Observations on the Distribute and Print Model

April 18, 2012
Total U.S. Book Market – 0.6% CAGR

Revenue by Product Line

**2010**
($26B)

- **Consumer** ($11B)
- **Higher Education** ($5B)
- **Professional/Scholarly** ($7B)
- **K-12** ($3B)

**2013**
($26.5B)

- **Consumer** ($11.4B) - 2.0% CAGR
- **Higher Education** ($5.6B) +2.5% CAGR
- **Professional/Scholarly** ($7.4B) +2.0% CAGR
- **K-12** ($3.1B) +1.5% CAGR

Estimated Market Size Based on Department of Commerce Data
Mix of print and digital revenues will shift over the course of the next three years with significant shifts taking place in Higher Education, Trade and Professional publishing.

<table>
<thead>
<tr>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Print</td>
<td>Digital</td>
<td>Print</td>
<td>Digital</td>
</tr>
<tr>
<td>Trade</td>
<td>92%</td>
<td>8%</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>EL-Hi</td>
<td>95%</td>
<td>5%</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>College</td>
<td>85%</td>
<td>15%</td>
<td>80%</td>
<td>20%</td>
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<tr>
<td>Professional</td>
<td>79%</td>
<td>21%</td>
<td>70%</td>
<td>30%</td>
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</tbody>
</table>

Calendar 2011 trade print sales down 20.2% / -$732M

E-Book sales up 117% / $523M

Digital content growth will be spurred:
- Proliferation of tablets and other multi function reading devices
- New Publishing categories in addition to Bestsellers – Children's, Education, etc.
- Enhanced Content Creation by Publishers

Source: Baker & Taylor Internal Estimates
Volatile Market Environment

- Multiple currents to consider when setting inventory policy.
  1. Shrinking shelf space for printed product
  2. Library Budgets Flat to Down
  3. Demand Driven Acquisition
  4. Explosive Growth of eBooks
  5. Shrinking prices for iPad/eReaders
  6. Textbook Rental
  7. Custom Publishing
  8. Open Access Content
  9. Distance Learning
  10. Managing Export Sales Opportunities
  11. Regional Manufacturing
  12. Competitive Parity

- Digital printing is a proven strategy to mitigate inventory risk!
An Uncertain Landscape - Adult Fiction

Bookscan Category Summary
(Total Adult Fiction Units Sold)

Week

Total Units

2009
2010
2011
2012

0 1,000 2,000 3,000 4,000 5,000 6,000

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26

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Top Five Trends in Book Production

- Shorter Runs: 66%
- Better Inventory Management: 34%
- Digital Color Growth: 17%
- Move to Electronic/ebooks: 17%
- Offset Moving to Digital: 15%

Source: InterQuest Consulting
### U.S. Market for Printed Books (Millions)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
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<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Print Market Size-units</td>
<td>3,000</td>
<td>2,880</td>
<td>2,765</td>
<td>2,654</td>
<td>2,548</td>
<td>2,446</td>
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<tr>
<td>Offset-units</td>
<td>2,850</td>
<td>2,700</td>
<td>2,549</td>
<td>2,395</td>
<td>2,237</td>
<td>2,073</td>
</tr>
<tr>
<td>POD-units</td>
<td>150</td>
<td>180</td>
<td>216</td>
<td>259</td>
<td>311</td>
<td>373</td>
</tr>
<tr>
<td>POD Market Share</td>
<td>5.0%</td>
<td>6.3%</td>
<td>7.8%</td>
<td>9.8%</td>
<td>12.2%</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

Source: Book Industry Study Group – 2009 Market Study
U.S. Market - Printed Books

- 3B (unit) U.S. book printing market shrinking at 3%-5% per year
  - Decline driven by growth of eBooks, textbook rental, reduced funding for libraries
  - Offset printing is declining more rapidly than the overall book market
  - POD is growing at >20% per year
  - POD shift driven by reduction of average print runs and advances in digital technology

- Inkjet technology will produce a shift in publishers production policy
  - POD book production currently toner based
  - Inkjet offers prospect of higher quality at significantly lower costs
  - Shakeout of supplier based expected as smaller players decline to make investment in inkjet technology
  - Firms making the investment will capture market share from offset printers
  - Increase the threshold for POD from current cap of approx. 750 units to 3000 units
Accelerating Supply Chain Evolution

• **Classic Supply Chain**
  - Large B&M Base
  - Modest on-line sales
  - Domestic Focus
  - Offset Manufacturing
  - Unit Cost is King
  - Print First – Sell Later
  - Unlimited Returns
  - Expensive digital technology with limited penetration

• **Today’s Supply Chain**
  - Shrinking B&M Base
  - Surging on-line market
  - Global Opportunities
  - Digital Manufacturing
  - Total Cost Prevails
  - Sell First – Print Later
  - Low/No Returns
  - Near commodity eBook technology
    - Stand alone eBooks
    - E-Book aggregators
    - Online Content

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TextStream VIP Model
Less risk – More opportunity!

Classic Supply Chain Model

- Offset Economics
- Just in Case Inventory Investment
- Obsolescence Risk
- Print First – Sell Later
- Normal Returns Rates
  - HIGH RISK

TextStream Supply Chain Model

- SRDP Economics
- Just in Time Inventory Investment
- Zero Obsolescence Risk
- Sell First – Print Later
- Declining Returns Rates
  - LOW RISK

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TextStream - VIP Model

- Lowering the Total Cost of Ownership for both publisher and B&T
SRDP – Avoiding the Wall of Shame -
Wrap-Up

Questions / Comments

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