

The drupa logo consists of the word "drupa" in a bold, lowercase, sans-serif font, positioned on a red background with a white grid pattern.

Global Trends



2nd drupa Global Trends report 2015 Executive Summary

Introduction

Welcome to the executive summary of this our second drupa Global trends report, tracking key economic and market developments in the global print industry over the period leading to drupa 2016 and beyond. This is based on a survey conducted in October 2014 in which over 1100 participants took part globally with all regions well represented. Our thanks must go to them all for their time.

810 printers participated in October 2014 and whilst a majority were from Europe (513), the rest of the world was well represented in all regions (297). Last year the questions we asked of suppliers were limited to general economic/financial topics. This year we issued a full separate supplier survey, sharing some questions with the printers, but also asking other more specific questions relevant to them. Given the relatively smaller number of suppliers, we were pleased to get responses from 304 of which 194 were from Europe, but again all the other regions were well represented.

This 2nd Global Trends report is complemented by drupa's Global Insights reports, the first of which was published in October 2014 - *The Impact of the Internet on Print - The Digital Flood* (available from the drupa website). A second Global Insights report will be on the technologies and applications that can create growth in print and will be published this Autumn. Messe Düsseldorf, in its role as drupa organiser, must thank our two partners for conducting and authoring these two report series - Printfuture (UK) and Wissler & Partner (Switzerland).

We hope you find the resulting report enlightening. For those who want to examine the results more carefully, the data sets will be made available in English via the drupa website for members of the drupa expert panel. We would be pleased to receive any feedback, so send us an email to drupa-expert-panel@drupa.de.

The drupa team
March 2015

drupa Global Trends March 2015



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Positive economic assessments by printers for both this year and next

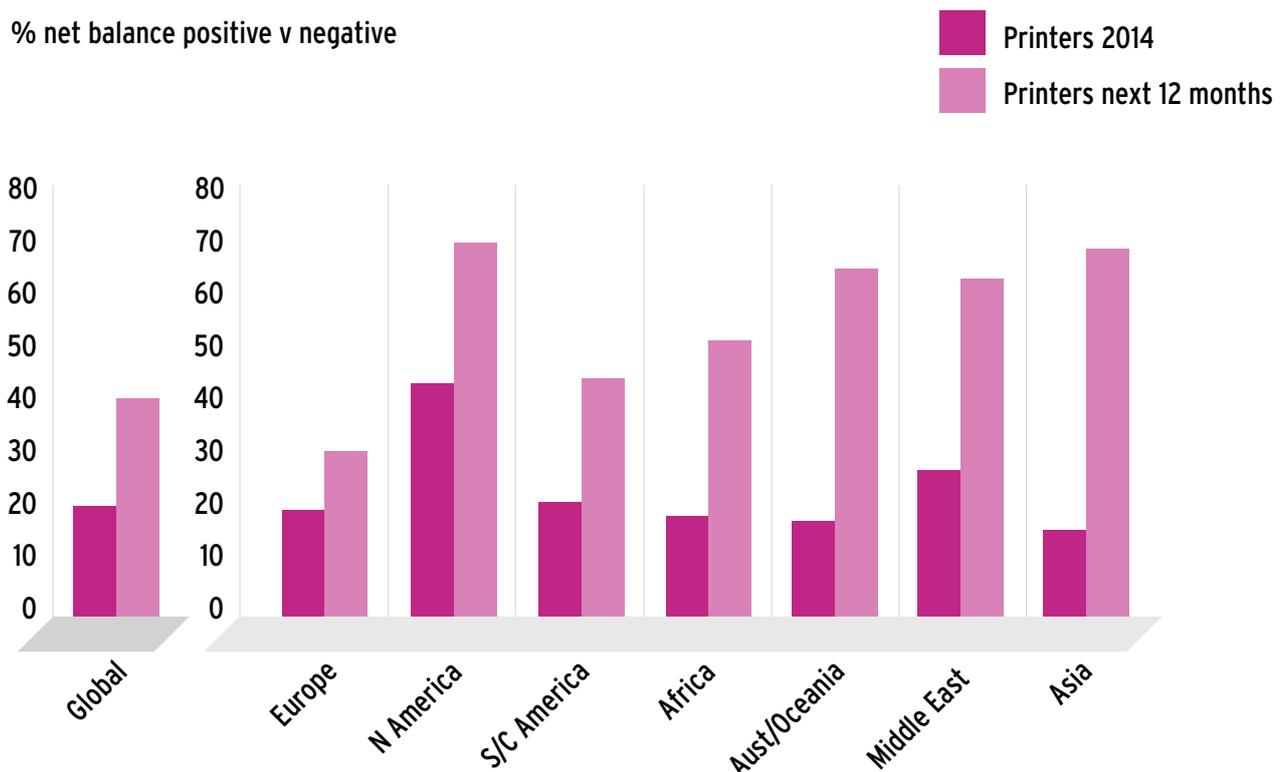
We started the surveys for both printers and suppliers this year by asking two broad questions on how positively participants considered the current economic condition of their company and what they think are the prospects for the coming 12 months. We have described these as the drupa Barometers of economic confidence. 34% of the global panel of printers described their current condition in 2014 as good and just 13% said their condition was poor - a positive net balance of 21%.

