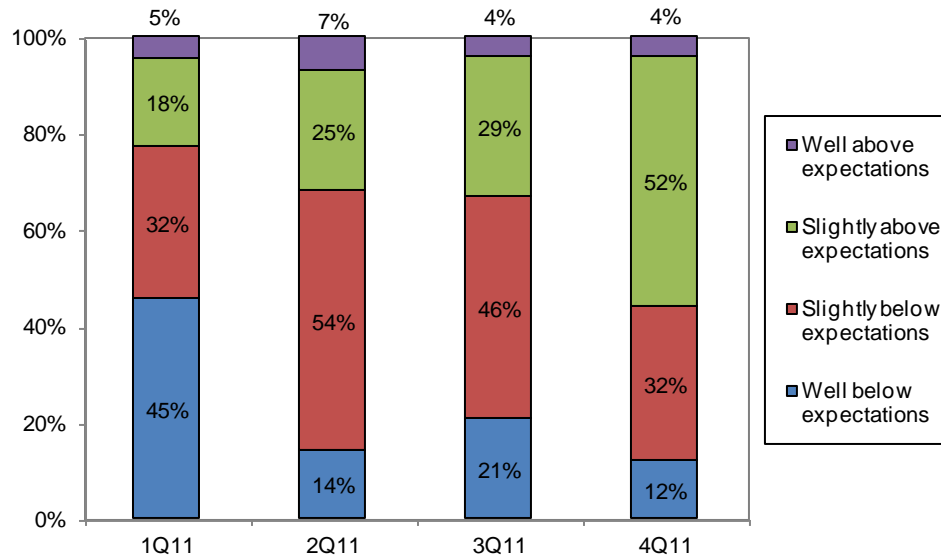
What regions do you primarily serve?



Revenue vs. Expectations

- Only 44% of respondents indicated that revenue was either “slightly below expectations” or “well below expectations” during the quarter, down materially vs. 67% last quarter.
- Of the 10 largest respondents, five indicated revenue was “below expectations,” while the same amount indicated revenue was “above expectations.”

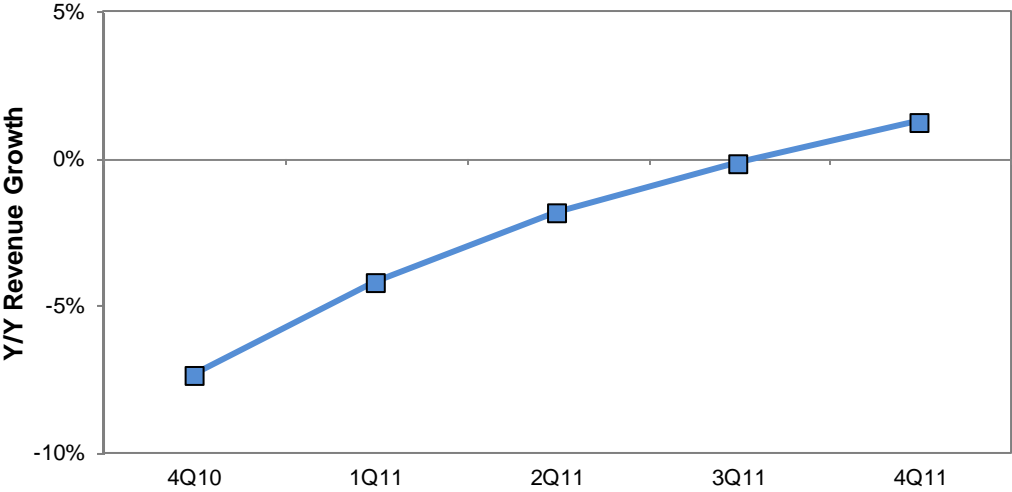
During the past quarter (October, November, and December), how did revenue compare to your expectations?



4Q11 Revenue Growth

- Respondents' average revenue saw growth (+1.3% y/y) during the quarter, inflecting positively vs. the 0.1% decline seen last quarter. This marks the first positive reading since 4Q07. Despite this positive reading, industry trends clearly remain challenging.
- Representative comments:
 - "Reluctance to go forward with projects with the current economy and administration."
 - "Bouncing along the bottom."
 - "Most projects are still public money, although we have seen some increase in private money projects in the last six months."

