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Executive Breakfast Briefing During PaperWorld





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Colour as the Driver of Value-Add in the Supplies Business: Western Europe



Catherine Cresswell
Associate Director
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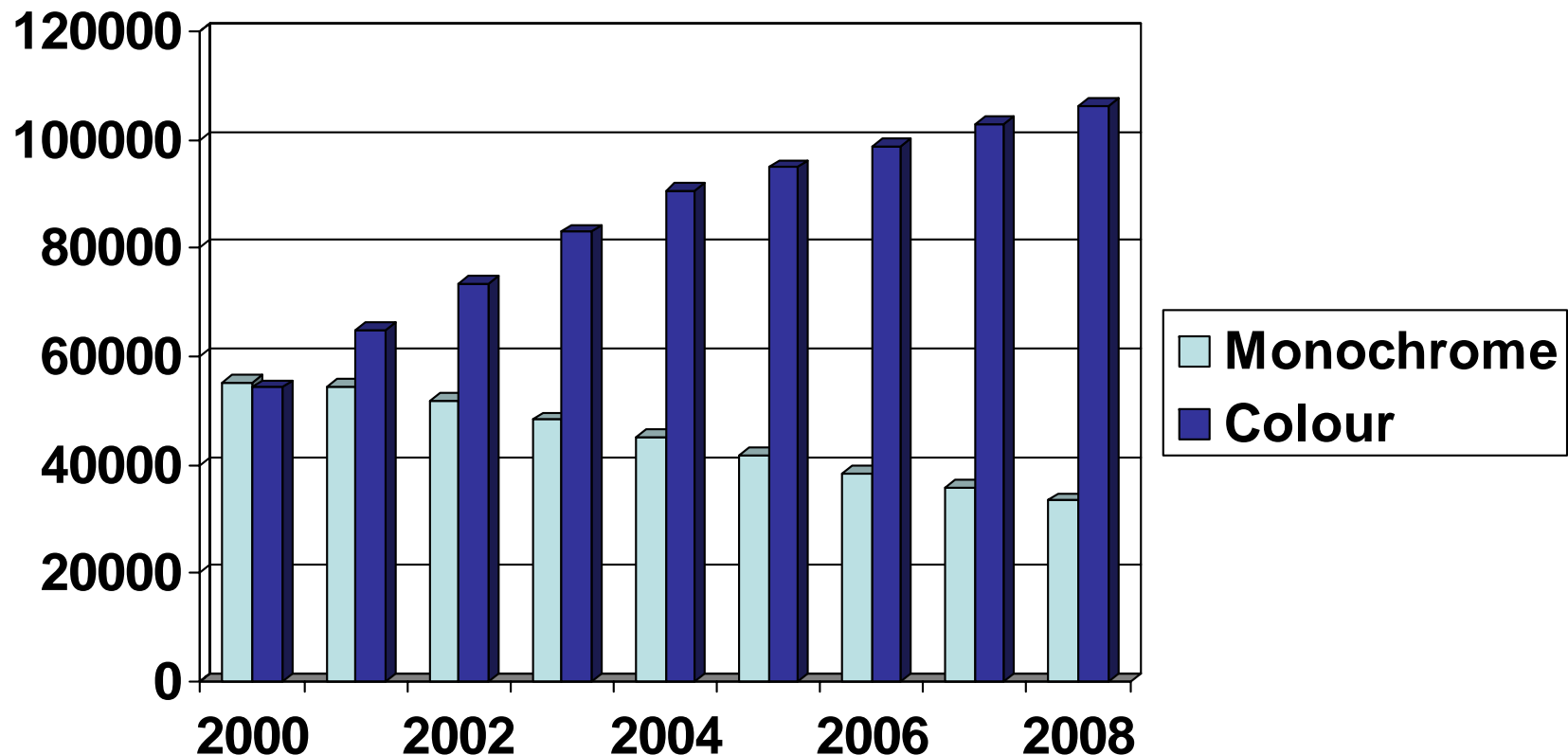
Agenda

- Where are we in terms of colour technology?
- Is page volume actually shifting to colour devices and driving supplies revenues up?
- Could the industry do more?
- Q&A

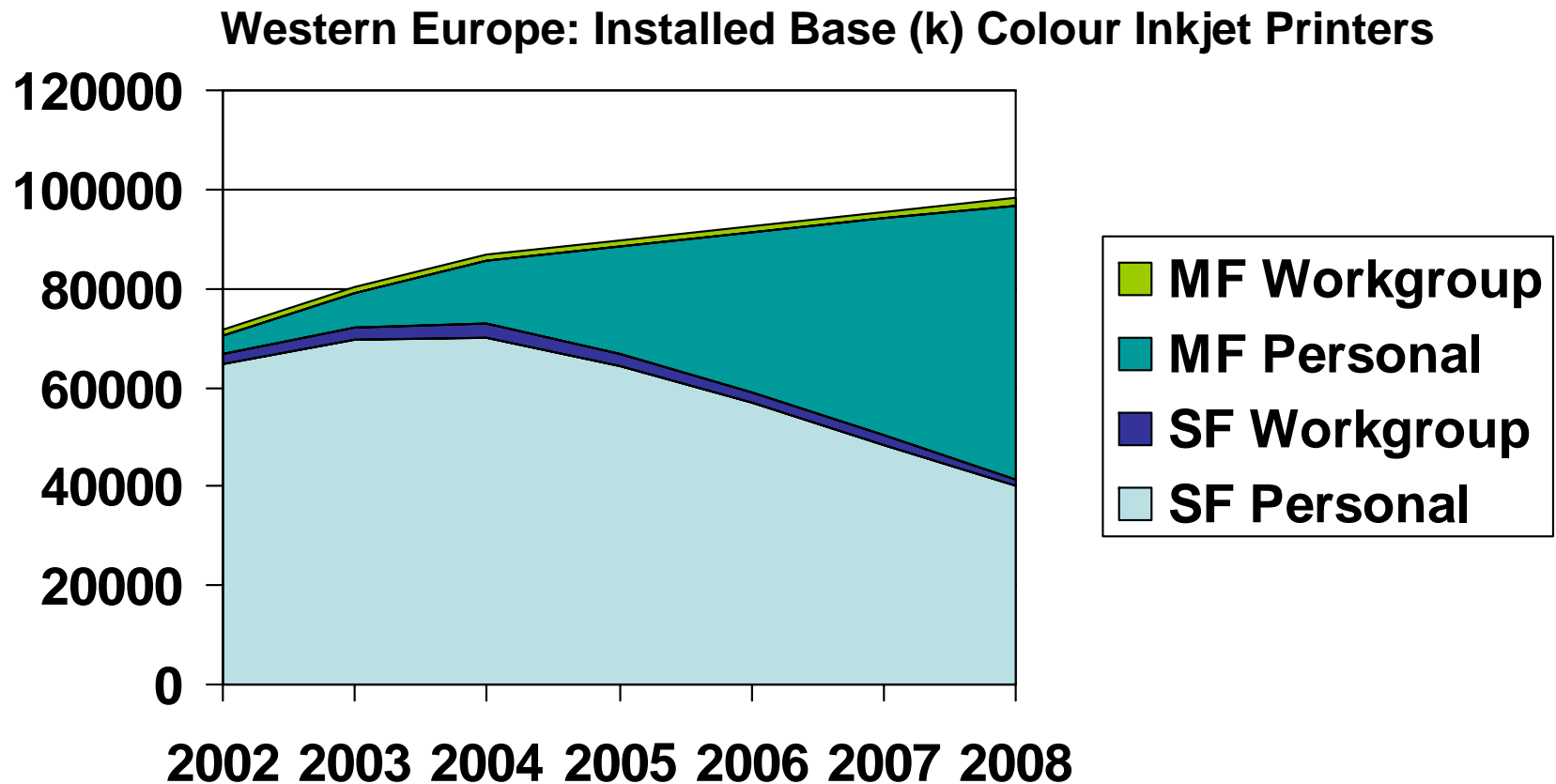
Where are we in terms of colour technology?

Colour Installations Exceed B/W for First Time in 2001 and Could Be 3x the Size by 2008

W European Total Printer/Copier/Fax
Installed Base 2000-2008

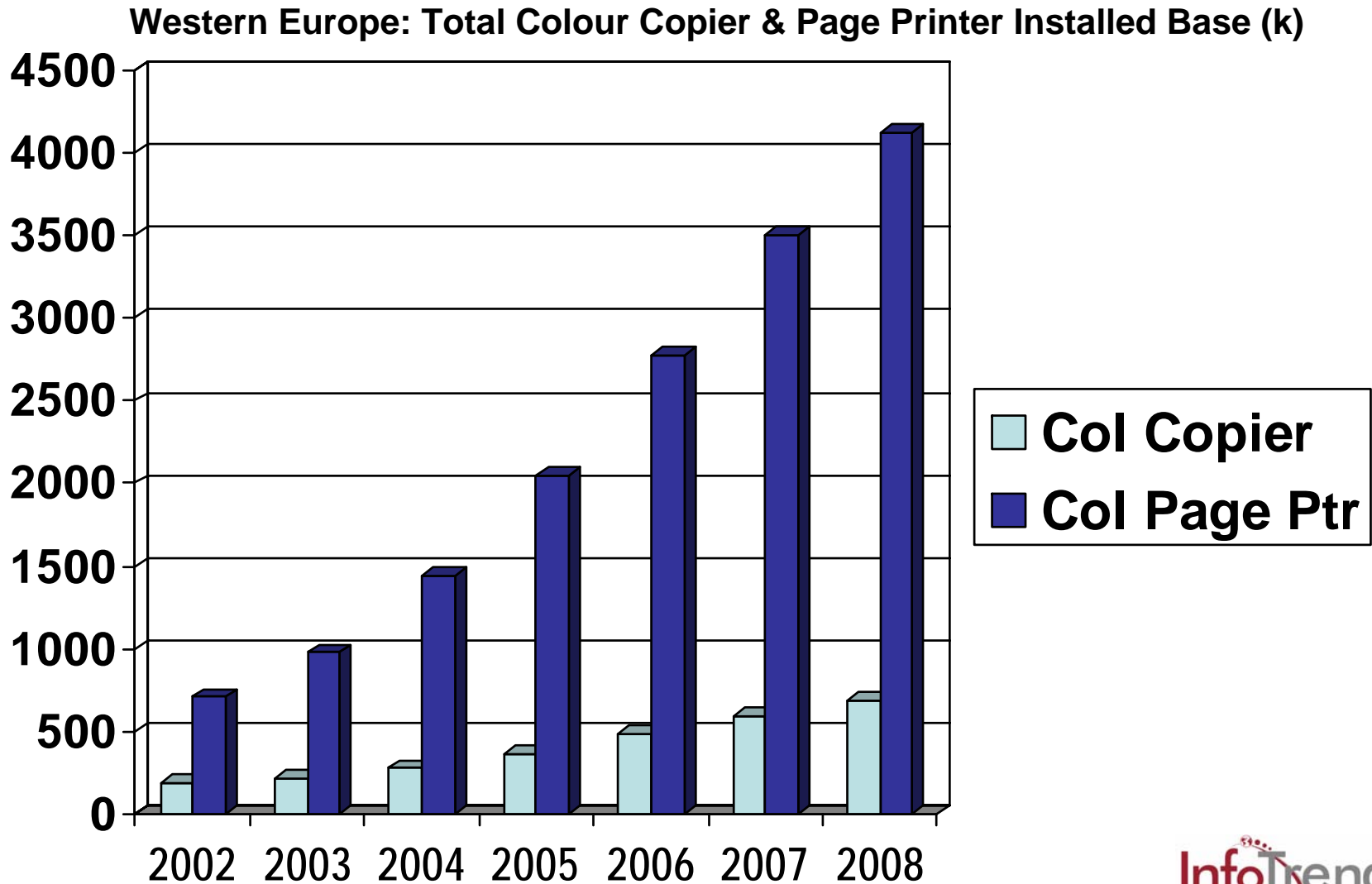


The Biggest Part of this Can Be Attributed to Inkjet, Where Growth is in Personal Multifunctional Devices



