How to survive and gain market share in today’s aftermarket environment

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Confidential

The AM has surely seen less agitated times

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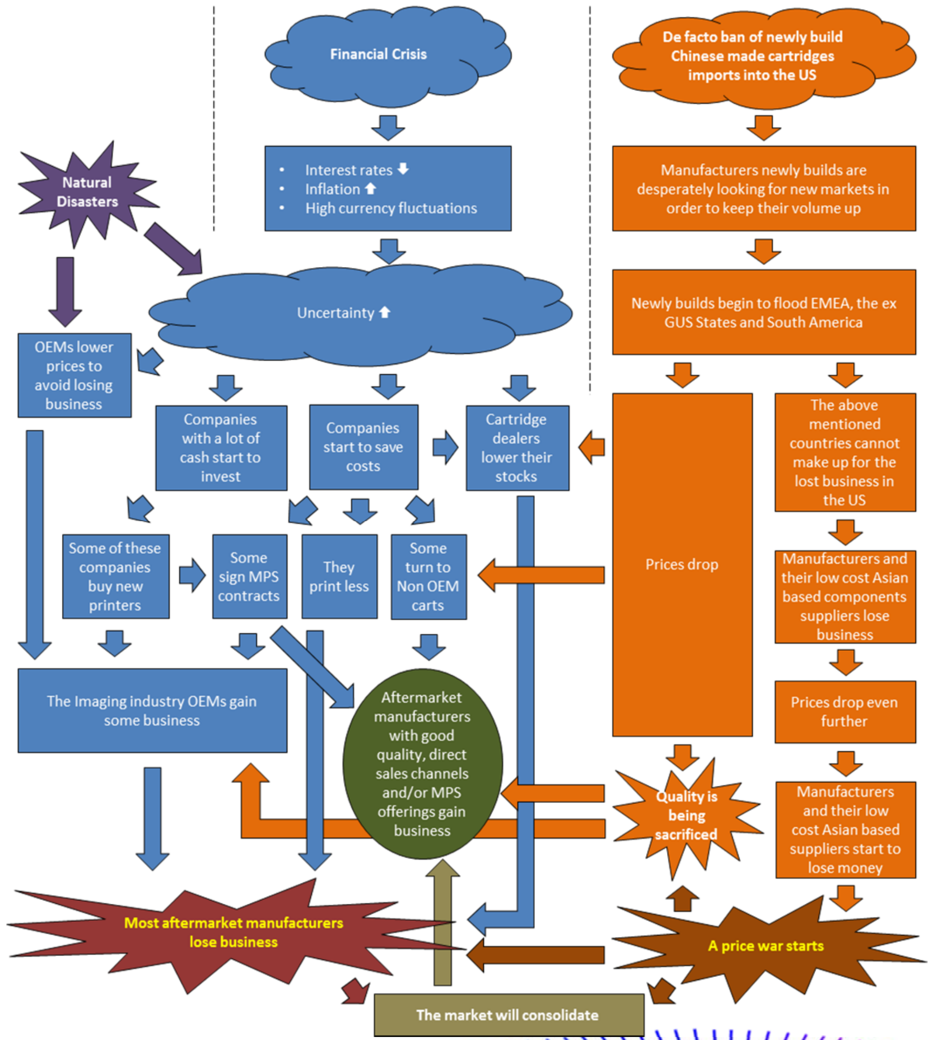
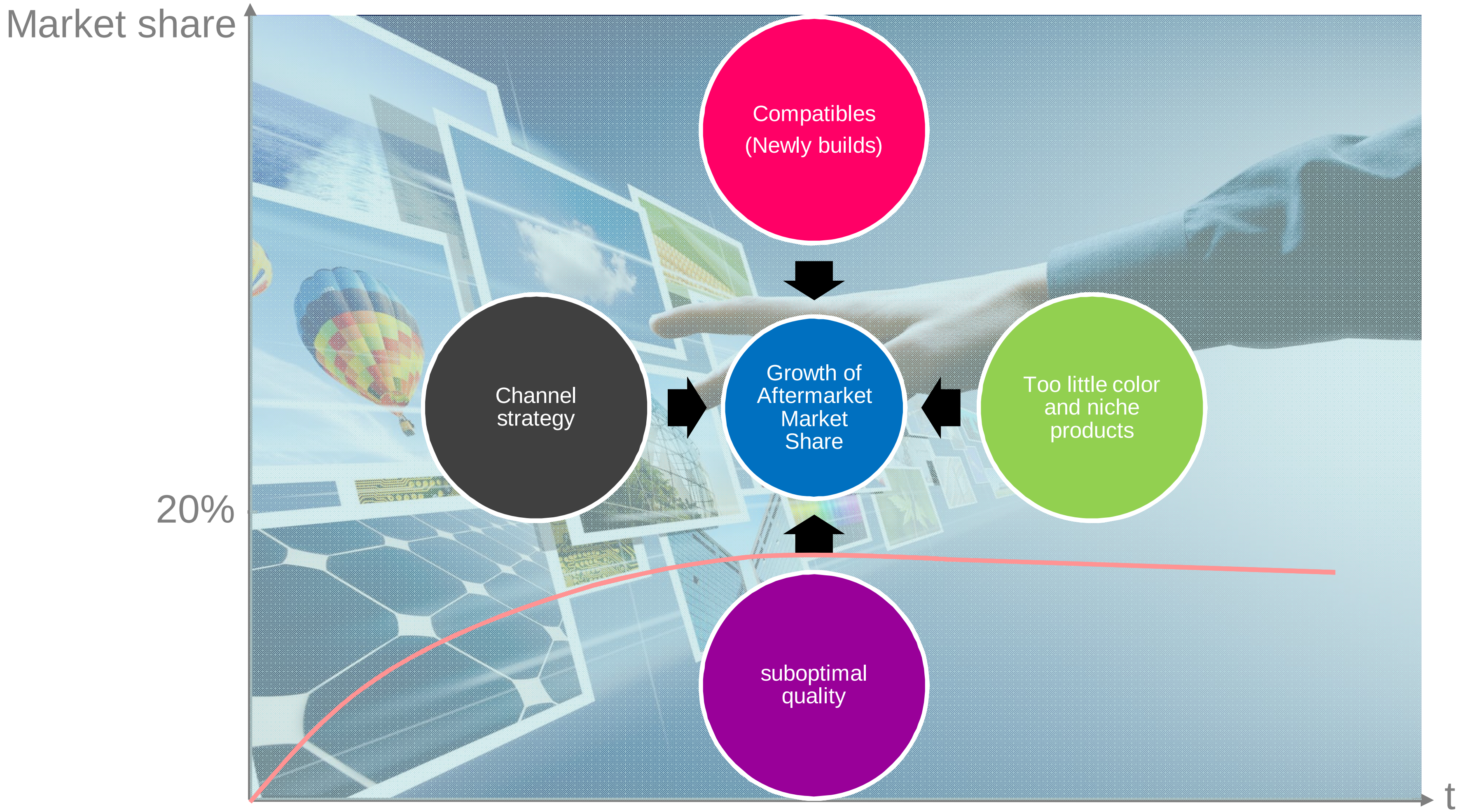
- **Current AM challenges:**
  - The current state of macroeconomic affairs in Europe leads to a lot of uncertainty which influences every business.
  - Current and past legal actions against AM industry giants in the US lead to shifts in the flow of cartridges and a lot of lost business for mostly Asian compatible manufacturers and remanufacturers.

