

Observations on the Distribute and Print Model

April 18, 2012

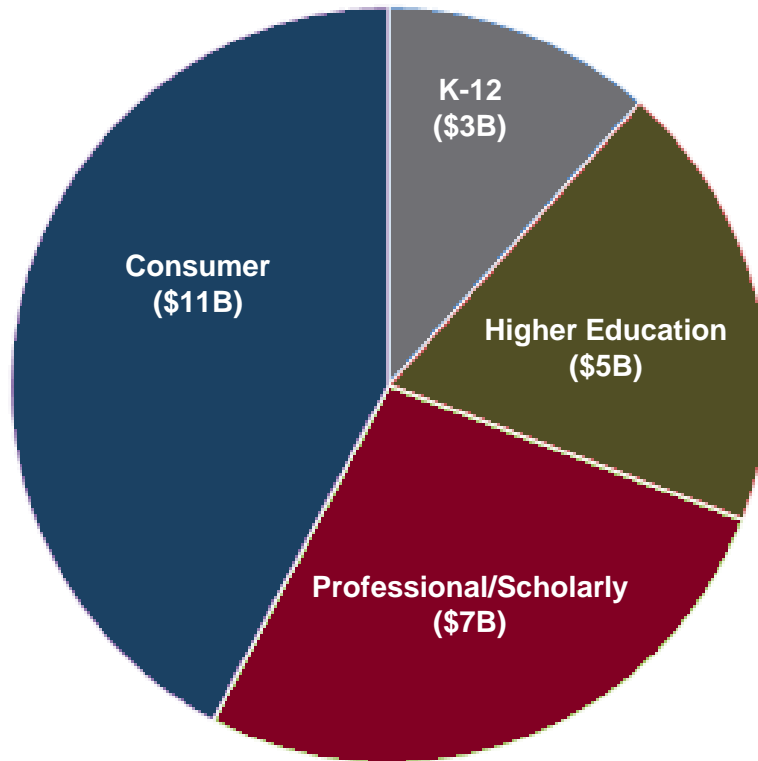
The logo for BIC, featuring the letters 'BIC' in a serif font with a blue 'C' that has a cursive-like tail.The logo for Baker & Taylor, consisting of a stylized graphic of four vertical bars in blue, green, red, and grey, followed by the text 'BAKER & TAYLOR' in a sans-serif font and the tagline 'the future delivered' in a smaller, italicized font below it.



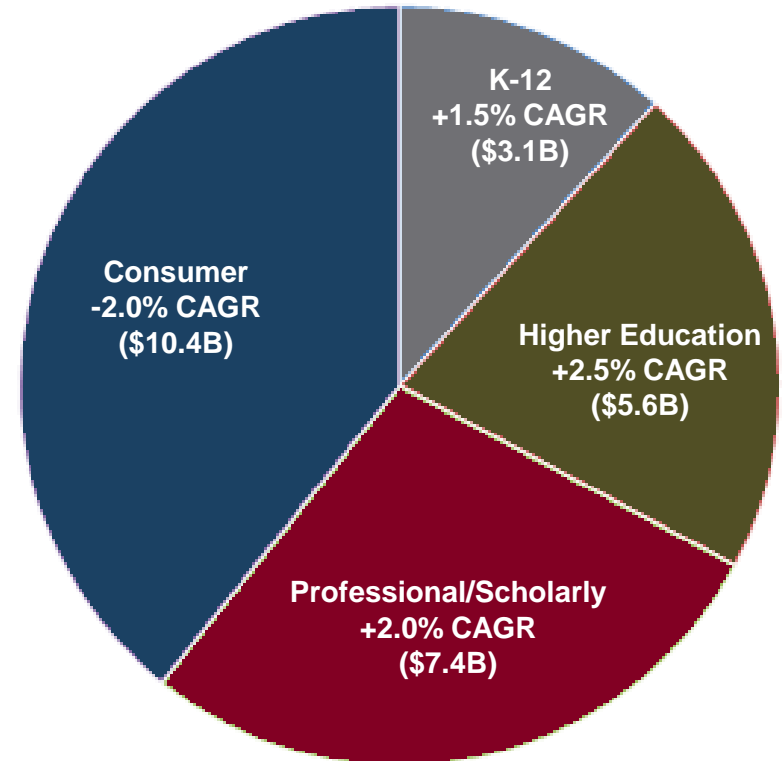
Total U.S. Book Market – 0.6% CAGR

Revenue by Product Line

2010
(\$26B)