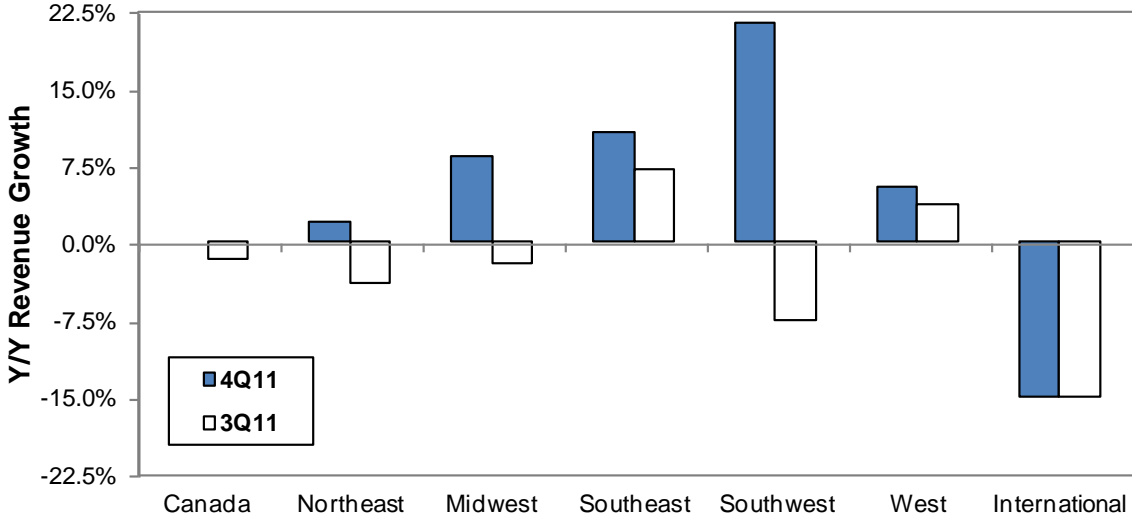
During the past quarter (October, November, and December), how much did revenue increase/decrease over the prior year, excluding revenue acquired in the last year?



4Q11 Revenue Growth

- When sorted by region, respondents that serve International markets saw revenue decline by 15.0% on average, while Canadian respondents again saw their revenue remain flat.
- Respondents in the North East, West and Midwest markets saw moderate growth of 2.1%, 5.5%, and 8.4%, respectively. The Southeast and Southwest both improved more meaningfully with growth of 10.8% and 21.5%, respectively.

During the past quarter (October, November, and December), how much did revenue increase/decrease over the prior year, excluding revenue acquired in the last year?

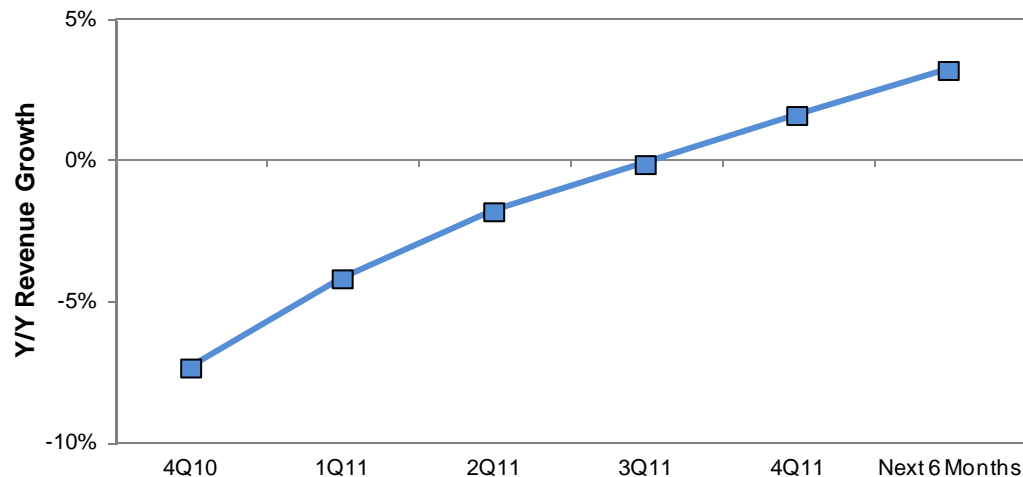


Growth Forecast



- Respondents' average revenue forecast for the coming six months is +3.2%, up from +1.6% expectations in the third quarter. While there seems to be an expectation that trends will come off the bottom near term, there is still significant uncertainty/pessimism.
- Representative comments:
 - "Uncertainty and a lack of capital finding for new project. Banking requirements are now too stringent to support growth."
 - "No growth to be had heading into 2012; we will be in maintenance mode."
 - "Projects slowly starting to come off the shelf..."