SF= Single-Function, MF = Multifunction

The Real Breakthrough is the Growth in Toner-Based Colour Technology

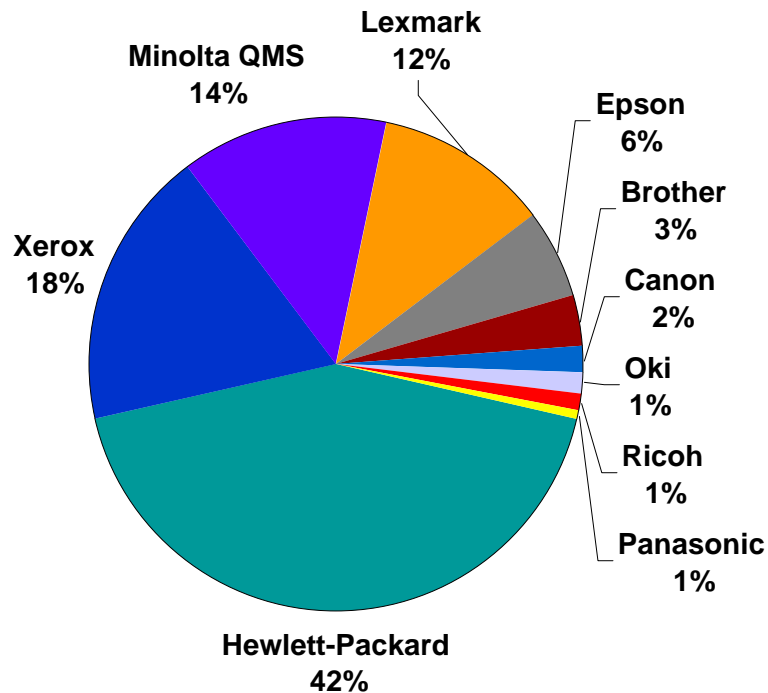


Market Shares in Colour Workgroup

Total Western Europe: 2003 Placements

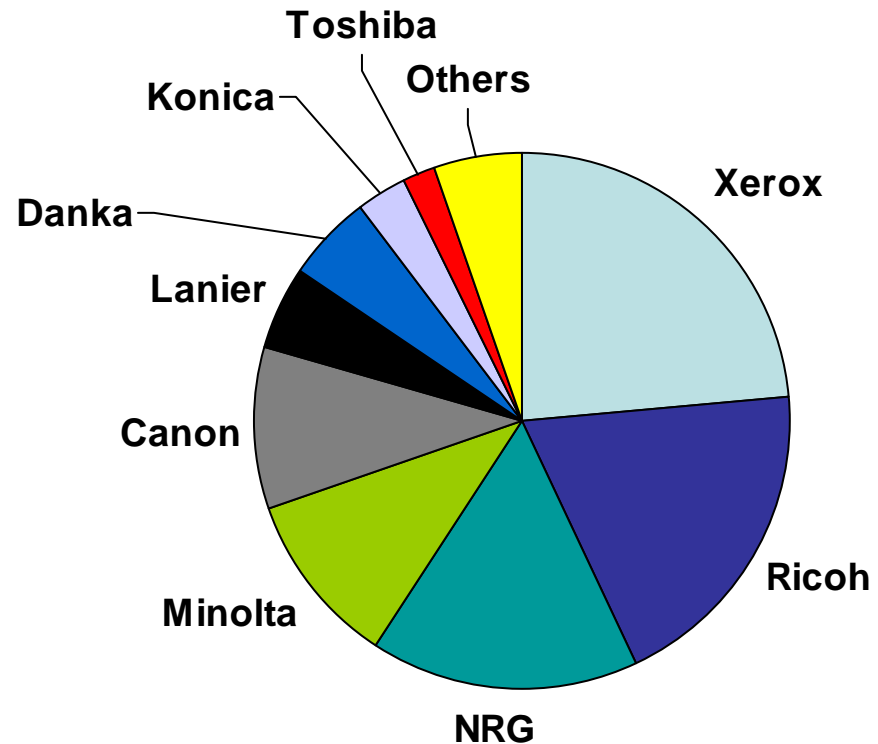
Colour Page (468,000 units)

99.6% SF to 0.4% MF

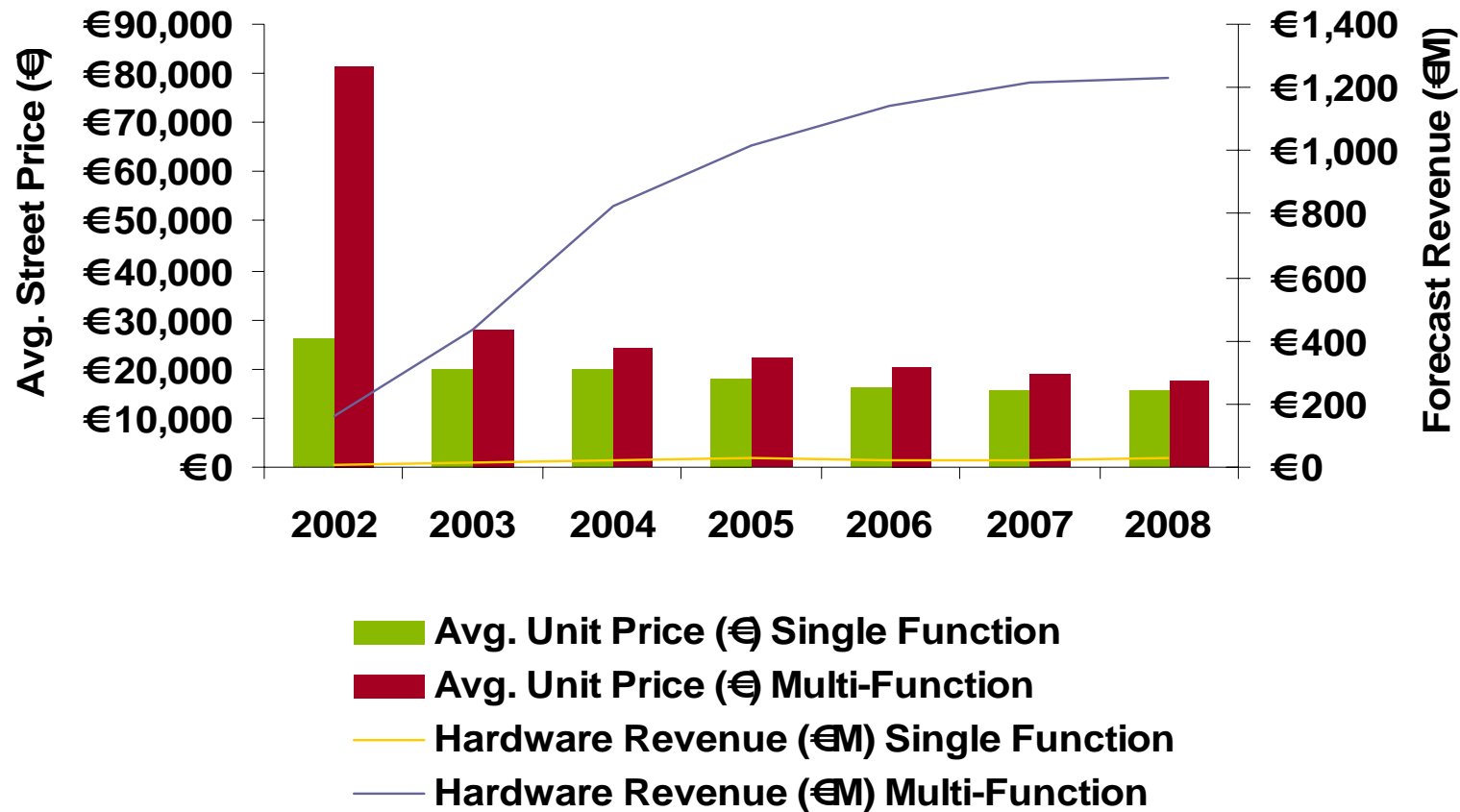


Colour Copier (58,000 units)

13% SF to 87% MF



Average Price Declines and Expected Revenue Increase in 24+ ppm Production Colour Copiers



The Universal Copier/Printer (UCP) is a Key Driver to the Growth in the Colour Market



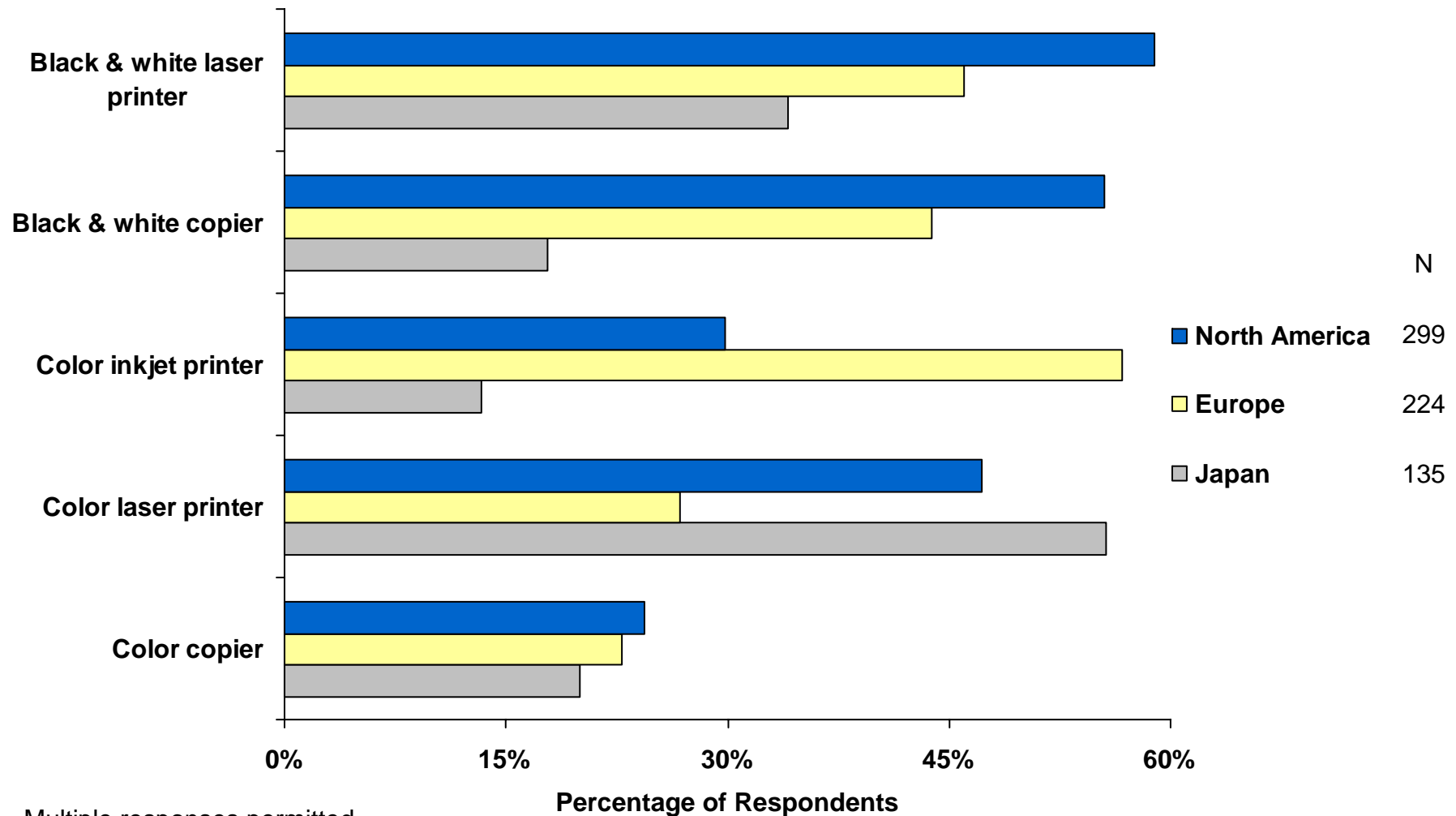
- Produces colour pages at a competitive cost per page
- Produces monochrome pages at prices that are competitive with monochrome copiers/printers
- Capital cost is a small premium to monochrome copiers/printers
- Has features and functions that match the best monochrome copiers/printers
 - MF Colour Copier or MF Colour Laser

UCP Market Positioning

- Colour-Enabled UCPs
 - Black & white speed is 2 to 4 times that of colour
 - Office-based devices replacing existing black & white copiers
 - Expected to drive more colour pages in the office
 - Europeans believe UCPs will also replace office inkjets
- Colour Centric UCPs
 - Black & white speed is the same as that of colour
 - Support for a wider range of substrates
 - More robust front end solutions
 - Will drive more cost-competitive colour technology in the professional print space

Type(s) of Device(s) that a UCP Would Replace by Region

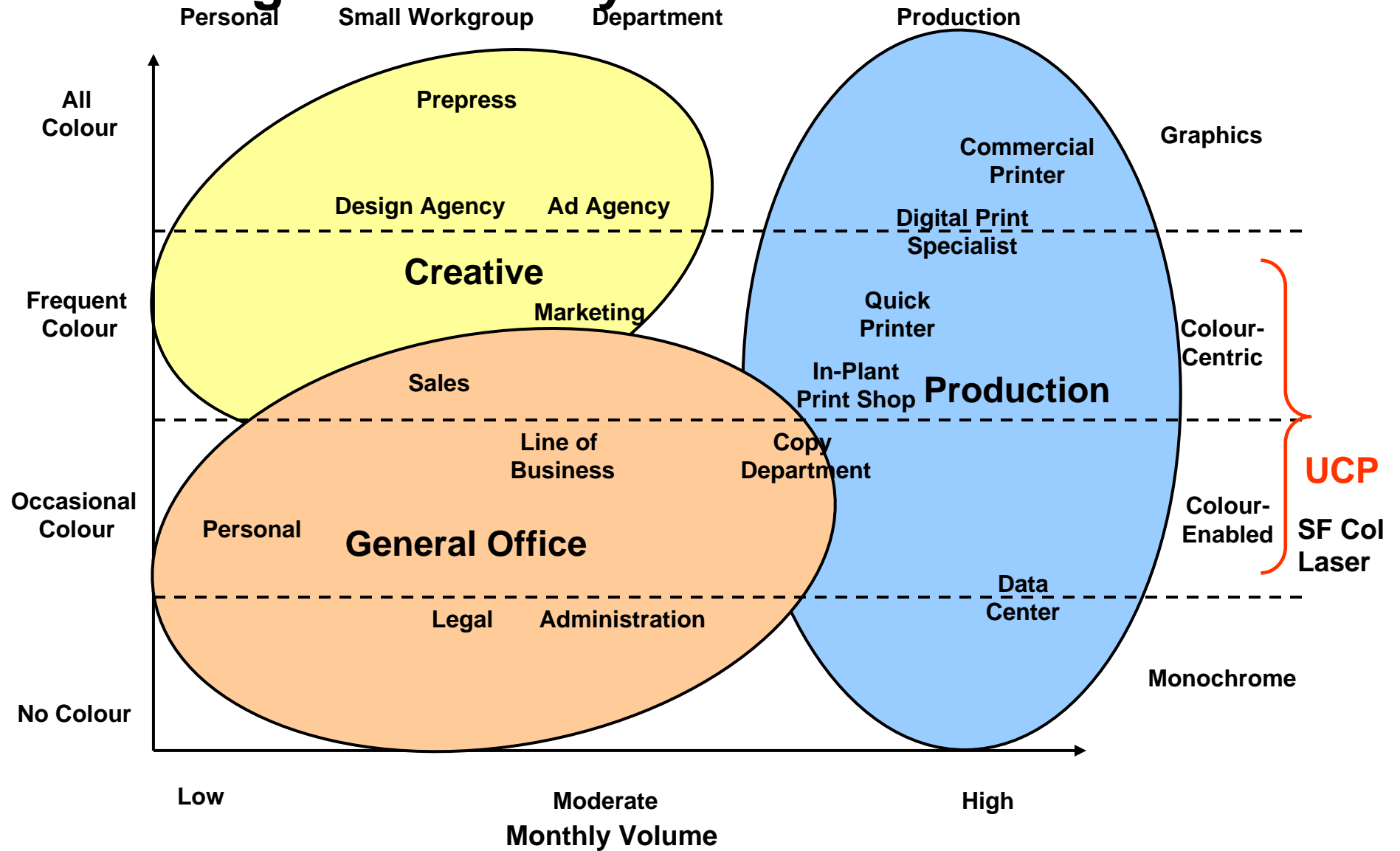
What type of device would you expect to replace with a UCP? (check all that apply)