2013
(\$26.5B)



Estimated Market Size Based on Department of Commerce Data



Print to Digital Shift 2010 - 2013

- 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

	2010		2011		2012		2013	
	Print	Digital	Print	Digital	Print	Digital	Print	Digital
Trade	92%	8%	75%	25%	70%	30%	60%	40%
EL-Hi	95%	5%	95%	5%	95%	5%	95%	5%
College	85%	15%	80%	20%	75%	25%	70%	30%
Professional	79%	21%	70%	30%	60%	40%	50%	50%

- 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

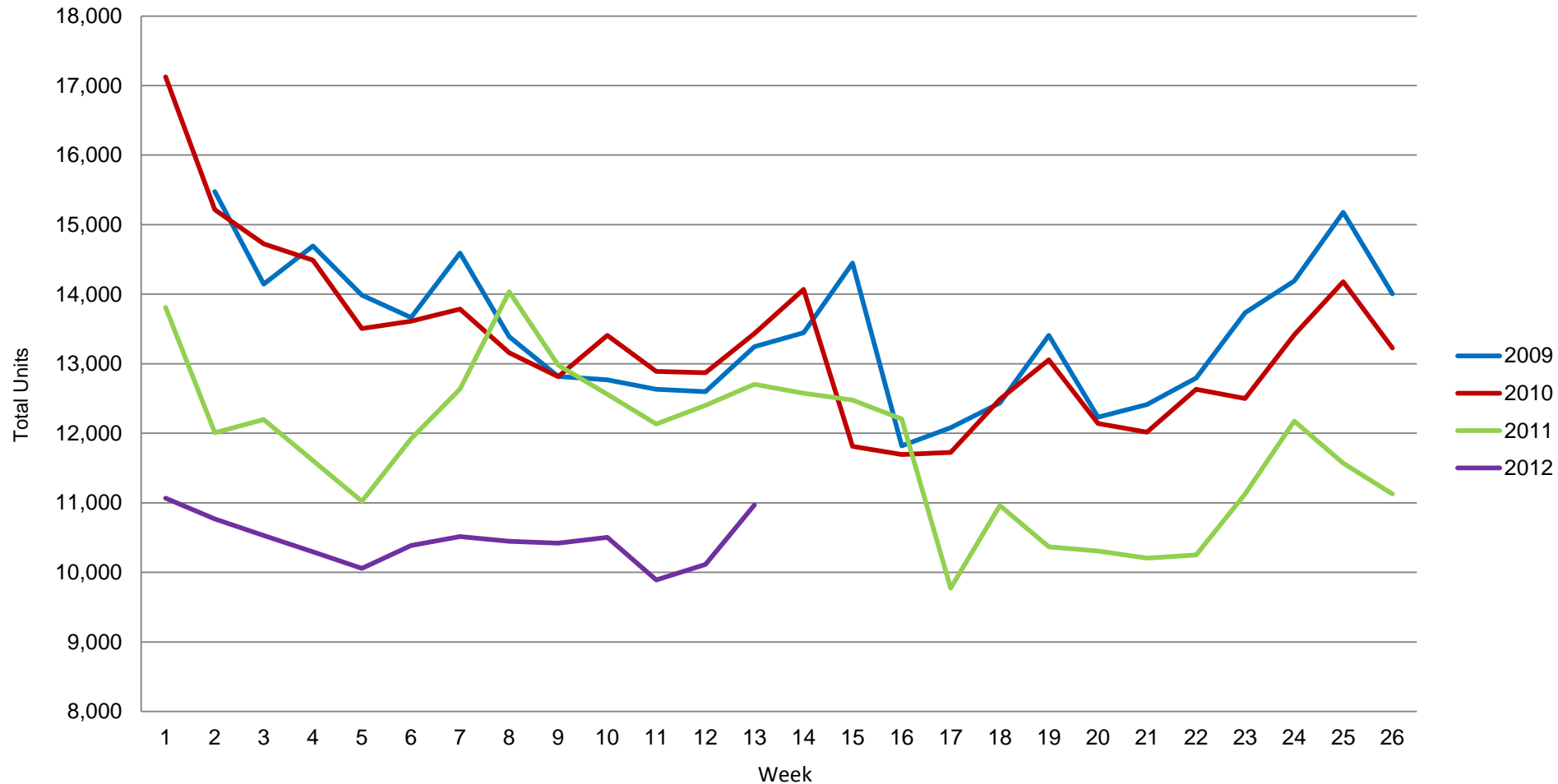
- Multiple currents to consider when setting inventory policy.
 1. Shrinking shelf space for printed product
 2. Library Budgets Flat to Down
 3. Demand Driven Acquisition
 4. Explosive Growth of eBooks
 5. Shrinking prices for iPad/eReaders
 6. Textbook Rental
 7. Custom Publishing
 8. Open Access Content
 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 - Trade Sales