However what was more surprising was how positive the printer panel was for prospects in the next 12 months. Globally 48% expected their economic position to improve and only 7% expected it to decline - a positive net balance of 41%. This optimism was shared widely across most regions.

In terms of end markets, those serving Packaging and Functional markets are doing better than those serving Commercial and Publishing markets and this is true in virtually all regions.

drupa Printer Barometer - economic confidence

% net balance positive v negative



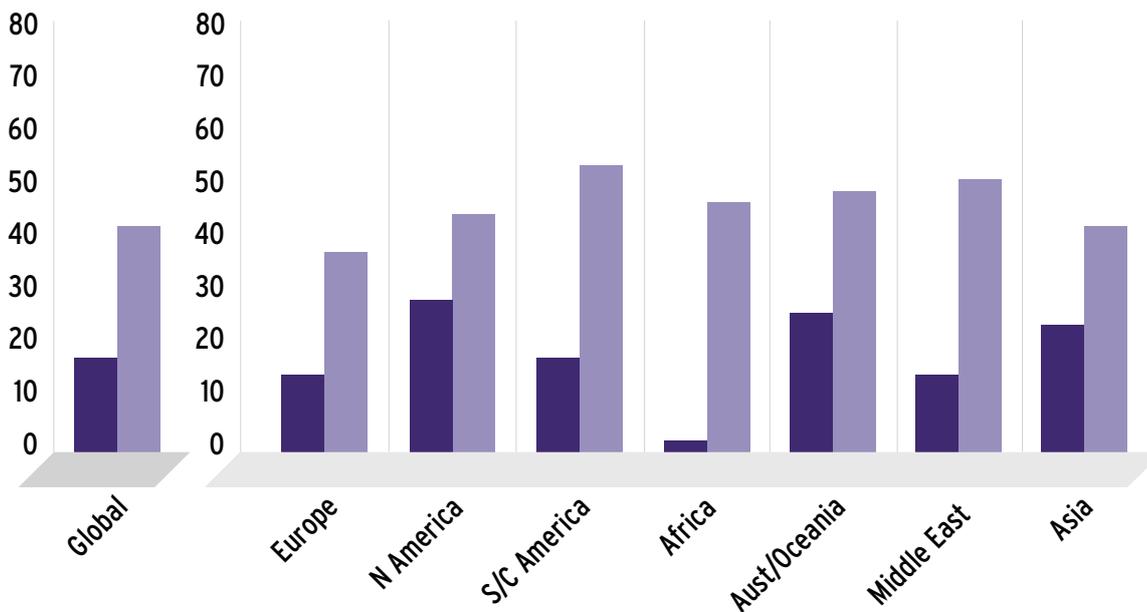
A similar positive story from suppliers

Amongst suppliers, 36% reported their companies in good current condition and just 17% reported a poor condition - a positive net balance of 19%. Like the printers, they were optimistic for the next 12 months with 51% globally expecting their companies' economic condition to improve and just 8% expecting it to decline.

drupa Supplier Barometer - economic confidence

% net balance positive v negative

Suppliers 2014
Suppliers next 12 months



It has to be said that such general optimism is not entirely supported by the global economic summary or results from the following more detailed questions on current trends in financial performance.