Source: Worldwide Universal Copier/Printer Multi-client Study 2004, InfoTrends/CAP Ventures



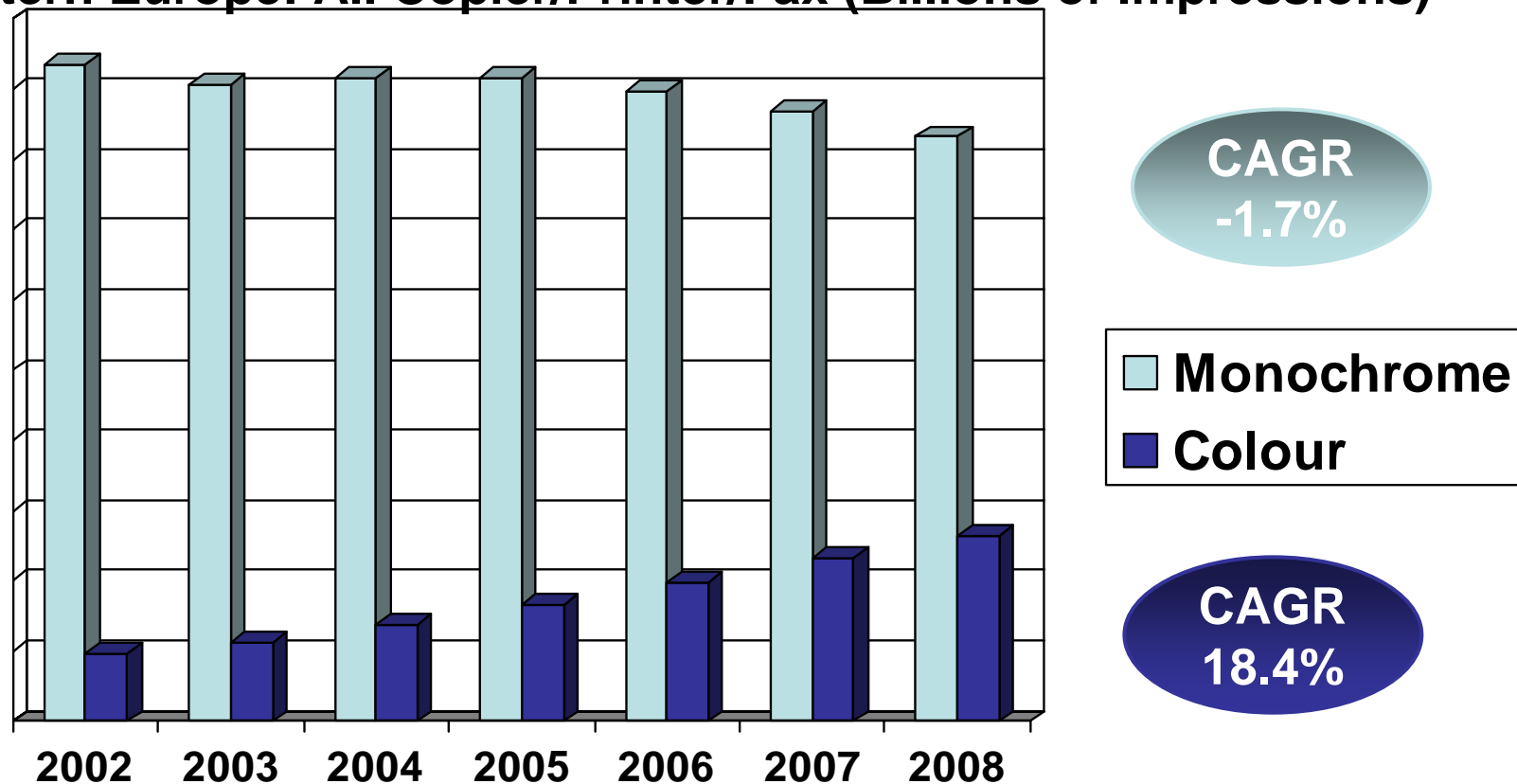
Market Segmentation by Colour Volume



Is page volume actually shifting to colour devices and driving supplies revenues up?

Print/Copy Volume Will Start the Shift to Colour Devices within the Next 2 Years

Western Europe: All Copier/Printer/Fax (Billions of Impressions)



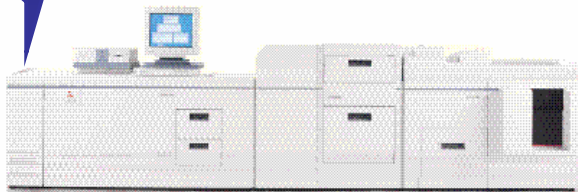
How Will Pages Shift in Long Term?

Offset Press



- Short run printing
- Faster turnaround
- Lower costs

Digital Production



Universal Copier/Printers



Workgroup



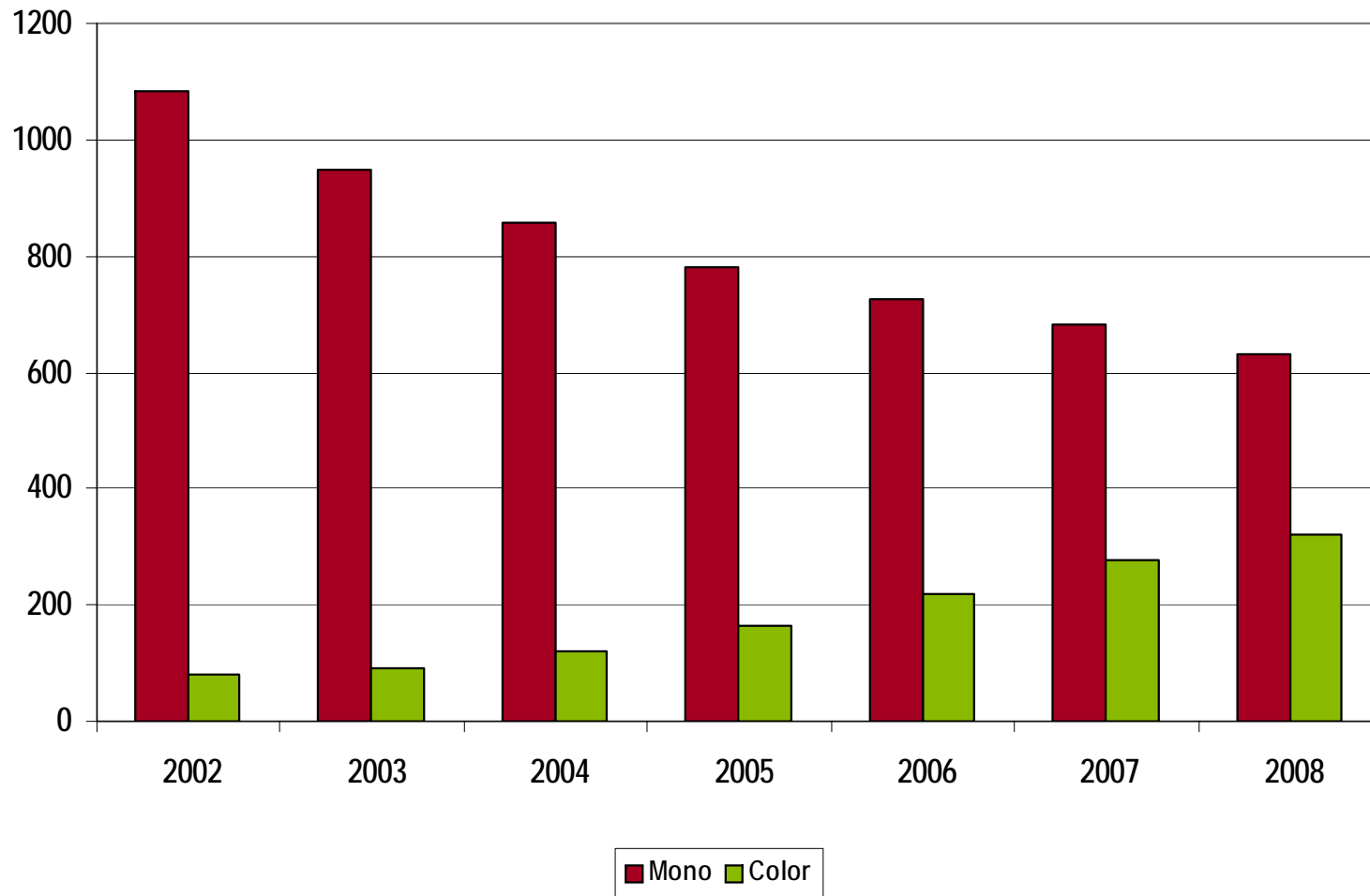
- Better paper handling
- Larger documents
- Faster
- Lower print costs

Personal



Copier Paper Tonnes Reveals Rapid Switch to Colour Devices in this Timeframe

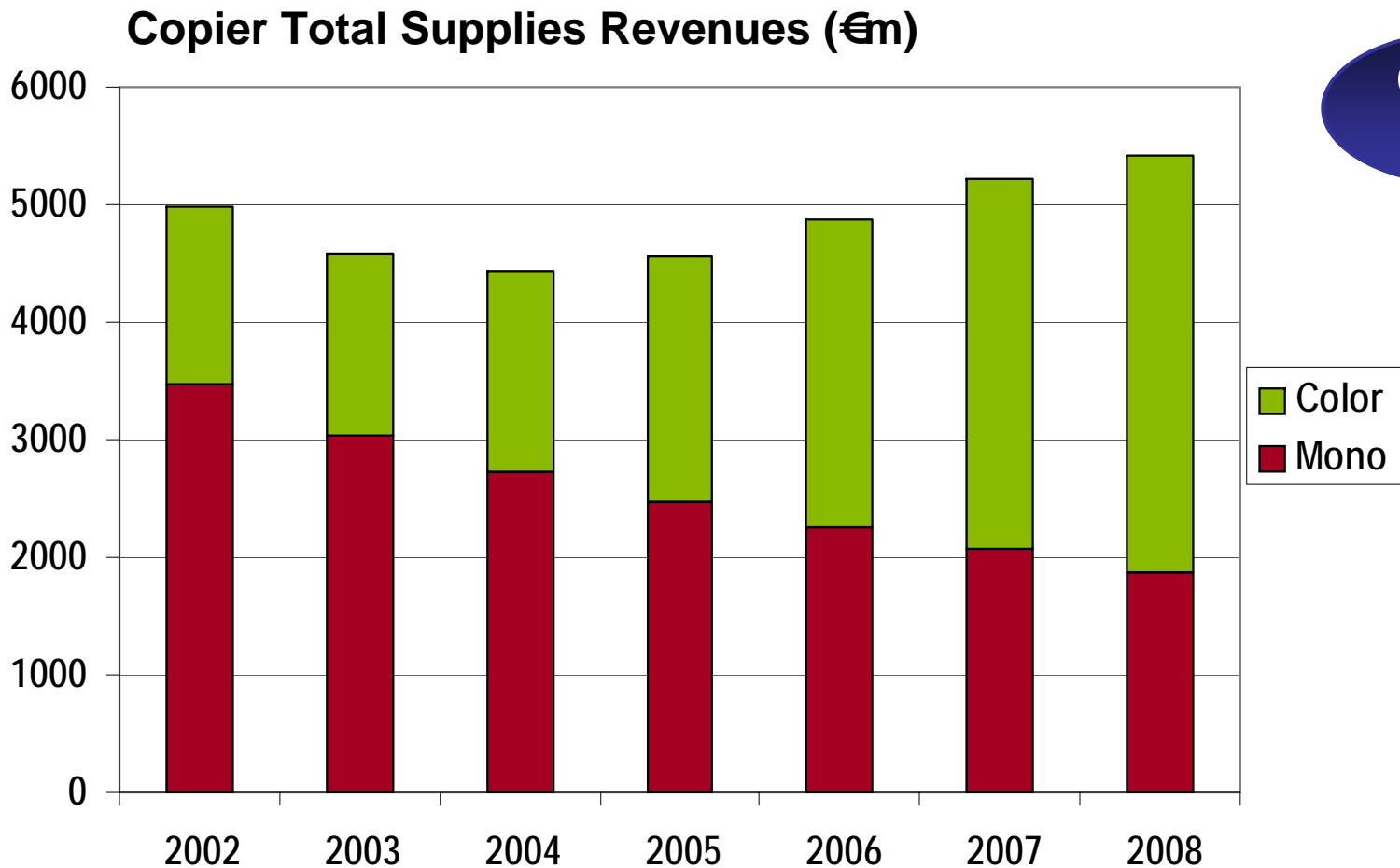
Copier Cut Sheet Paper Tonnes (k)