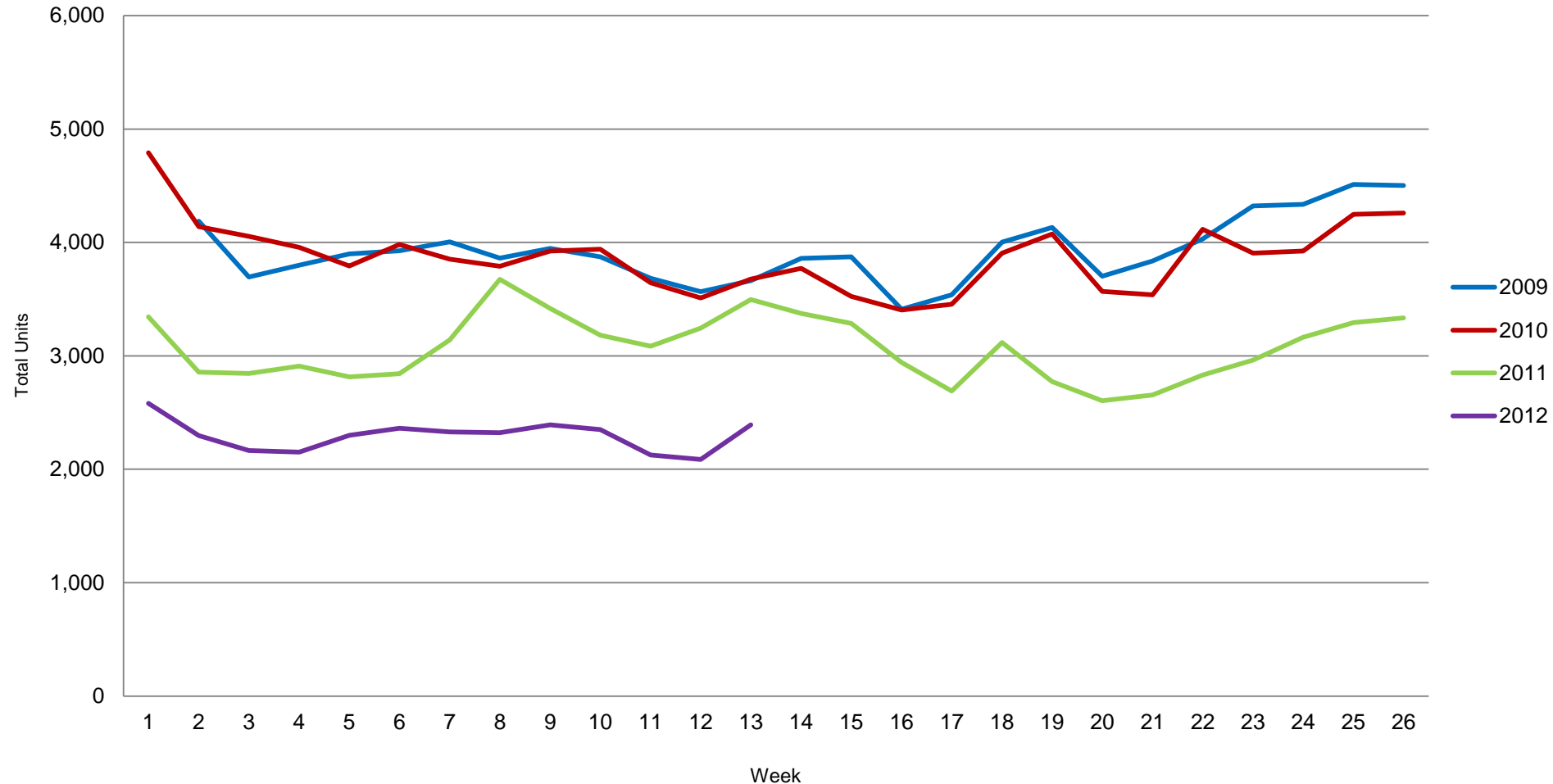
Bookscan Category Summary
(Total Units Sold)