During the next six months, how much do you forecast revenue to increase/decrease, excluding acquired revenue, compared to a year ago?

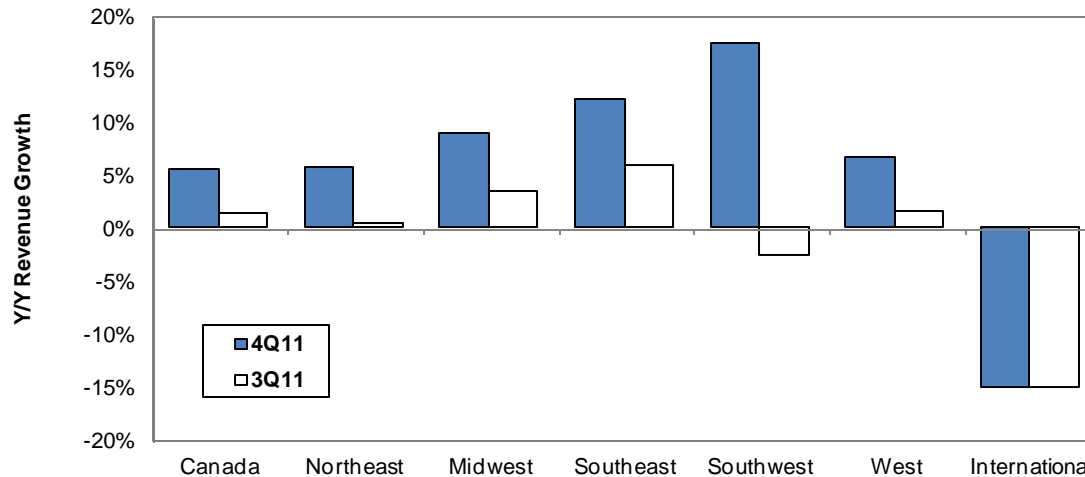


Growth Forecast



- Overall, expectations are for modest growth. Six regions see growth over the next six months: Southwest (+17.5%), Southeast (+12.3%), Midwest (+9.0%), West (+6.7%), Northeast (+5.8%), and Canada (+5.5%).
- International respondents were the only ones expecting declining revenue over the next six months, declining 15.0%.

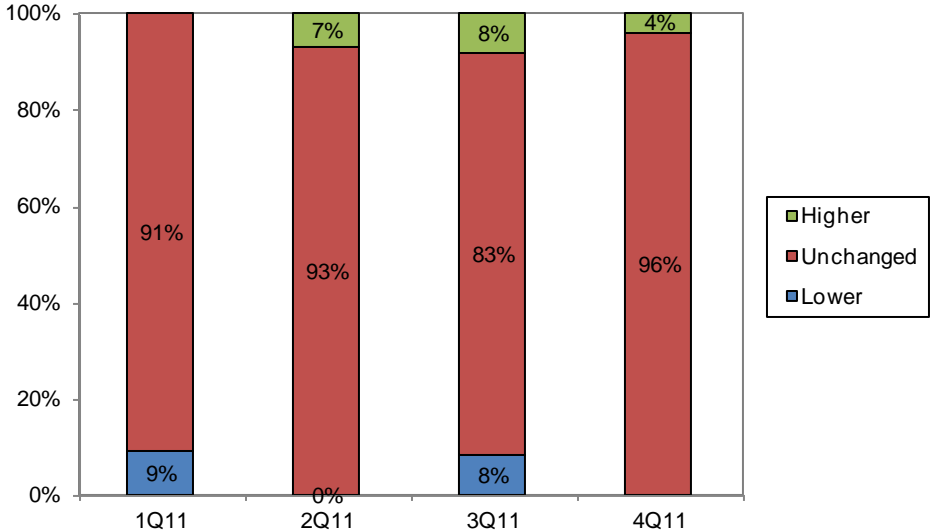
During the next six months, how much do you forecast revenue to increase/decrease, excluding acquired revenue, compared to a year ago?