CAGR
-6.0%

CAGR
22%

This Adds Substantial Revenue Growth Potential and Halts the Decline

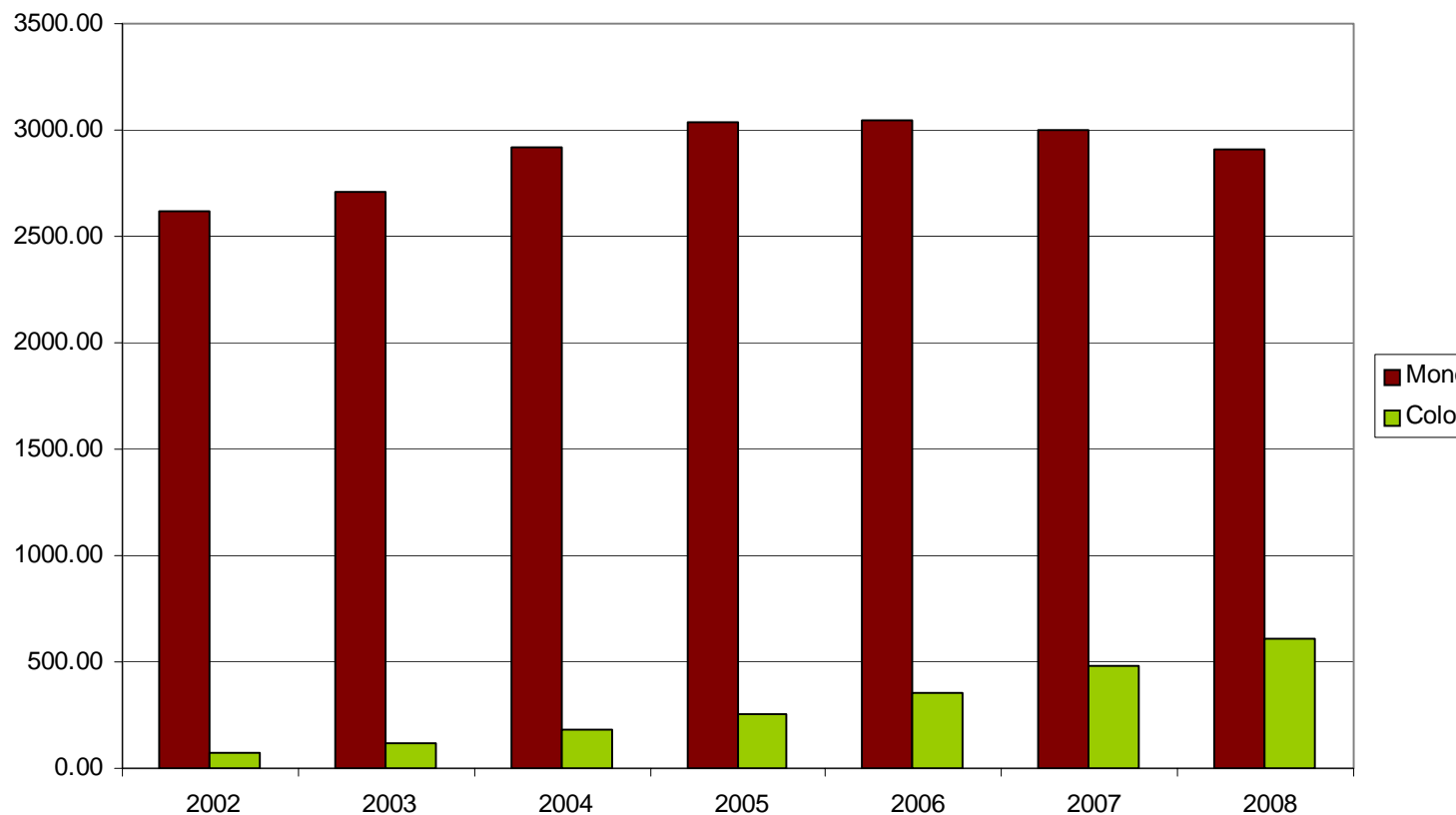


Copier Supplies Trends

- Development of UCPs enables colour to become a reality in offices & grows colour viability in production
- Colour toner could reach one third of all toner used in copiers by 2008
- Investment in colour toner capability is required, but black & white output remains greater in the short-med term
- Opportunity for users to output value added documents
 - Requires premium grade and specialty media
 - But users need information on new colour applications

Colour Page Printer Volume Grows Rapidly, but Will Remain a Small Part of Total Volume

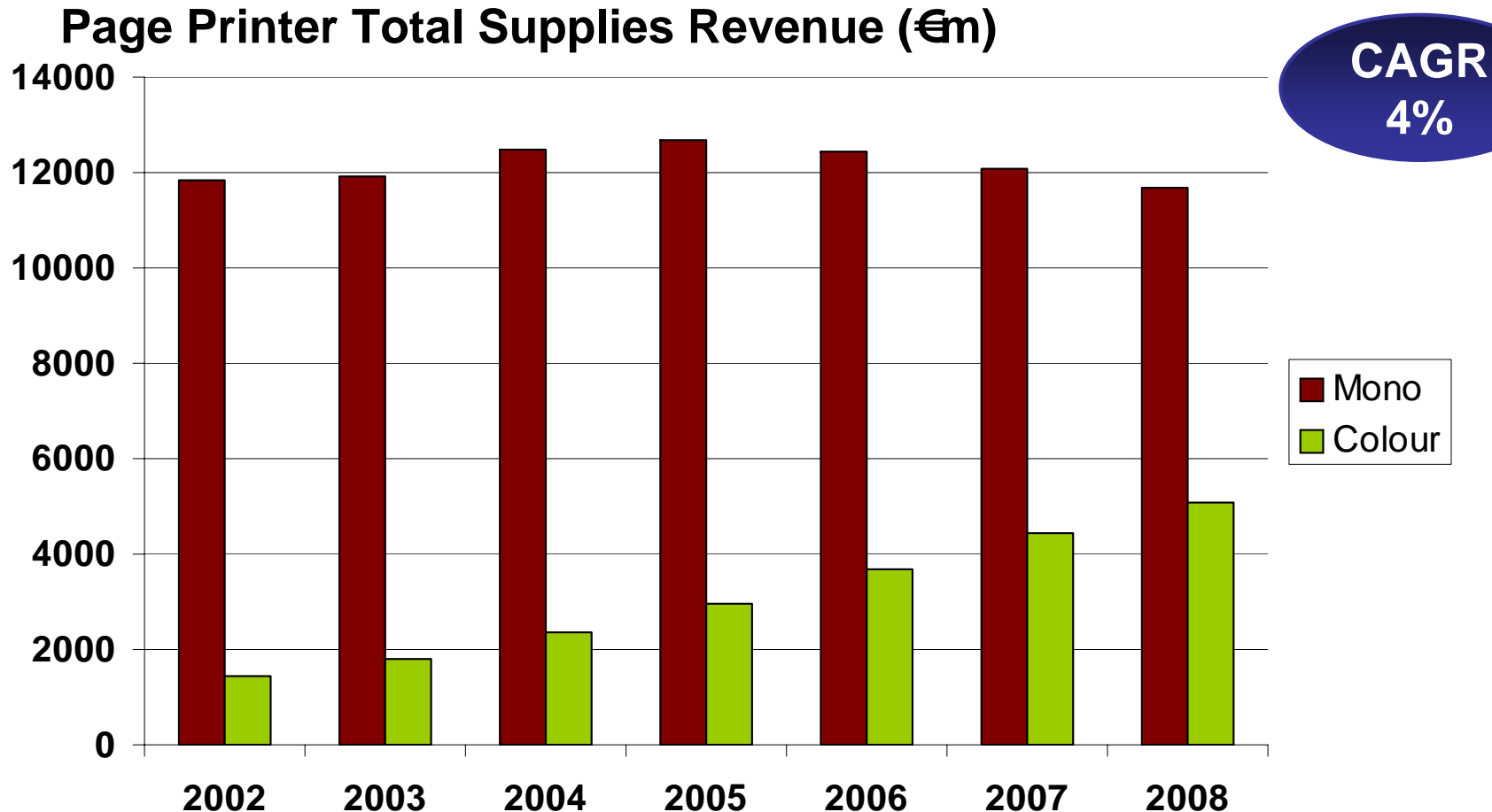
Page Printer Total Paper Tonnes (k)



CAGR
1.4%

CAGR
40%

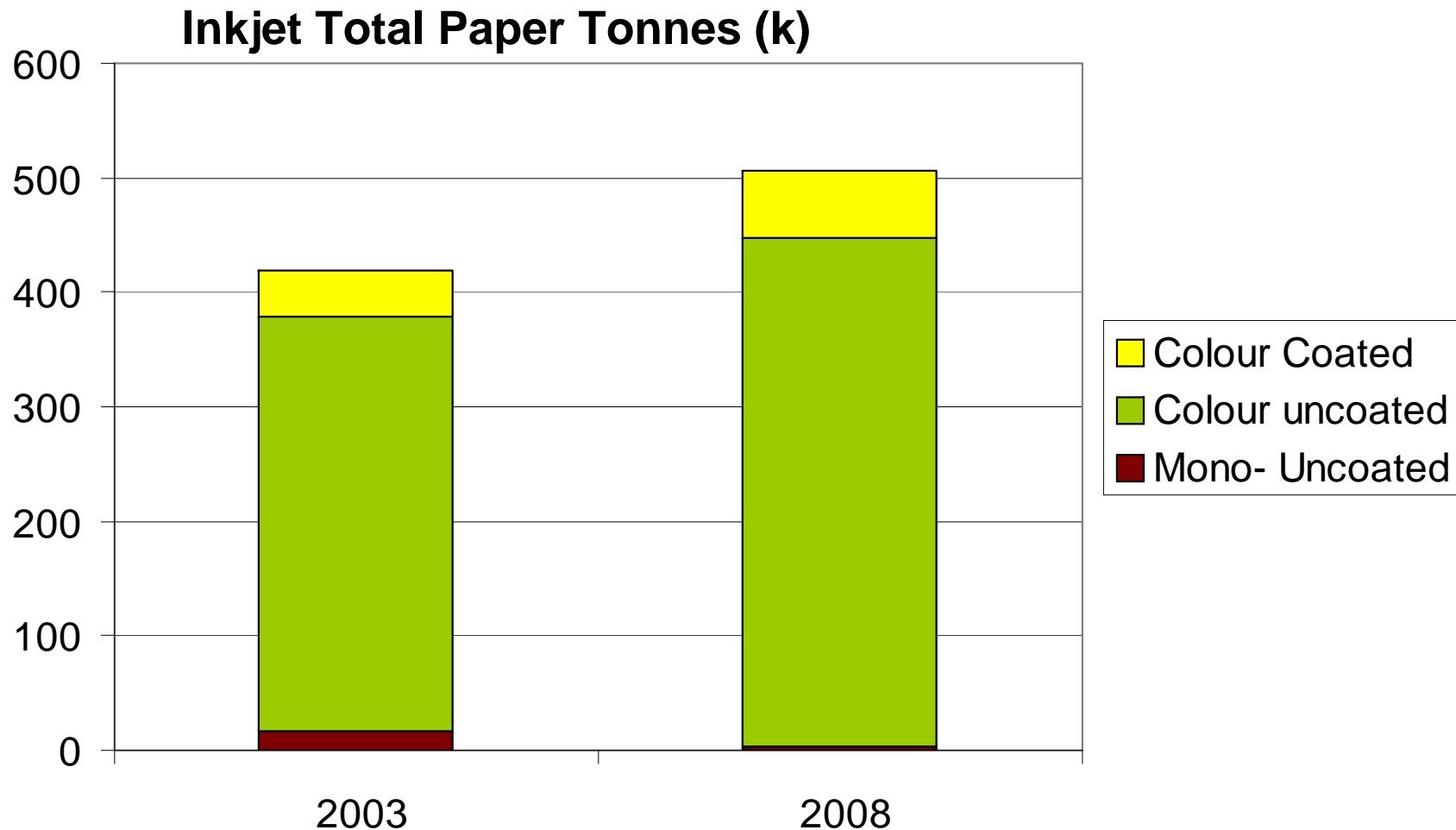
Colour Supplies Revenues Add More Value and Could Account for One Third of Total Revenues by 2008