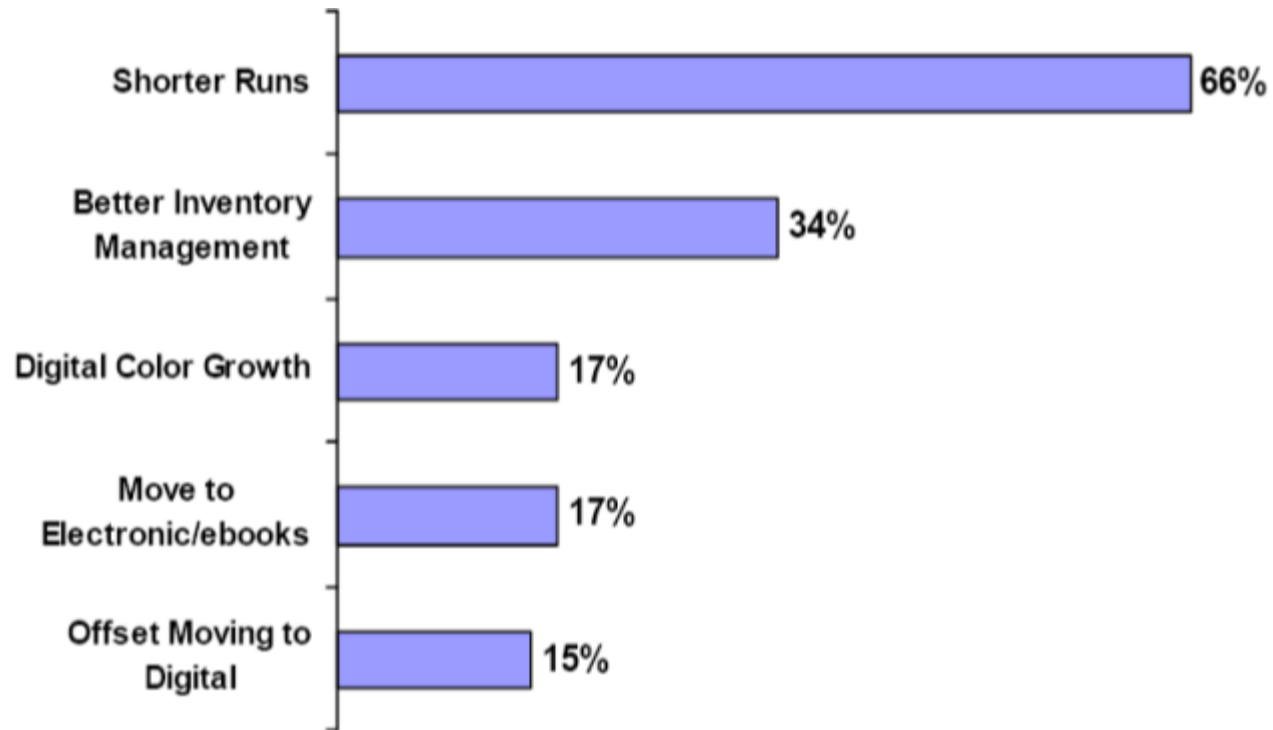
An Uncertain Landscape - Adult Fiction

Bookscan Category Summary
(Total Adult Fiction Units Sold)