Net Realized Prices

- 96% of respondents indicated that their net realized prices were unchanged during the quarter vs. 83% last quarter.
- The remaining 4% of respondents indicated they saw higher net realized prices during the quarter. Pricing appears to remain relatively stable overall.

How have your net realized prices changed during the past quarter (October, November, and December)?

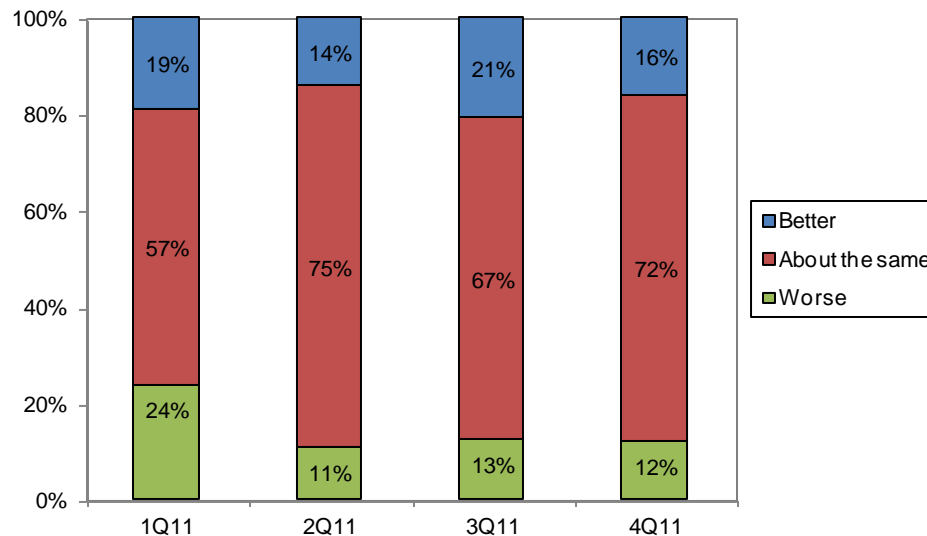


Digital Services



- As has been the case over the past several years, Digital Services were again an area of particular interest for many participants:
 - “We are seeing a large move to digital distribution. Our customer is now becoming the sub-contractor.”
 - “New software designed for architects and engineers to buy, cutting out reprographers.”
 - “Old school reprographics companies competing on price in traditional plan/spec print market. Little or no charges for digital services.”
 - “Construction volumes continue to be too low to absorb overhead required for printing needs of customers when they want printing. Construction workflows have changed significantly – the distribute and print model is here to stay.”

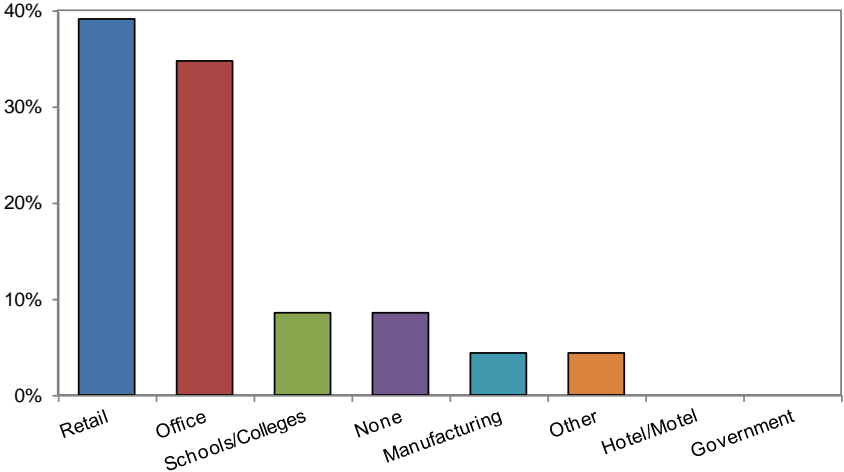
During the past quarter (October, November, and December), how have revenues for digital services trended relative to overall y/y revenue trends?