Printer revenues rise

The good news is that revenues globally have improved this year for 39% of the printer panel compared with just 22% who have seen revenues decline. But that positive net balance of 17% is significantly lower than the 27% reported last year. North America was the only region that saw an increase in the size of the positive net balance in revenue growth, from 51% last year to 60% this year.

Prices fall further

Despite increasing revenues, getting price increases remains really difficult for printers. Just 15% of the global printer panel reported achieving

price increases in the last year and 38% stated that prices have declined. No region reported an improved picture year on year, in sharp contrast to last year, where four regions were able to report a net balance of price increases. In some cases the decline was dramatic e.g. in Asia where a net positive balance of 19% last year was turned into a net negative balance of -21%.

Utilisation grows at a slower rate

It was a similar story on printer utilisation with 44% of the global audience able to report improving utilisation this year (52% last year) and 20% reporting declining utilisation (17% last year). Regionally North America and the Middle East reported broadly similar results to last year and Australia even reported better conditions (56% improved utilisation compared with 41% last year). But South & Central America and Asia reported worsening conditions.

Margins still declining

Turning to the resulting overall margins or profit levels, it is not surprising that just 16% of the global printer panel were able to report that they had grown margins over the last year and 43% said that margins had declined. Only those from North America and the Middle East were able to report a net improvement. All other regions slipped backwards, some quite badly e.g. S/C America down from 19% last year to just 10% this year, Africa 32% last year down to 22% this year and Asia down from 28% last year to 15% this year.

Printer revenues rise with greater utilisation despite price and margin falls

It is clear that the financial health of printers worldwide is dependent on ever-increasing utilisation to counteract a universal drop in prices and margins. Strikingly in every case all measures have slipped backwards in 2014, sometimes by just a little and sometimes by a lot, except paper prices where the reduction in price increases has slowed (a price increase is treated as negative in this measure).

Europe and Australia/Oceania show great weakness reflecting the fragile economic performance in those regions while the softening of economic prospects for Asia and South/Central America are reflected in poor overall measures.

Supplier revenues and margins are a mixed picture

The regional pattern for supplier revenues is very mixed with an overall net positive balance. Those reporting revenues up are North America (+21%) and Asia (+11%), both S/C America and Africa are neutral at 0% and there is bad news for the Middle East (-5%), Europe (-4%) and Australia/Oceania (-14%).

All regions had negative net balances of respondents reporting price falls, ranging from

-6% in Africa to -30% in Europe. When it comes to margins we are again in negative territory, ranging from -5% net balance in the Middle East to a staggering -44% in Europe.

Big regional variations in financial conditions

There is an overall worsening of financial conditions year-on-year globally, but more striking are the major variations between the regions. It is notable that conditions on the whole appear significantly tougher for suppliers.

It is important to note that the financial measures are more pessimistic amongst suppliers compared with printers in every region. Are printers closer to the end markets and beginning to foresee a more positive future or are the suppliers making more realistic assessments? Future drupa Trends reports will tell us.

Printer operational performance trends

Turning to operational matters for conventional (non-digital) print, it is somewhat surprising to report that whilst the trend to shorter runs continues unabated, lead times now appear to have stabilised and the number of conventional jobs being handled appears to be declining. These trends were all global in nature and across all markets.

There are significant swings in the volume of print analyzed by print technology used over the last 12 months with high volume web offset equipment in modest decline, sheetfed offset marginally positive and digital cutsheet colour very positive globally. The growth trend in flexo for packaging continues and there is also increased interest in hybrid technologies, particularly outside Europe.