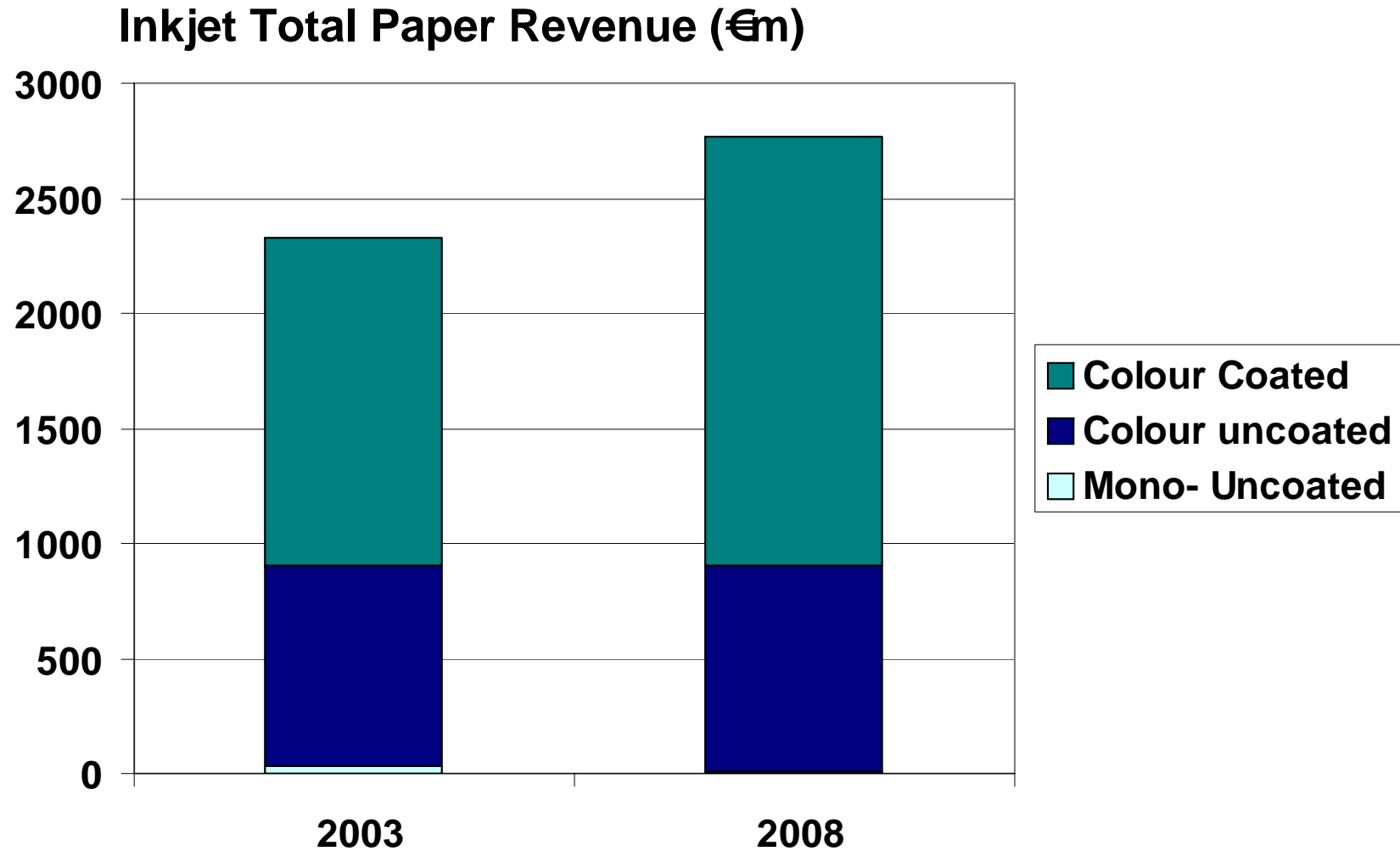
Page Printer Supplies Trends

- Shift to colour in offices drives supplies growth
- All-in-one black & white toner cartridge volumes slow to <2% CAGR
 - Shift to higher-yield cartridges
 - Also switching onto colour devices
- Toner cartridges for colour printers are increasing at >50% CAGR
- Colour toner will double its share of page printer toner market between 2003 and 2008
 - Colour toner growth complicates things for third-parties
- High-grade multipurpose papers will dominate
- Opportunity for value-added paper into offices, but users need to be educated

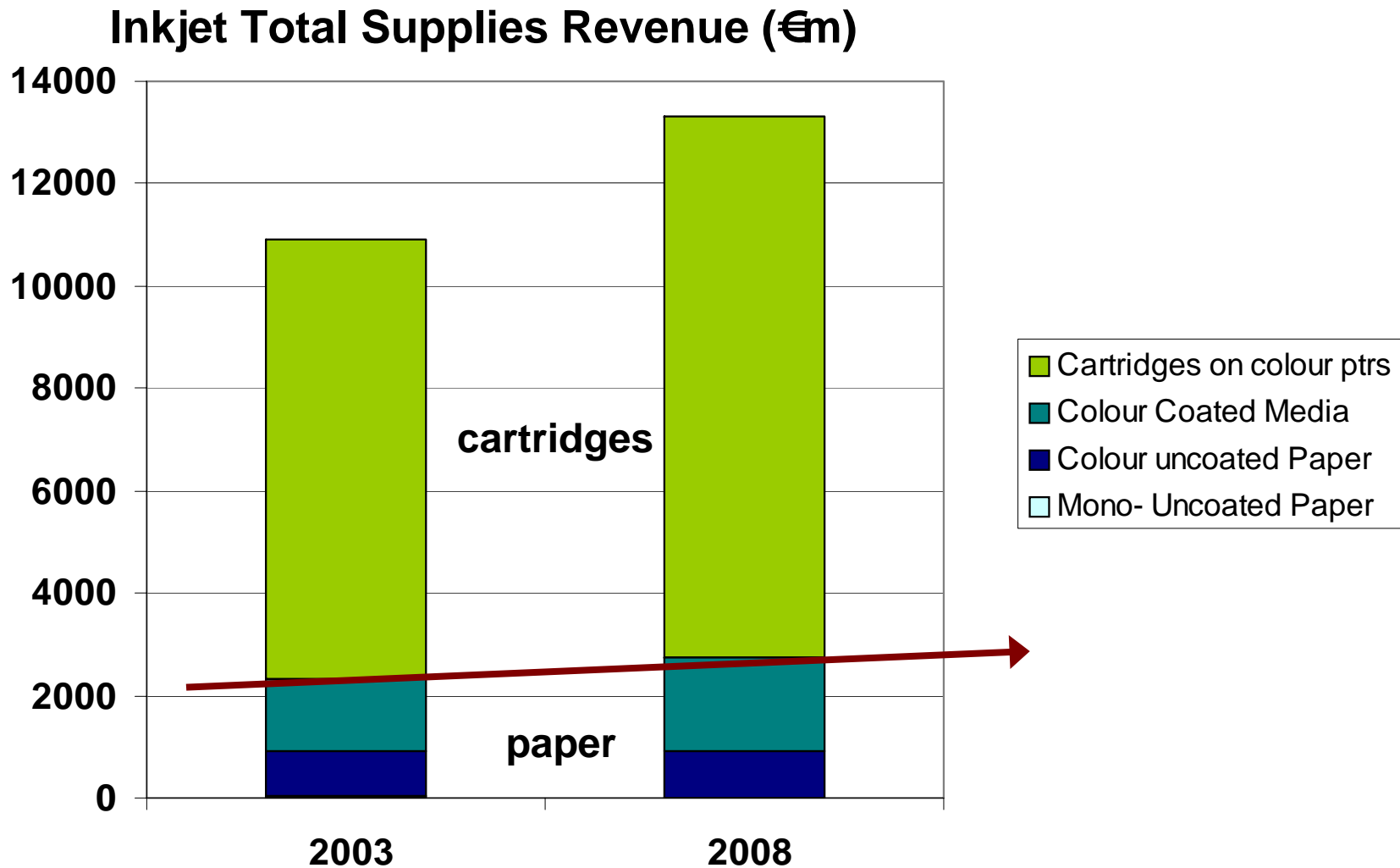
Inkjet Page Volume is Primarily Produced on Colour Devices, but Remains a Small Part of the Total



Inkjet Coated Media Adds a Great Deal in Terms of Revenue



Cartridge Revenue Benefits More

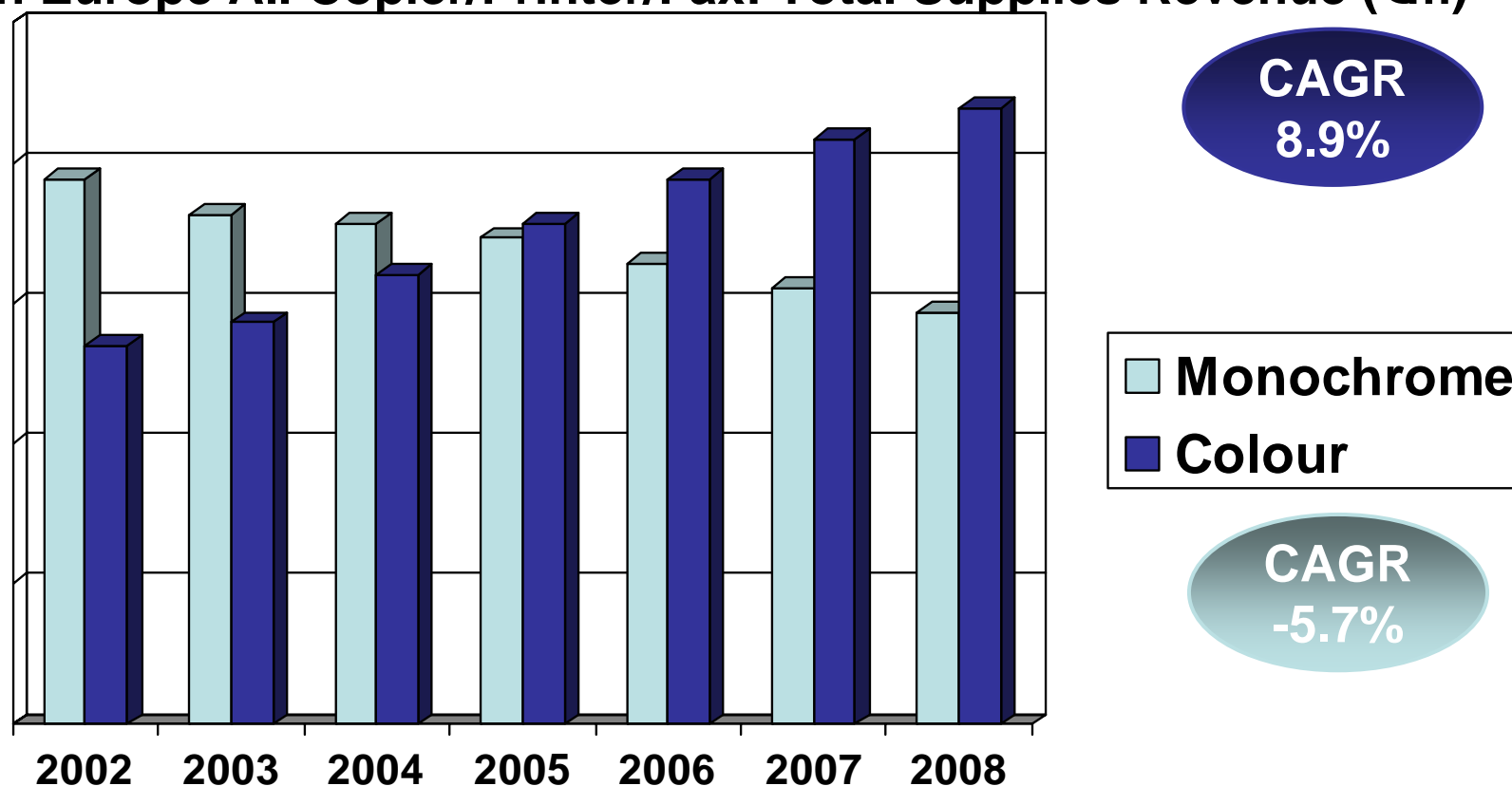


Inkjet Supplies Trends

- Desktop inkjet continues to grow into low-volume, high-value supplies markets
- Personal technology, colour technology
 - Threat from low-end colour page printers
- Key is getting users to print high colour, high-value applications
 - Glossy and resin coated papers show strongest growth potential
 - Photo printing will face competition from other output methods
- Cartridge market is demonstrating a 4.5% CAGR
- Aftermarket share remains stable at around 15.5%

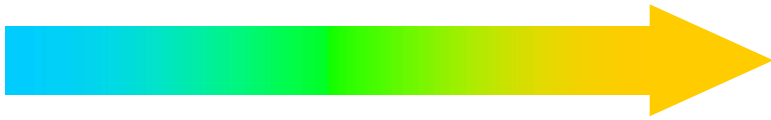
Overall, Supplies Revenues on Colour Devices to Exceed Revenues on Monochrome Devices by End of 2005

Western Europe All Copier/Printer/Fax: Total Supplies Revenue (€m)

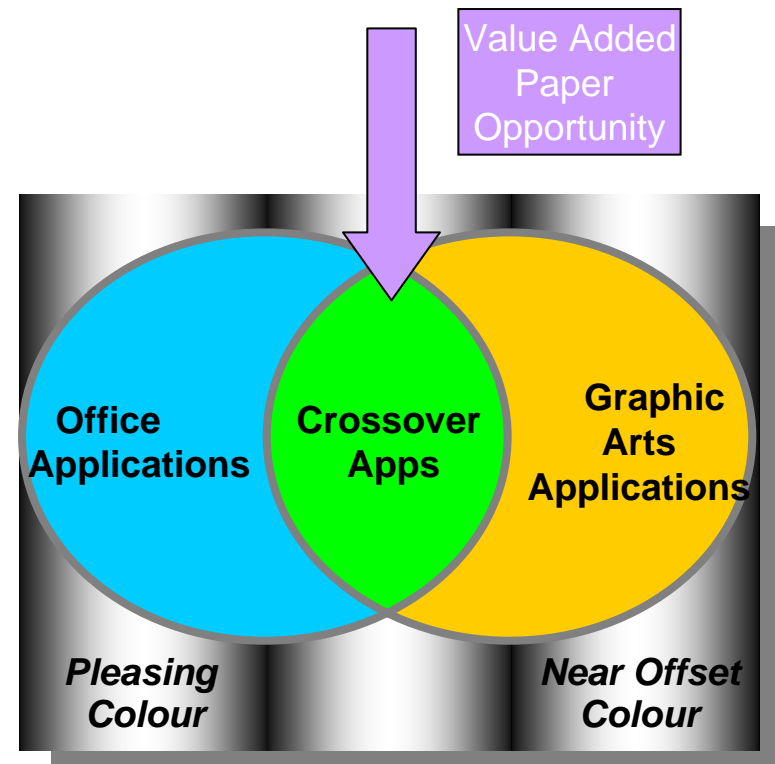


Can Vendors Do More?