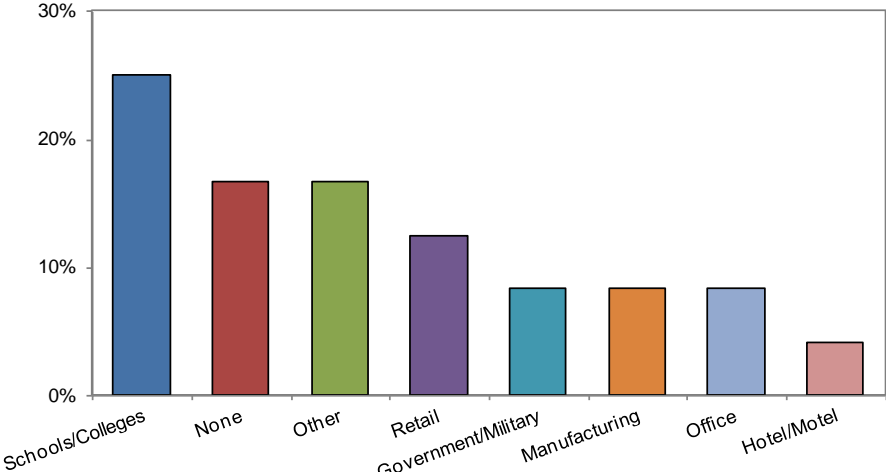
Non-Residential Construction

- When asked which sector of non-residential construction they find most concerning looking forward, respondents indicated the retail (39%) and office (35%) sectors.
- Alternatively, when asked which sectors have the most promising outlook over the next six months, 32% indicated Schools/Colleges and 17% of respondents indicated None or Other.

Within non-residential construction, what sector is most concerning looking at the next six months?



Within non-residential construction, what sector is most promising looking at the next six months?