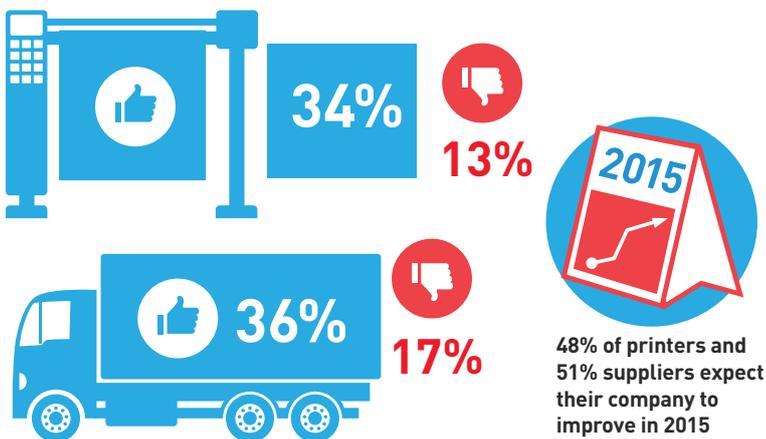
Whilst the rapid growth of digital print shows no sign of slowing, it is important to note that for the majority it represents only a modest proportion of turnover - for most printers the vast bulk of cash is still being generated by conventional print.

Many industry commentators actively encourage printers to diversify and develop non-print turnover. Although this is happening slowly, the figures are virtually unchanged from last year, with just 27% globally having more than 10% of non-print turnover.

The latest survey results show that the impact of web-to-print varies significantly between markets. It is commonplace in commercial and functional print, but they are the exceptions. Furthermore few had a significant proportion of turnover coming in this way - just 17% of such installations globally were handling more than 25% of company turnover.

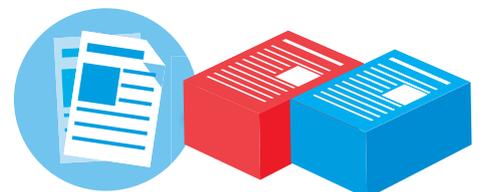
How are companies doing?

34% printers and 36% suppliers described company current economic condition as good compared with just 13% and 17% as poor.



Growth of digital print

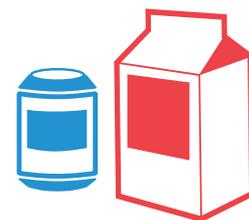
Digital print as % of total turnover



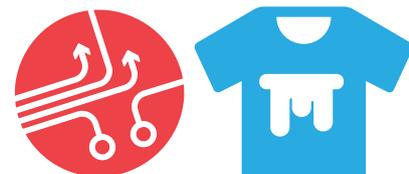
38% of commercial printers reported more than 25% of turnover



25% of publishing printers reported more than 25% of turnover

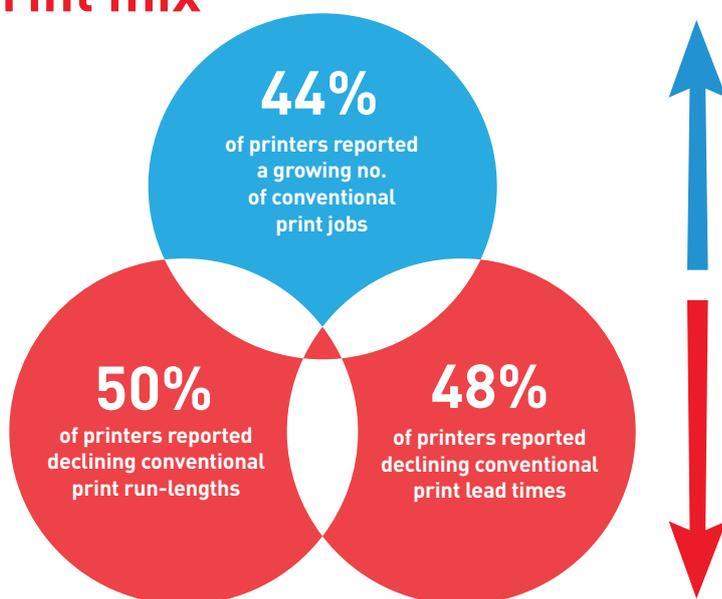


11% of packaging printers reported more than 25% of turnover



59% of functional printers reported more than 25% of turnover

Changing conventional print mix



Printer and supplier investment plans

Comparing the results from last year's survey with actual expenditure we can see that last year's expectations were not fully met across the globe, but there was nevertheless a positive trend to invest more. Interestingly predictions for next year, whilst positive, are more restrained.

