



# Economic Instability: Impacts on the Cataloger

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**Verso simple.**



# Economic Instability: Impacts on the Cataloger

# Key Factors impacting the Catalog Segment



## Drivers

- Proven value of multichannel marketing (Print drives store and online traffic, multichannel shoppers spend more)
- Overall long-term growth trend for catalog mailings
- Consumers' growing acceptance of remote shopping
- Online privacy concerns

## Restraints

- **Weak economy / lower consumer spending / cash flow**
- Growth of the online channel/Consumers' increasing access to and comfort with computers and online shopping
- Higher production & distribution costs
- Market saturation (Crowded mailbox)
- Do Not Mail initiatives / legislation

From the list of restraints, the Weak economy / lower consumer Spending / cash flow is a growing concern headed into 2009

# Weak economy / lower consumer spending / cash flow



- Some of the more well known reasons why a weak economy significantly impact retailers and catalogers are:
  1. Reduced spending of cash by consumer
  2. Consumers who are worried about their jobs tend not to spend heavily
  3. Reduced value of home prices gives people less ability to take out equity loans to spend
  4. Reduced value of homes makes it less likely for people to buy a new house and furnish it
- This focus topic reviews some of the challenges catalogers face by virtue of their business model in these uncertain economic times (factors other than consumers inability or unwillingness to buy goods). Such as:
  1. Availability of cash / cash flow
  2. Instability of currency exchange rates
  3. Instability of the price of Oil
  4. Private Equity ownership

# The cash flow chain is long



Cash Out 2-6 mos

Purchase the merchandise from a manufacture or wholesaler



Cash Out 3-5 wks

Paper is purchased for the catalog



Cash Out 2 wks

Print is purchased for the catalog



Cash Out 1 wk

Distribution is paid to ship the catalogs to the consumer



Cash In 1 wk

Consumer orders the product and submits payment

# Availability of Cash has tightened



The TED spread is an indication of the availability of cash to a “would-be” borrower. The TED is calculated as the difference between the three-month T-bill interest rate and three-month LIBOR

- LIBOR stands for "London Inter-Bank Offered Rate." It is based on rates that contributor banks in London offer each other for inter-bank deposits. A LIBOR is a rate at which a fellow London bank can borrow money from other banks.
- A T-bill is a short term debt obligation of the US government that is purchased at a discount from face value--that is, they are bought at a discounted price