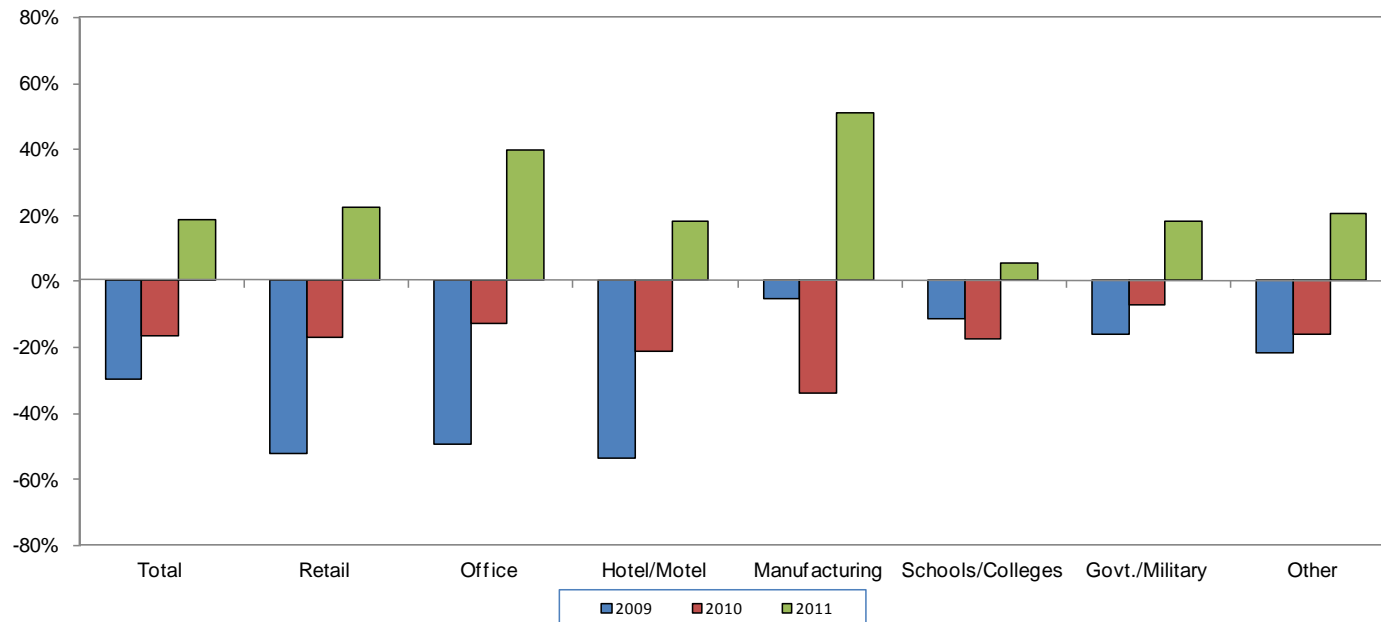


Non-Residential Construction



- The office sector continues to be challenged, but there are some signs of life. Vacancy rates declined slightly to 17.3% in 4Q11 (vs. 17.4% in 3Q11, and 17.6% high in 4Q10) according to Reis, but remain the highest rates seen since the early 1990s.
- Continued concern regarding the retail sector is consistent with a recent Reis survey of U.S. retail markets that indicated strip mall vacancy rates remained at 11% in 4Q11, just shy of record-high levels.

Non-Residential Square Footage Growth by Sector



Non-Residential Construction

- The most recent Senior Loan Officer Survey indicates that demand for commercial real estate loans has increased for five consecutive quarters, although the rate of increase has slowed modestly each of the past two quarters.
- The net percentage of respondents indicating that they're tightening standards on commercial loans also points to more positive trends, as lending standards have eased slightly each of the past three quarters.

Commercial Real Estate Loan Demand



Non-Residential Construction

- In July, The American Institute of Architects (AIA) released its mid-year revision to 2011 and 2012 consensus non-residential construction forecasts.
- The 2011 forecast was revised lower, with total non-residential construction in 2011 forecast to fall 5.6% y/y vs. the previous consensus forecast for a 2.0% y/y decrease. The updated 2012 outlook is for 6.4% growth, up slightly vs. the initial outlook for 5.0% growth.

	<u>McGraw-Hill</u>		<u>Global Insight</u>		<u>Moody's*</u>		<u>FMI</u>		<u>Reed</u>		<u>ABC</u>		<u>Consensus</u>	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Non-Res Total	-8.0%	7.0%	-7.0%	11.3%	-5.3%	5.7%	-2.5%	2.3%	-7.5%	10.2%	-3.0%	2.0%	-5.6%	6.4%
Commercial	-7.3%	14.4%	-7.7%	21.2%	-10.1%	10.8%	-2.0%	3.0%	-6.7%	14.2%	-5.0%	7.0%	-6.5%	11.8%
Office	-6.5%	10.4%	-8.5%	9.2%	-8.0%	10.8%	-2.1%	6.0%	-6.7%	15.4%	-5.0%	7.0%	-6.1%	9.8%
Retail/Other	-3.7%	16.9%	-2.2%	24.3%	-7.6%	7.1%	-2.1%	1.6%	-0.9%	14.0%	-2.0%	7.0%	-3.1%	11.8%
Hotel	-23.0%	19.6%	-20.9%	41.4%	-23.6%	26.6%	-0.8%	6.5%	-27.3%	10.0%	-12.0%	4.0%	-17.9%	18.0%
Industrial	-18.0%	-5.4%	-12.8%	21.3%	-17.5%	13.5%	-24.0%	-3.0%	-17.3%	15.4%	-5.0%	-2.0%	-15.8%	6.6%
Institutional	-6.0%	3.2%	-5.4%	8.4%	-4.0%	4.5%	2.4%	3.2%	-5.6%	6.9%	-2.0%	0.0%	-3.4%	4.4%
Health	1.8%	11.4%	0.3%	6.9%	9.2%	3.3%	0.5%	2.9%	-2.7%	10.0%	2.0%	8.0%	1.9%	7.1%
Education	-6.9%	1.1%	-7.7%	7.2%	-5.6%	4.8%	1.5%	2.0%	-8.2%	4.7%	-4.0%	-4.0%	-5.2%	2.6%
Religious	-13.6%	-3.4%	-7.5%	22.4%	-15.0%	2.8%	-9.1%	4.0%	-14.0%	8.0%	-1.0%	4.0%	-10.0%	6.3%
Public Safety	-19.1%	-6.6%			-10.0%	3.7%	29.3%	5.9%	-8.7%	5.6%	-4.0%	-4.0%	-2.5%	0.9%
Amusement/Recreation	-8.3%	0.8%	-5.4%	8.4%	17.2%	3.7%	0.7%	8.6%	-7.2%	10.9%	1.0%	3.0%	-0.3%	5.9%