Turning to investment in print technologies, one of the more striking results from last year's survey was the prediction that whilst digital cut-sheet colour presses were the No. 1 choice for all printers, sheetfed offset was second choice for all but packaging printers (who chose flexo). The pattern is similar this year, though sheetfed offset is marginally more popular than digital cutsheet colour in the rest of the world.

Despite or perhaps because of the gloomy performance figures, suppliers remain determined to invest and whilst the net balance of suppliers who invested more in 2014 than 2013 was small, they predict spending more next year.

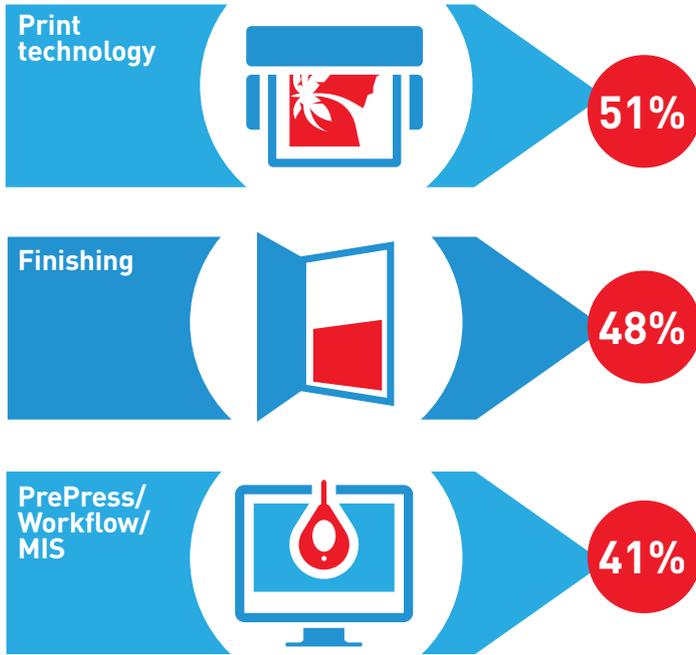
Strategic issues for printers and suppliers

The pace of consolidation of the industry continues with 31% of printer respondents reporting they have considered a merger, acquisition or sale of the company in the last year (up 3% from last year). Of those, 46% have completed a deal in the last year or expect to do so in the next year. In the current economic climate where organic revenue growth with reasonable margins is hard to achieve, strategic partnerships and Merger & Acquisition activity is likely to increase. This will allow printers to strengthen their core business activities quickly as well as diversifying into new service areas at relatively low risk.

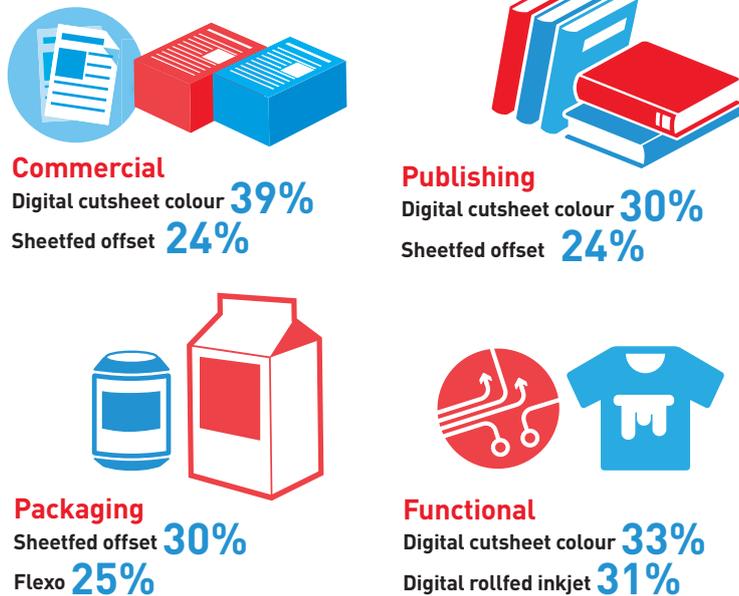
Competition and lack of sales demand were the key constraints of growth, for both printers and suppliers. Given the soft market conditions and yet the need for growth, it was clear that new product launches and developing new sales channels were the top priorities for suppliers.