New Colour Technology Generates Crossover Applications and Opportunities



- Office applications require pleasing colour and must support common desktop programmes
- Graphic arts applications require “near offset” colour capabilities, must support PhotoShop and complex layout programmes
- The crossover space will generate the most volume in the longer term



Opportunities/Challenges for Vendors

- Recognise that changing technology enables changing applications
- Users will have accessibility, but need encouragement and information to get the best out of their colour technology
- Illustrate ease of use and promote the benefits that colour adds
- Attention to cost per page will drive colour volume faster
- Don't drive the value potential out of the market



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Thank You.....Any Questions?

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Future of the Document Device



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Senior Research Analyst

28 January 2005

Content of Presentation

- Objectives
- Key Observations
- Methodology
- Research Findings
- Summary
- Conclusion

Objectives

- Research Study
 - Examine current use of office technology and consumables usage trends
 - Strategic outlook on demand for office devices and consumables
- Presentation
 - Provide an array of results from the study
 - Combination of study with forecast numbers

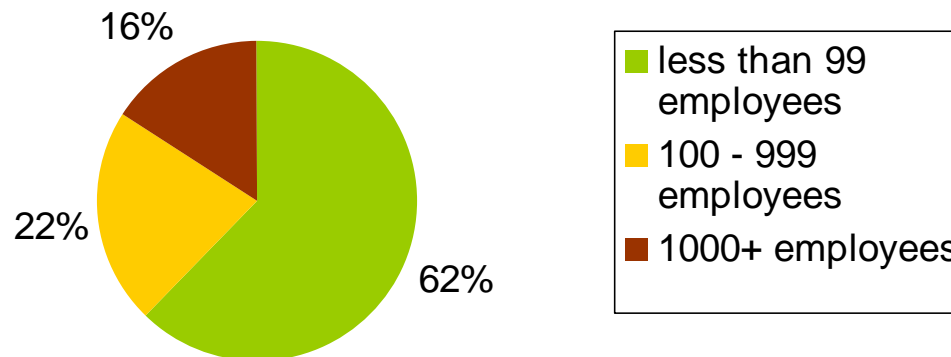
Key Observations

- Definitions for the document and the office have changed
 - Connected and digitised environment
 - Flexible office environments
- Office document workflow and information processing are a central part of a total product solution
- Electronic documents are experiencing exponential growth
- Hardcopy documents are showing modest growth

Methodology

- Primary Research
 - Survey was live between November 2003 and January 2004
 - Web-based study in France, the U.K., Germany, Italy
 - About 300 Web-based interviews conducted

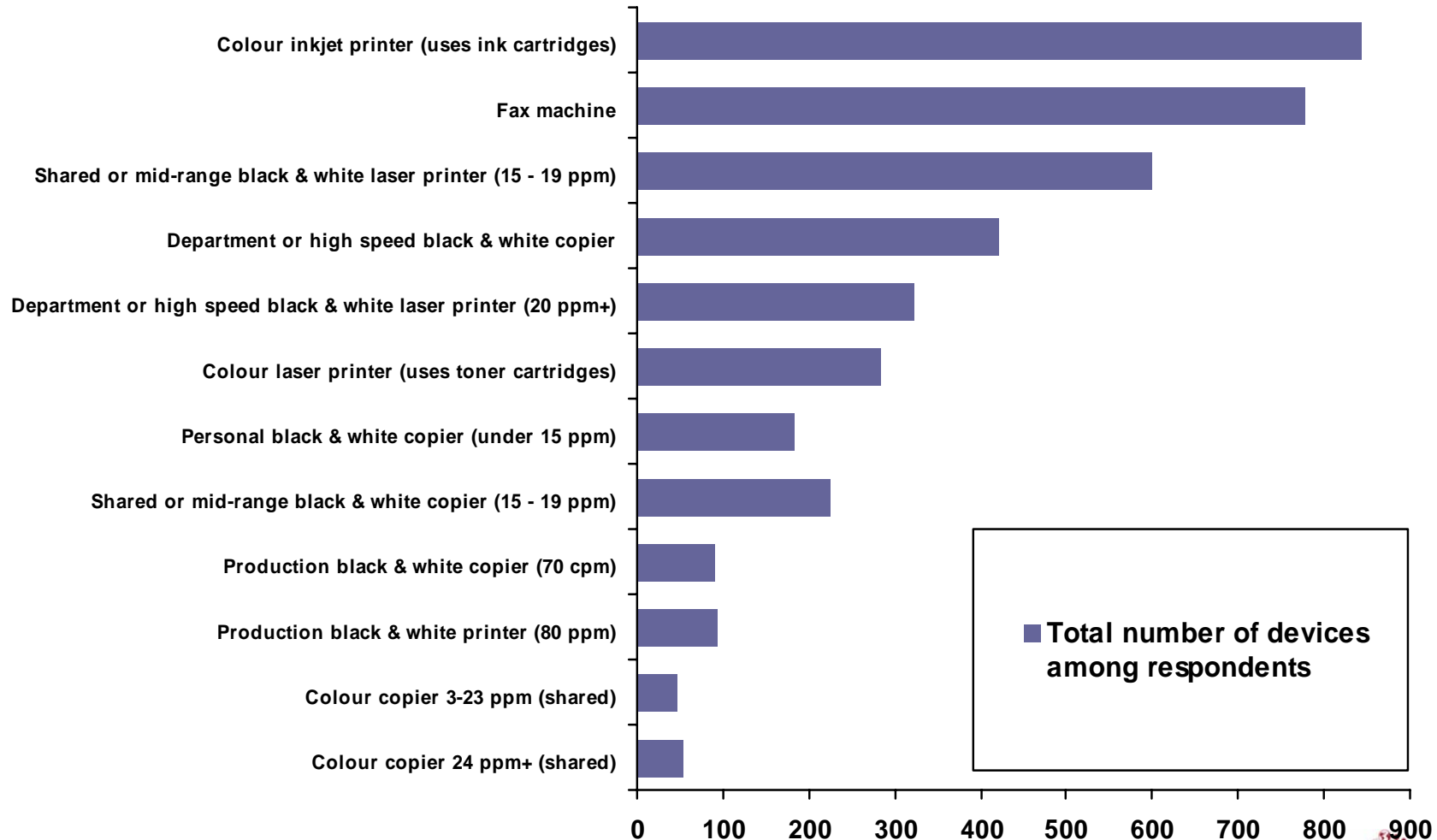
Respondents Profile in Percent, N = 301



- Secondary Research
 - Results from ongoing market observations

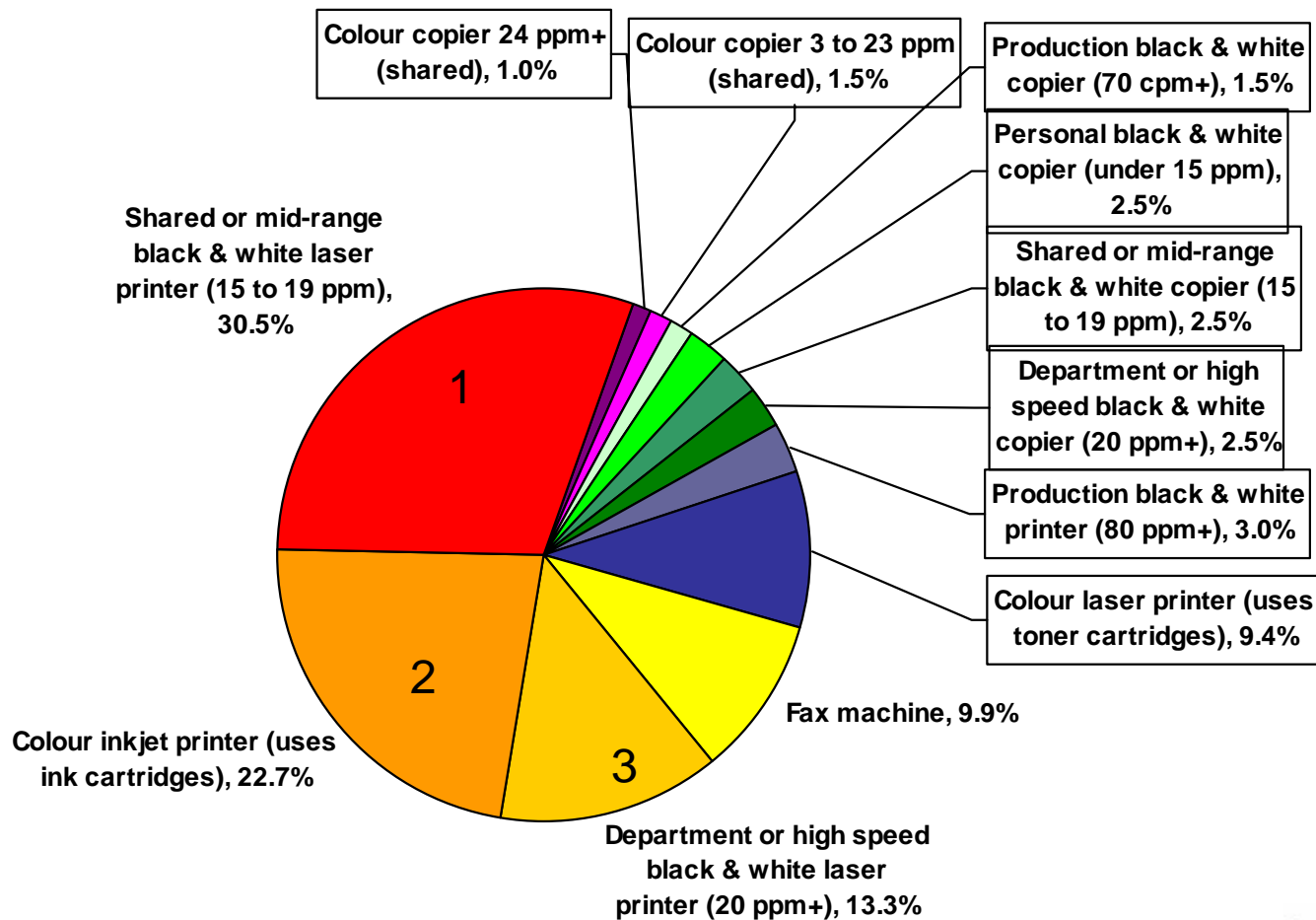
Current Office Devices Installed

Which of the following types of office equipment do you have at this location?



Current Office Devices Used

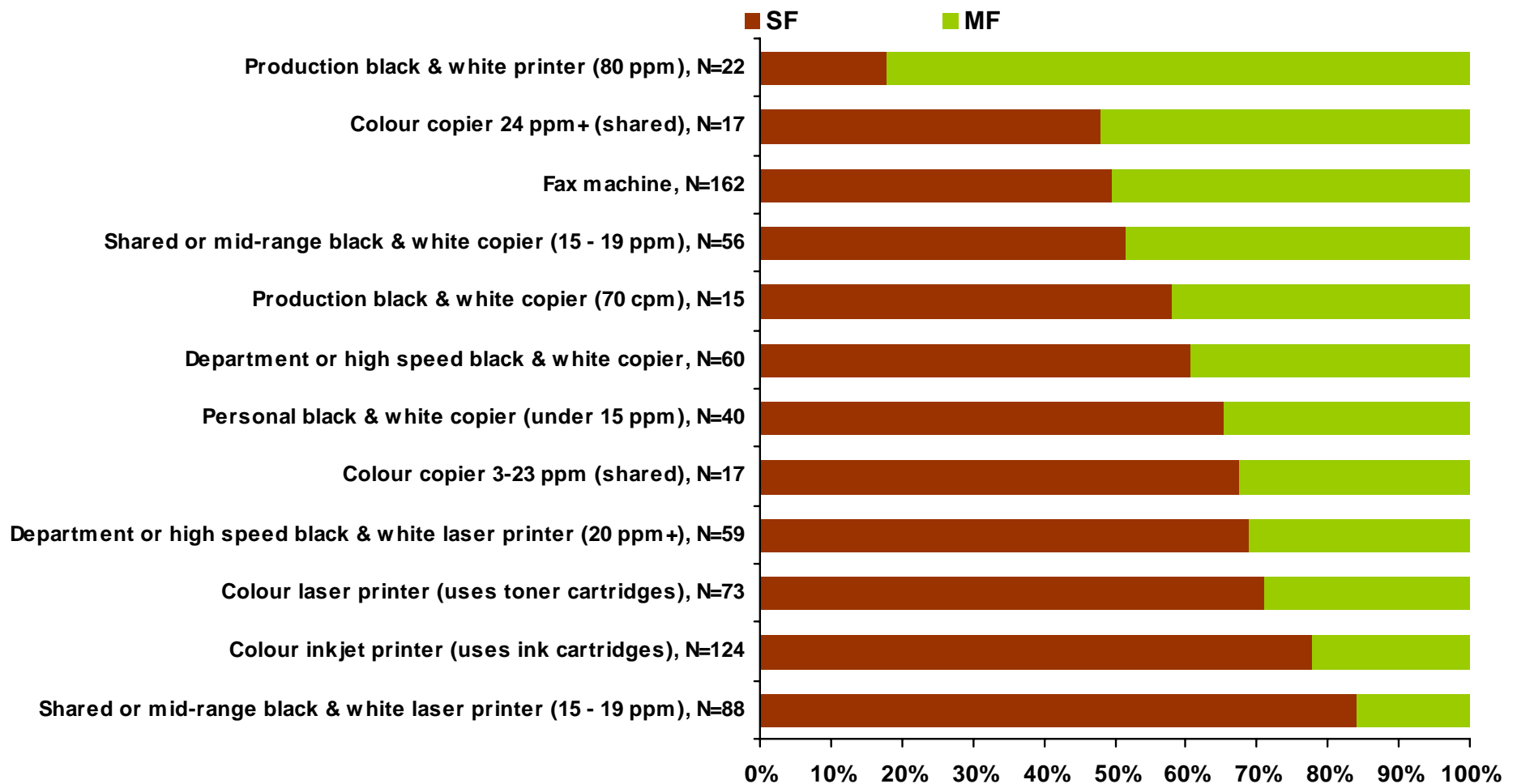
Which of the following machines do you personally use most frequently at work?