Top Five Trends in Book Production



Source: InterQuest Consulting

2010 Digital Book Printing Forum – INTERQUEST, Ltd



U.S. Printed Book Market

Digital vs. Offset

U.S. Market for Printed Books (Millions)						
	2010	2011	2012	2013	2014	2015
U.S. Print Market Size-units	3,000	2,880	2,765	2,654	2,548	2,446
Offset-units	2,850	2,700	2,549	2,395	2,237	2,073
POD-units	150	180	216	259	311	373
POD Market Share	5.0%	6.3%	7.8%	9.8%	12.2%	15.3%

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



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**



TextStream - VIP Model

- Lowering the Total Cost of Ownership for both publisher and B&T

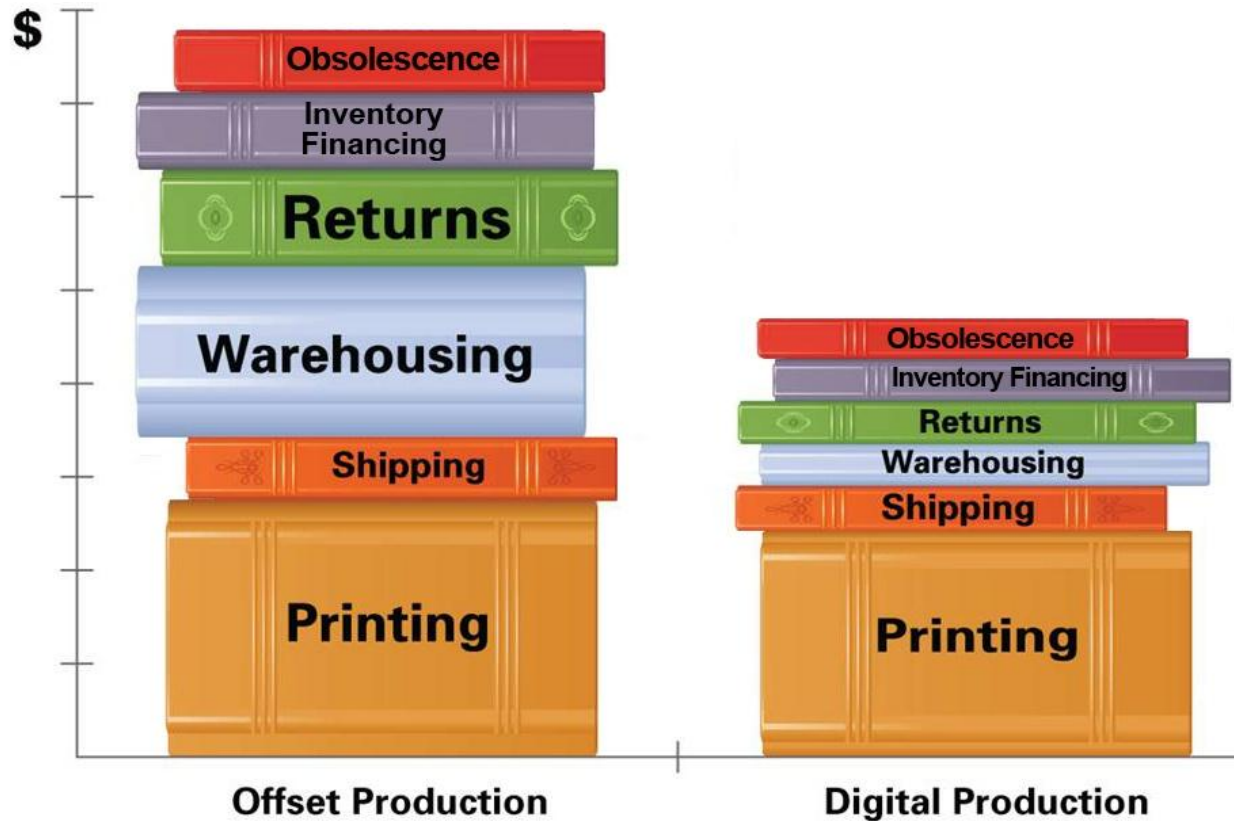


Illustration Courtesy of InterQuest Ltd.



SRDP – Avoiding the Wall of Shame -





Questions / Comments



David Hetherington
Vice President,
Academic/Educational
Merchandising & Digital Print

Baker & Taylor
1120 US Highway 22 East
Bridgewater, NJ 08807

p 908-458-5928

David.Hetherington@baker-taylor.com