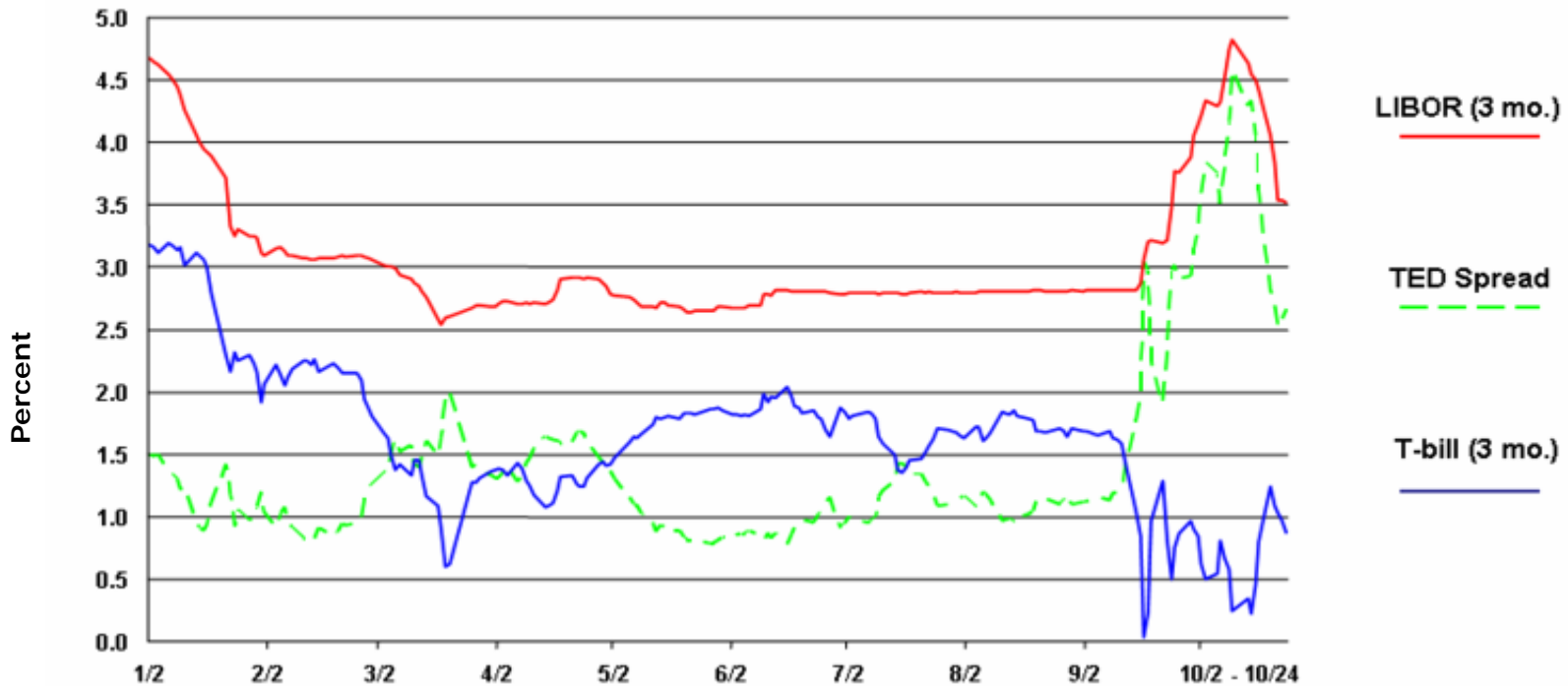
The size of the spread is usually denominated in basis points (bps). The TED spread fluctuates over time, but historically has often remained within the range of 10 and 50 bps (0.1% and 0.5%), until 2007. A rising TED spread often presages a downturn in the U.S. stock market, as it indicates that liquidity is being withdrawn.

# Availability of cash has tightened



When the TED spread increases, it is a sign that lenders believe the risk of default on interbank loans (also known as counterparty risk) is increasing. Interbank lenders therefore demand a higher rate of interest, or accept lower returns on safe investments such as T-bills.