N = 203

Actual Share of Multifunctional Devices

How many of your devices have multifunctional capabilities?



N = 301

Combination of speed, connectivity encourages multifunctionality

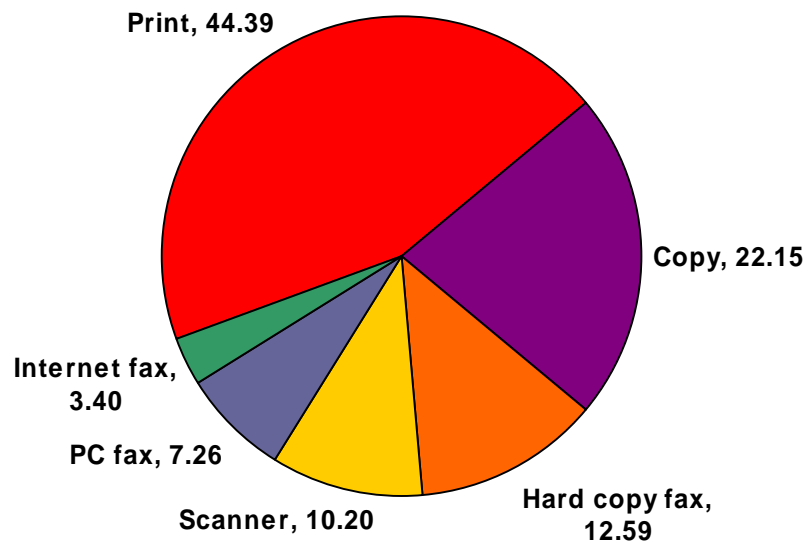


Frequency of Multifunctionality: Current/Future

Frequency of using multifunctionality (%)

Trend

Print Copy Hard copy fax Scanner PC fax Internet fax

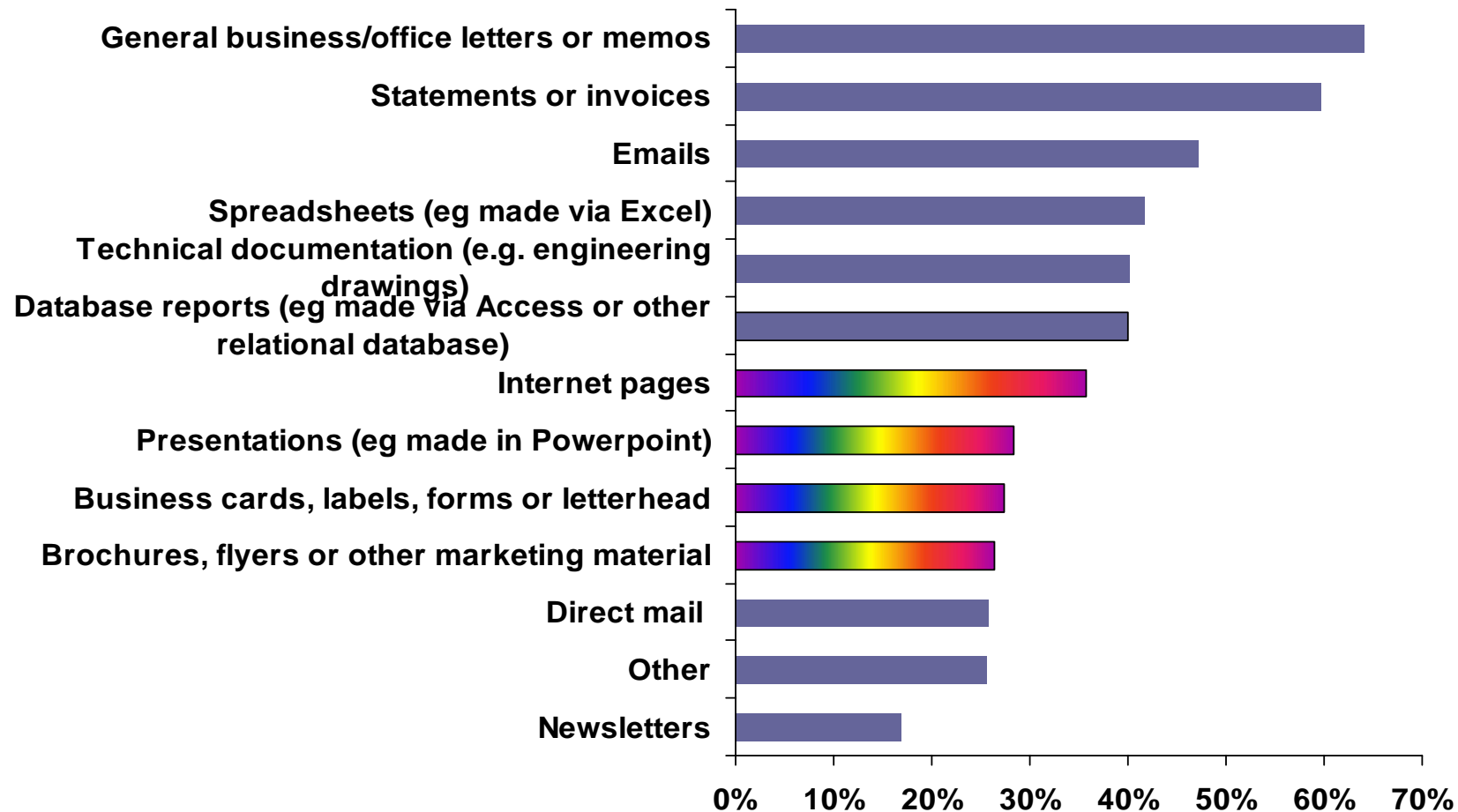


- Capture and “Scan to”
- Device Management
- Colour (HW costs close to B&W)
- Supplies Management

N = 199

Application-Based Print Usage

What of the following types of documents do you print most frequently? Please indicate the top 3.

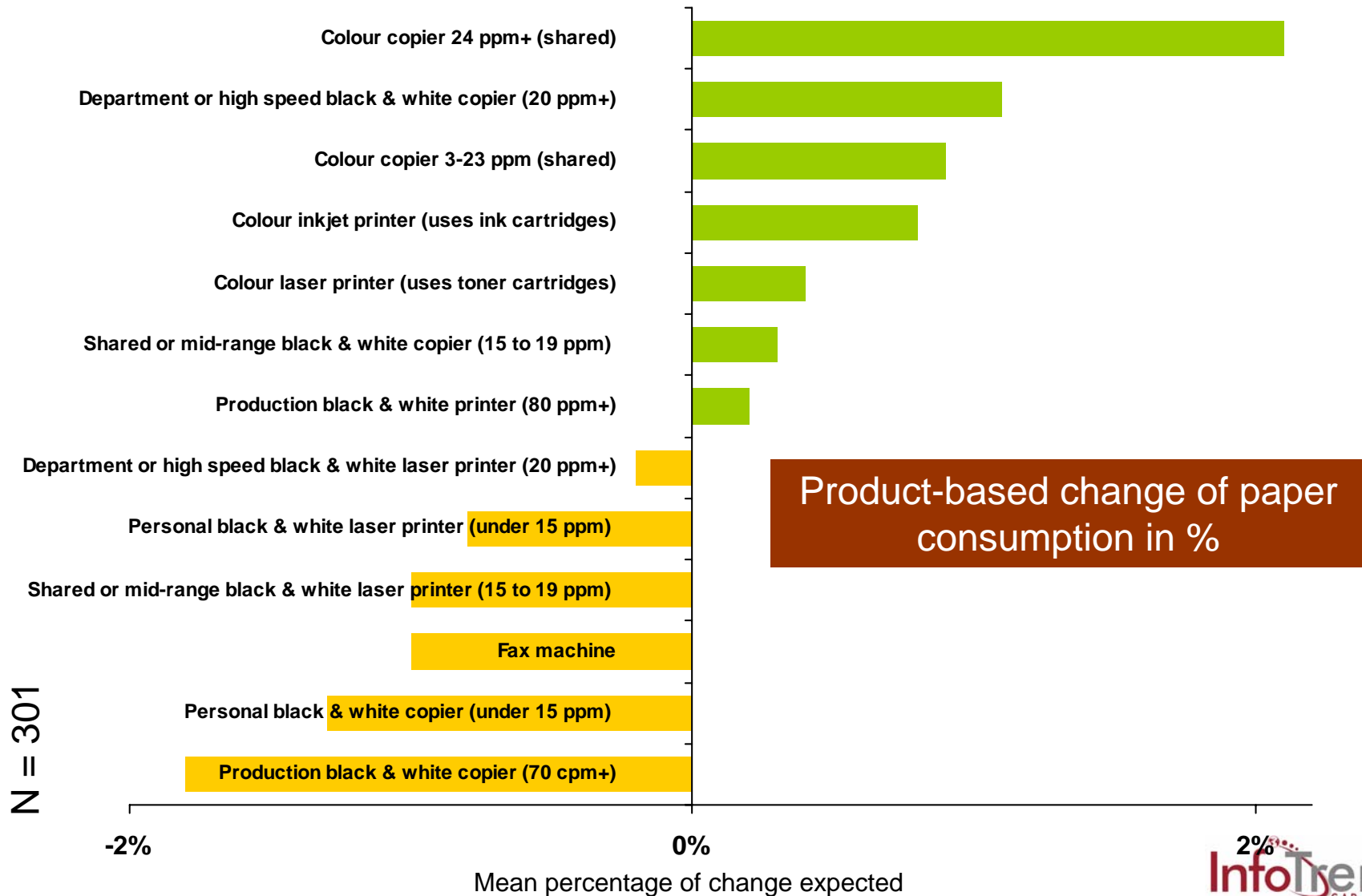


B&W applications threatened by electronic documents
Potential for colour applications