Printer investment plans

Top 3 investment drivers

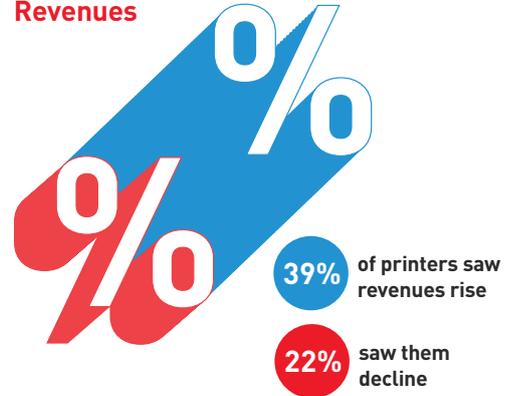


Top 2 print technology investments:

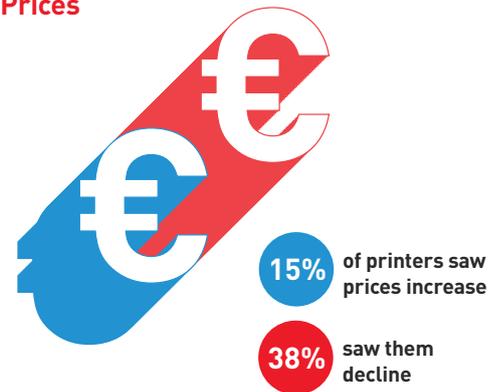


Key performance parameters

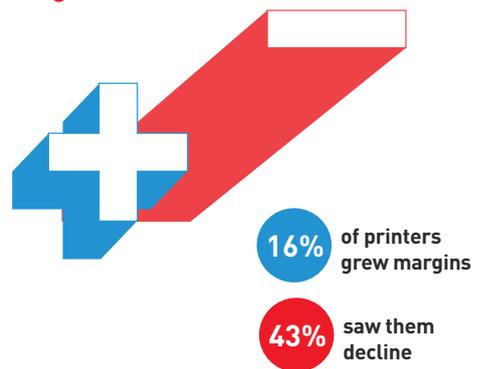
Revenues



Prices



Margins



Market-specific trends for printers

Commercial market - growing diversification

We commented last year that with many printers facing severe decline in demand for their core print product, it is logical for them to diversify into fresh added-value products and services.

There is a clear if modest increase in the percentage of companies offering additional services compared with last year. However what is striking is how North America is leading the way with ever-higher participation in such services, whilst some other regions lag well behind e.g. Middle East & Central/South America, probably reflecting regional variations in the use of Internet services.

Publishing market - slow but steady impact of digital media

Turning to services provided for publishers, with the notable exception of prepress services (which is almost universal), there is a wide range of adoption of additional services between regions that we suspect is a reflection of a variation in local publishing supply chains.

The slow but steady impact of digital media on publishing print is clear when we examine the results of three related questions on increasing use of variable content, personalisation, versioning and the increase in online only digital editions. None of these trends is yet decisive but the trend is clear with small increases in all parameters year-on-year.

Packaging market - growing demand for added value SKU's

Demand for digitally printed packaging has remained modest with only 23% of packaging printers worldwide actively selling digital print and few of those reported strong demand. On a broader front it is clear however that added

value packaging elements are becoming more widespread with variable content, interactive print, personalisation and versioning all relatively commonplace.