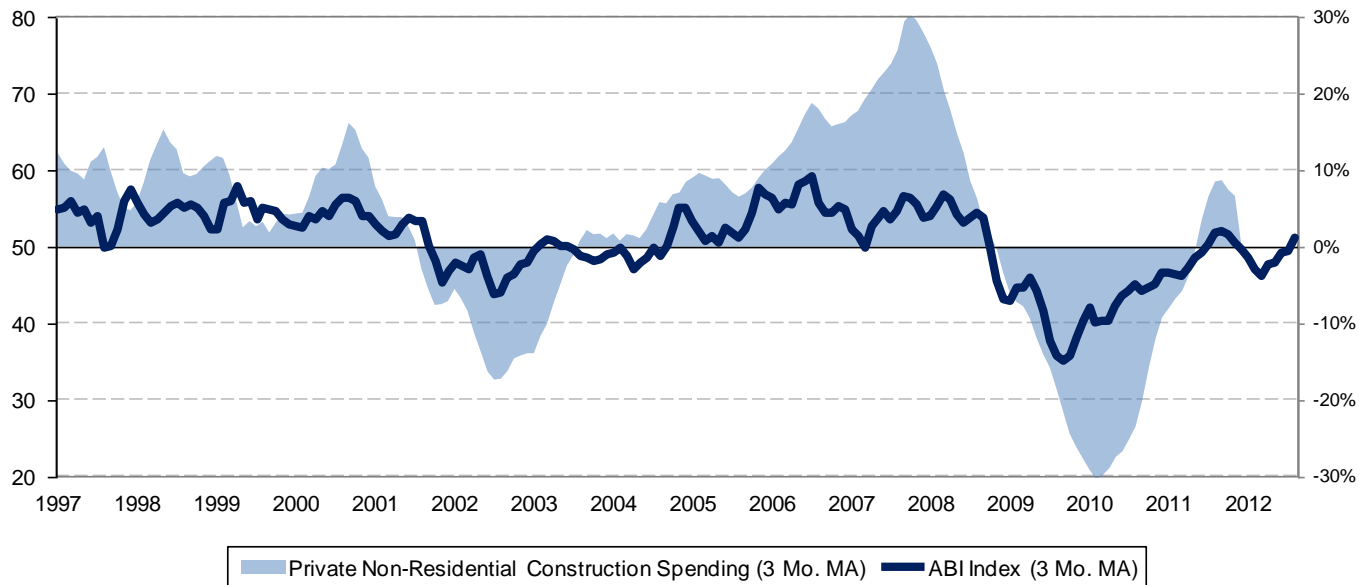
* Moody's Economy.com figures for Healthcare represent Public Healthcare only

Non-Residential Construction



- The Architecture Billings Index (ABI) points to a slight improvement in construction activity near-term. The most recent December reading of 52.0 was the second consecutive month of expansion.
- The American Institute of Architects (AIA), which releases the ABI index, believes it has historically led non-residential construction spending by 9-12 months and any score above a 50 indicates expansion.

ABI Index and Non-Residential Construction Spending



Conclusion

Fourth-Quarter Highlights

- 44% of respondents indicated revenue was either “slightly below expectations” or “well below expectations” during the fourth quarter, much better than the 67% who saw revenue trends come in below expectations during the third quarter.
- Respondents indicated revenue was +1.3% y/y on average during the fourth quarter. Last quarter, the average revenue of respondents was -0.1%.
- The average six-month revenue growth forecast of reprographers was 3.2%, continuing the positive momentum from the +1.6% six-month forecast last quarter.
- 96% of respondents indicated they maintained their net realized prices, while the remaining 4% of respondents saw an increase in net realized prices.
- Respondents continued to indicate that Retail and Office sectors were most concerning non-residential sectors going forward.

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