N = 207

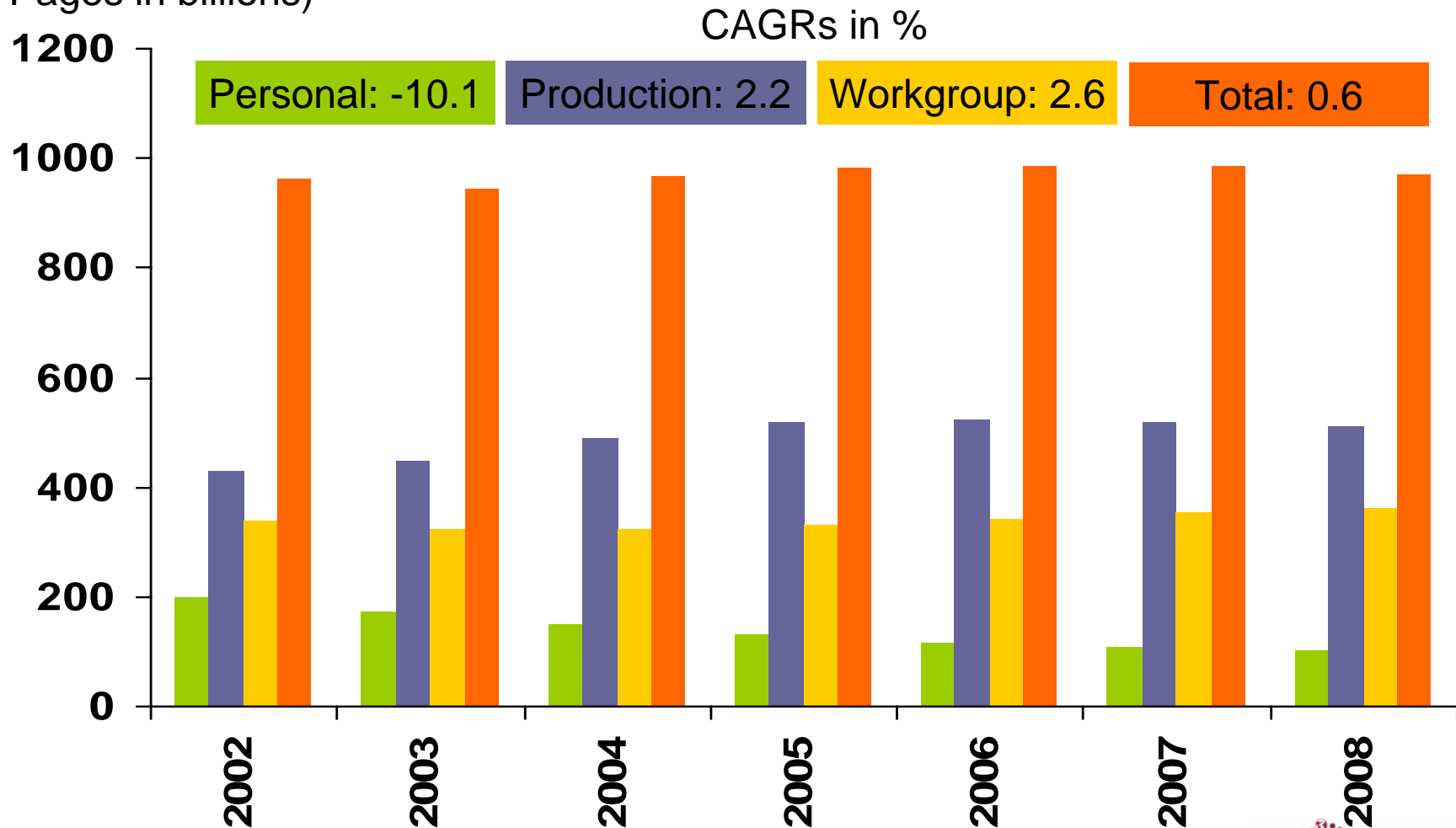
Change in Paper Usage

How do you expect your paper consumption to change in the next 12 months?



Western European Paper Forecast

(A4 Pages in billions)

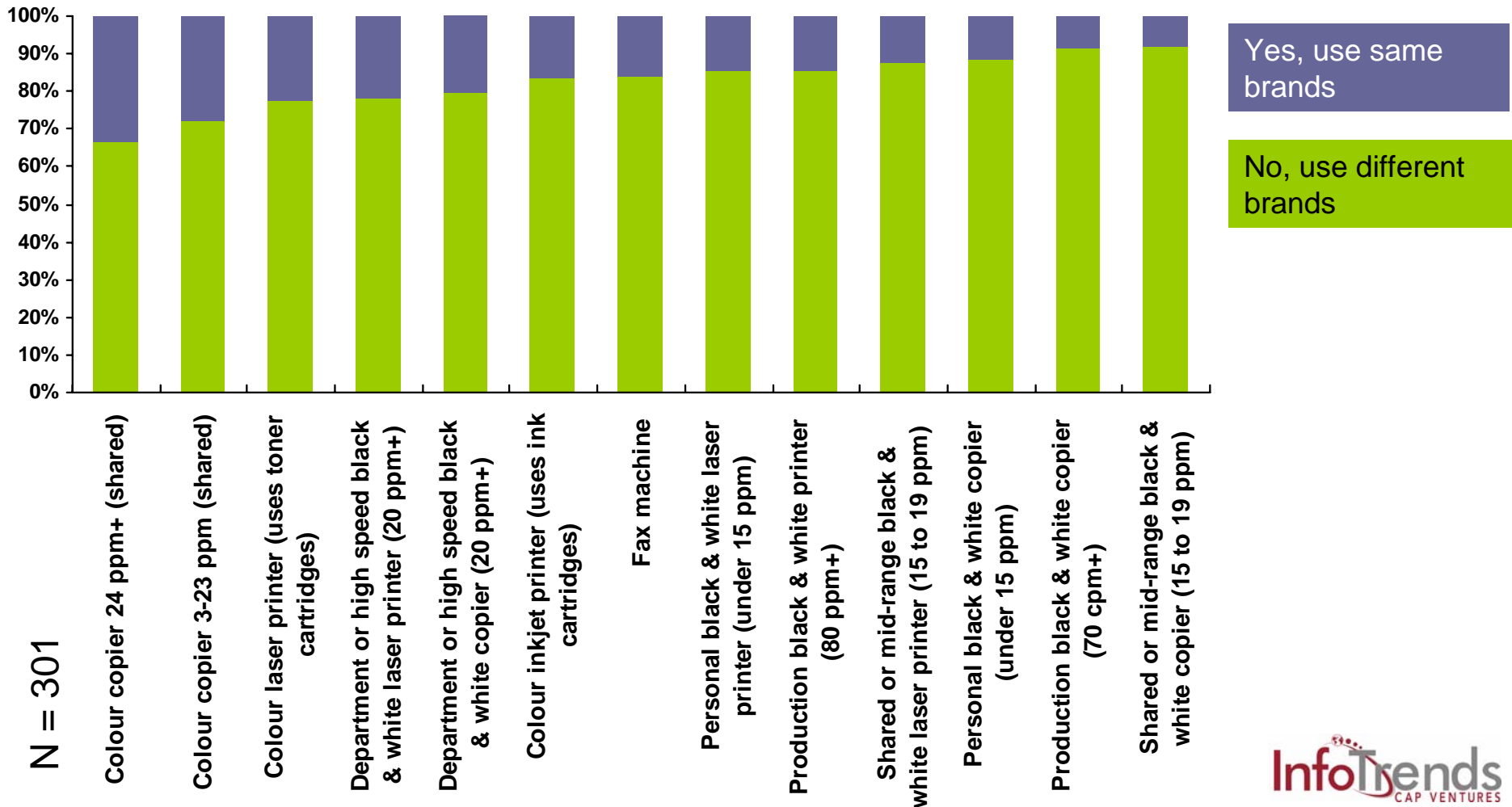


Paper Growth Enablers/Drivers

- Enablers
 - Installed Base
 - Multifunctionality
- Drivers
 - Network connectivity
 - Accessibility of devices
 - Ability to afford technology
 - Demand for information
 - Colour (added value)
 - Short-term paper usage

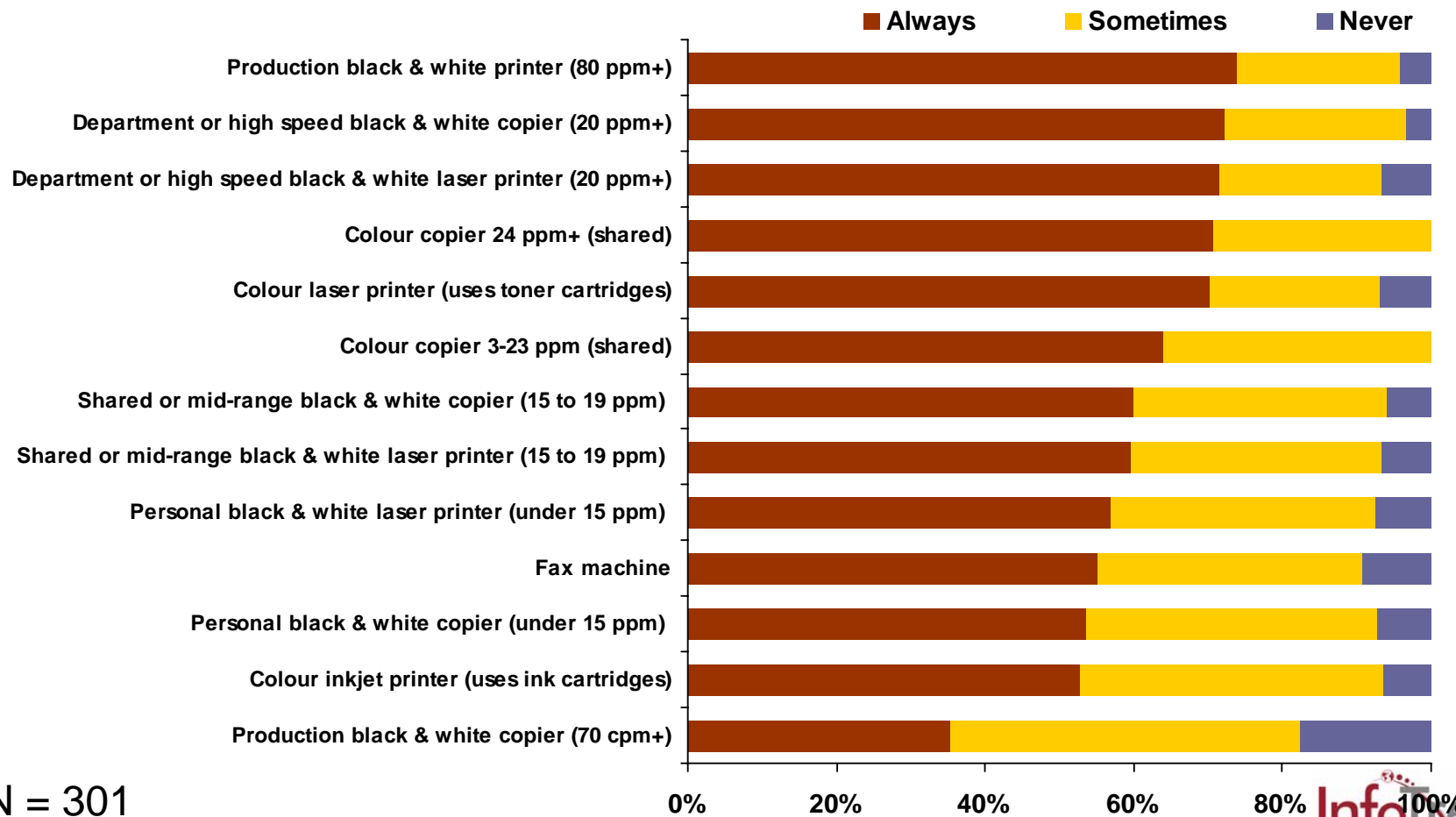
Whether Paper Brand is Same As Hardware Brands Used

For each of the office devices below, do you use paper that is the same brand as any of the brands of hardware that you use?



Whether Device Uses Same Brand of Cartridges as Any Hardware Brand Used

Do you use ink or toner cartridges that are the same brand as your hardware in the following type of devices?

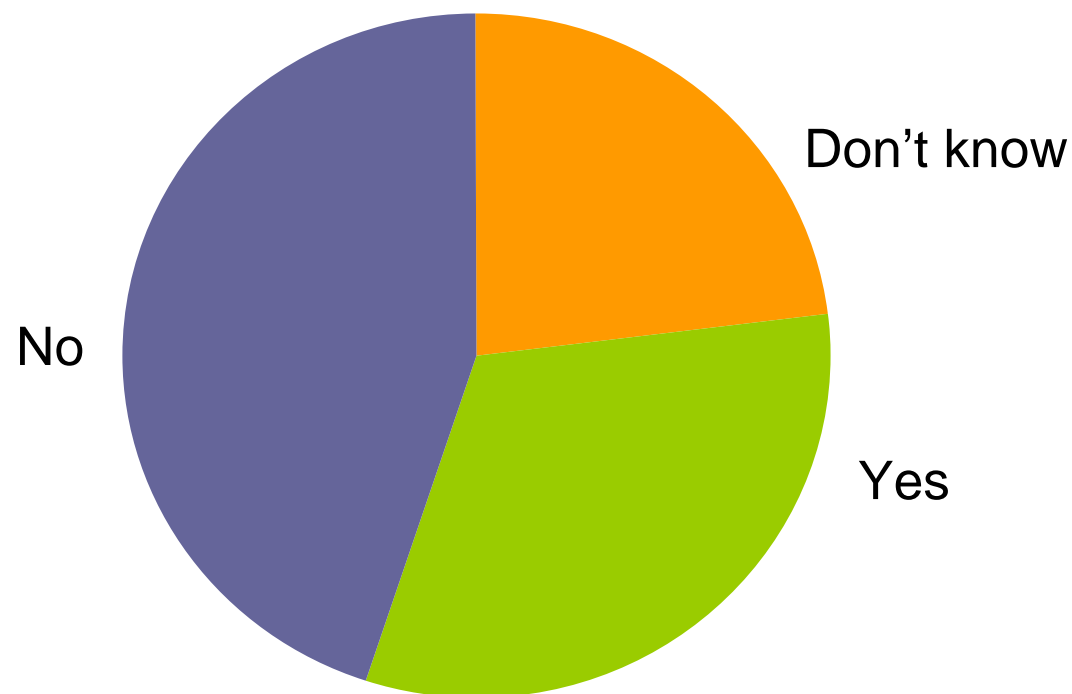


N = 301



Cost per Copy Contracts

Are you using a CPC (cost per copy) contract on your existing printer/copier device? Certain supplies and maintenance are included as part of a CPC agreement, but what is included may vary from supplier to supplier.



N = 209

Summary

- Paper consumption expected to grow in workgroup environments
- Offices expect colour equipment output to experience additional growth
- Offices demand more value-add features from multifunctional devices
- Office users choose non-OEM branded paper 2.5x more often than non-OEM branded cartridges

Conclusion

- Users expect to be using different devices in different ways over the next 2-3 years
- The industry needs to continue to find ways for users to add value to their documents to encourage the continued use of hardcopy



Requires more cost-effective colour supplies and presents the opportunity for value-added paper



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Thank You.....Any Questions?



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