As demand for core print products remains strong in most sectors and regions, it is not surprising to see less diversification amongst packaging printers, the exception being widespread adoption of design services (64% globally) and stock storage and fulfilment (48% globally).

Functional print markets - a positive story to end

As in the packaging market, end market demand is creating positive conditions for growth for most companies in functional markets eg in textiles and home decor. Different end market needs demand different print technologies with screen and pad dominating the ceramics sector and digital inkjet doing the same in textiles and home decor but with digital electrophotographic playing an important secondary role in many markets.

In conclusion

Despite challenging economic conditions in many parts of the world, the printers and suppliers of the drupa expert panel are very positive for their own companies' economic prospects. This is despite the adverse trends in many of the detailed performance measures examined in this report.

That optimism is confirmed by the significant capital investment plans that both printers and suppliers reported for 2015. They clearly understand that it is only by a positive development strategy that they can ensure their individual companies and the print industry in general will remain relevant and competitive in a multimedia communications world.

2nd drupa Global Trends report 2015

Economic Summary

Fragile recovery masks growth challenges

The world's economies are currently performing a careful balancing act. The majority of countries are dealing with the consequences and impact of the global financial crisis, resulting in massive debt problems and high unemployment whilst the rest face an uncertain and unpredictable future. Projected growth rates are being revised downward, and this gloomy outlook has dampened confidence, reduced demand and worsened short-term growth prospects today. Largely due to weaker-than-expected global activity in the first half of 2014, the latest growth forecast for the world economy from the International Monetary Fund in October 2014 has been revised downward to 3.3% for 2015, 0.4% lower than in the April 2014 World Economic Outlook (WEO). The global growth projection for 2015 was lowered to 3.8%.

The impact of these economic forces has led to marginal growth and disparity between regions and countries in the evolving global economy. Among the advanced economies, the United States and the United Kingdom are leaving the recession behind and are now achieving sustainable growth. However this is still a fragile recovery and potential growth is still lower than in the early 2000s. Japan is an economy with a legacy of high public debt and very low potential growth, which is creating major macroeconomic and fiscal challenges. As a result the Japanese economy has recently fallen back into recession. Growth in the Eurozone all but stalled in 2014, plagued by the legacy debt crisis in the south and marginal growth elsewhere. As we finalise this report there are fresh uncertainties following the recent Greek election result.

Governments worldwide are rethinking their strategies and policies in response to huge challenges. From building social safety nets in key emerging markets to reducing deficits and debt

in developed countries, governments are trying to meet these challenges without dampening economic expansion. These changes have far-reaching implications for business, creating an urgent need to stay agile, keeping up with policy changes and ensuring compliance and collaboration with public-sector agencies.

Slow going for emerging economies

In emerging market economies, lower than expected growth is the dominating factor. Across all these economies, potential growth is now forecast to be 1.5% lower than in 2011. There are significant differences between regions, China is sustaining relatively high growth, but this is projected to decrease in the future. India is recovering from its downturn and is projected to achieve over 5% growth due to effective economic policies creating increased confidence. In contrast, uncertain investment prospects, energy price falls in Russia coupled with the Ukraine crisis, have made growth prospects even worse. Economic uncertainty and low investment are also having a negative impact on growth in Brazil.

The downside risks of the current economic landscapes are becoming clear. A long period of low interest rates has led to low yield and complacency about the future. Also geopolitical risks have become more relevant. So far, the effects of the Ukraine crisis have not spread beyond the affected countries and their immediate neighbours. And the turmoil in the Middle East has not had much effect on the level or volatility of energy prices. But clearly, this could change in the future, with major implications for the world economy. Lastly, there is a risk that the recovery in the Eurozone could stall, that demand could weaken further, and that low inflation could turn into sustained deflation. If this scenario plays out it would have a major impact on the global economy.

The recent episodes of financial market turmoil in emerging markets have raised fears that these economies could be hit particularly hard by an upcoming monetary tightening cycle in major developed economies. The sudden massive capital outflows from emerging markets seen in mid-2013 and again in January 2014, which caused asset prices and currencies to tumble, have brought back memories of the emerging market crises of the 1990s. However, emerging market economies as a whole seem to be in a much better position this time to weather tighter liquidity conditions and capital outflows.