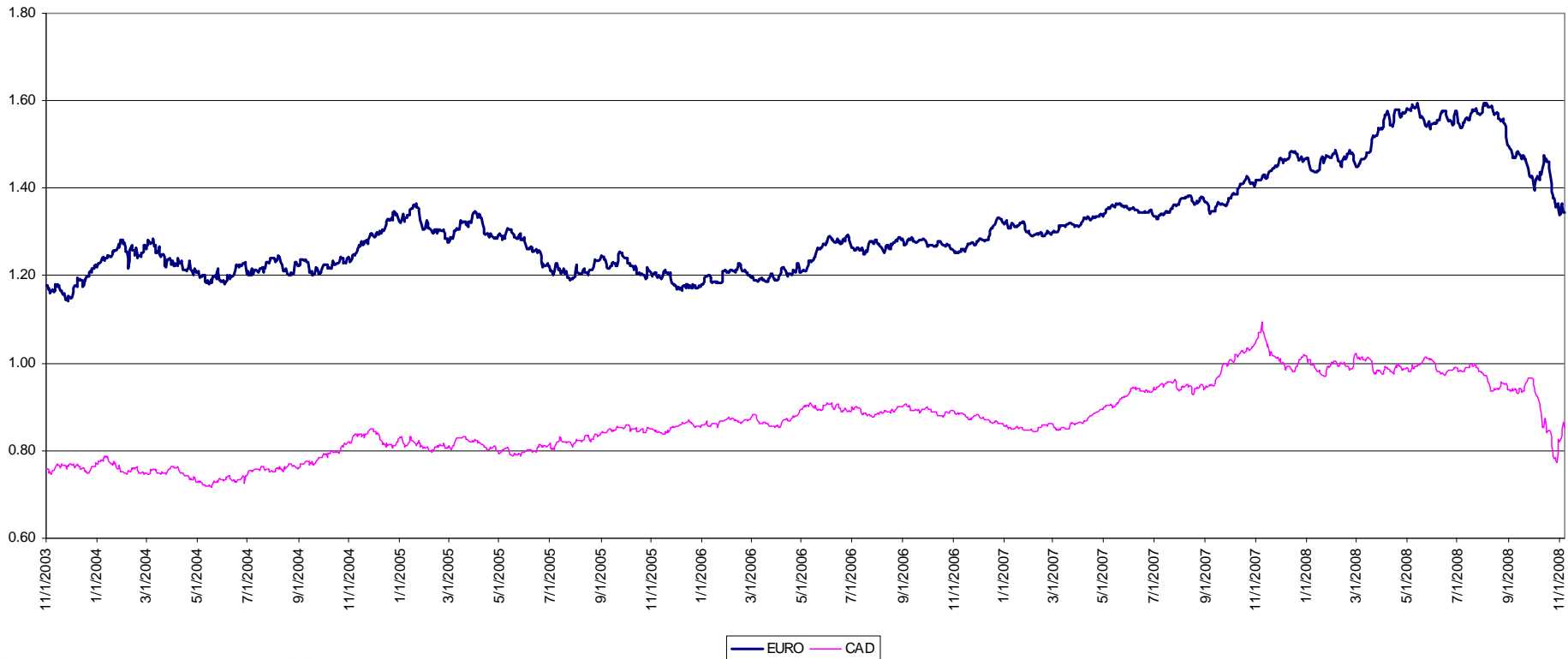
**Bottom line is those catalogers who need to borrow cash to sustain the business model may be challenged to get the money.**



# Currency Exchange Rates have been extremely volatile



Although the USD was forecast to gain strength, the rapid change in it's strength was largely unexpected. Because of this high uncertainty catalogers whom purchase their products overseas who are risk averse will hedge currency or budget very conservatively. This will temper growth plans since there will be less cash flow to fuel the growth.



# The Price of Oil is equally unpredictable



The price of oil has been on the freefall over the past several weeks. Key factors such as exchange rates, consumer confidence, and freight costs are closely tied to the price of a barrel of oil. This is further motivation for catalogers to remain cautious when building budgeting and spending plans.

Crude Oil (\$/bbl)



# Growing numbers of Catalogs are owned by Private Equity Groups



In the current financial market PE owned catalogers are not likely to see an infusion of money from their owners. Instead they are likely to be left to weather the difficult financial conditions on their own. The health of their balance sheets will determine if they can continue with growth plans. There is likely to be a large percentage of this group of catalogers who will delay any plans for growth as they focus on cost reduction.

Of the top 100 print catalogs of 2007, 6 are owned by private equity groups. One of those, Orchard Brands, is a very large conglomerate of catalogs owning 19 different titles. For these six PE owned catalogs or groups of catalogs revenues increased over 22% from 2006 to 2007 (all sales channels are included in these figures). Growth is almost certain to slow over the next several quarters.

# Budgeting Season Jitters



Catalogers are making budgeting decisions for 2009 while facing these uncertain financial times

1. Growth is much more difficult if not impossible, however growth in the right areas during recessionary times will lead to **share growth** as competitor's offer less and pull back from the consumer.
2. If the strategy for 2009 is to offer (to the consumer) and purchase (from the supplier) less product. The risk, of course, is long term and irreparable damage to **brand recognition**.
3. **Striking the right balance** between catalogs mailed and products purchased for sale is critical to avoid stock outs or being left with too much stock.