Unemployment still bad news

Globally, employment is estimated to have grown by 1.4% in 2013, a similar pace as in 2012, but stubbornly slower than the rate of 1.7% in pre-crisis years. As a result, the global jobs gap (comparing the number of jobs existing today with the number of jobs that would exist considering the pre-crisis trend) widened further to 62 million. Long-term unemployment has been rising in developed countries, which could lead to higher levels of structural unemployment. Across developing countries, a main challenge remains the level of informal employment, which, on average, reaches between 40% and 50% in Africa, Asia and Latin America and the Caribbean. In the outlook, global employment is expected to continue growing at a slow pace.

M&A is focused on core activity for revenue growth and efficiencies

2014 has seen a big increase in multibillion-dollar M&A deals. Increasing competition at the top end of the market and a renewed focus on growing core businesses has fuelled activity. After a five-year slump deal activity globally is set to return to 2006 levels. The appetite for M&A is as high as it has been for more than three years, supported by relatively stable economic confidence, healthier balance sheets and the availability of credit. M&A deal pipelines have increased by a remarkable 30% since April and two thirds of executives

expect M&A pipelines to expand further over the next year, heightening fears of a wave of high-risk M&A deals.

The majority of acquisitions are focused on strengthening the core business, by boosting market share, managing costs and improving margin growth. As a result, the vast majority of planned deal activity will be bolt-on acquisitions to complement and strengthen current business models. More than a third of companies plan to make acquisitions that give them access to new technologies or intellectual property. In many sectors, this will translate into the acquisition of innovative middle-market assets.

Confidence returns at top level

The number of senior executives confident in the stability of the global economy has almost doubled in the last twelve months. This increased confidence and economic stability has allowed companies to plan more freely for growth and take advantage of M&A opportunities. The positive outlook for corporate earnings has increased significantly over the last 12 months. Corporate earnings, particularly in the US, were remarkably strong in the first half of 2014, with 70% of the S&P (Standard & Poor) 500 beating estimates. Results in the UK and Eurozone were mixed, as currency and regional concerns influenced respondents in those geographies. Other market indicators are also trending positive.

Companies are making moves to position themselves for growth in a challenging environment shaped by fast-emerging global megatrends and enhanced shareholder engagement. In line with their growing confidence in global economic stability, more companies are expanding their core business by changing their mix of products and services and increasing new product introductions. The capital confidence barometer (a survey conducted by Ernst & Young to measure investment and M&A activity) shows a threefold increase in the number of companies adopting both of these strategies.

However, the focus on growth is tempered by a disciplined approach to cost reduction and operational efficiency, as executives remain mindful of lessons learned during the global financial crisis. It is evident that far fewer companies are preoccupied with survival and are turning their sights to medium-term growth strategies.

In line with their growing confidence in global economic stability, companies are taking on more risk in order to expand their core businesses by changing the mix of products and services. This reflects an increasingly complex pattern in which companies are divesting in non-core activity and are strengthening and expanding their core and complementary businesses through sophisticated transactions, such as asset swaps, spinoffs and joint ventures.

Technology and talent become key assets

Driven by shifting markets, consumer expectations and the changing needs of both employers and employees, the market for talent is diversifying and traditional employment contracts are being rewritten. An increasing number of mobile, part-time and self-employed workers are changing the nature of work and the workplace. The move to a more flexible workforce will provide more opportunities for collaboration, productivity, and new business models. The battle for talent will centre on the high-tech, creative and IP-rich sectors, where innovation and forward thinking will provide cutting-edge advantage.

In contrast to the overall trend toward a focus on the core, technology assets are in demand in nearly every sector. Emerging technologies are combining with advanced networks, computing and new ways of communicating to fundamentally change businesses. As companies adapt to these advances, all industries will need to decide how they strategically invest in technology and the skills required to exploit it.

Sources: EY Capital Confidence Barometer, Global Competitiveness Report and World Economic Outlook