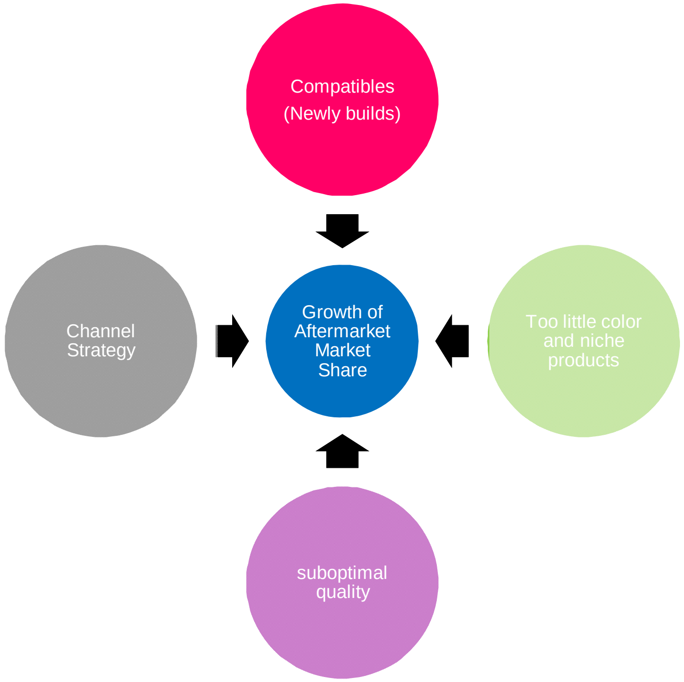
  ➔ Not all AM players are in a market and/or a financial situation to adequately cope with these challenges.



The biggest handicap for growth is the aftermarket (AM) itself



Compatibles are the route to failure



→ **In order to succeed long term the compatibles have to drop out of the market.**

- **Compatibles give ammunition for the OEM to attack and to start legal actions.**
- **Low prices only lead to even lower prices**
  - This price spiral will lead to being unprofitable.
  - Constantly having to lower prices is generating a lot of pressure on the manufacturers to save cost and to consequently lower quality.
- **Competition between remanufactured and compatibles.**
  - Newly build compatibles are usually made in countries that have a temporarily competitive advantage such as favorable exchange rates, subsidies, lower labour cost, etc.
- **There are no green credentials for compatibles.**
  - Compatibles use a lot of resources and cannot be remanufactured → they quickly end up as e-waste.
- **Newly build compatibles are the main target for the OEM in legal battles over IP. Which influences the reputation for genuine remans as well.**

Currently the focus is on the highly competitive mainstream products and price

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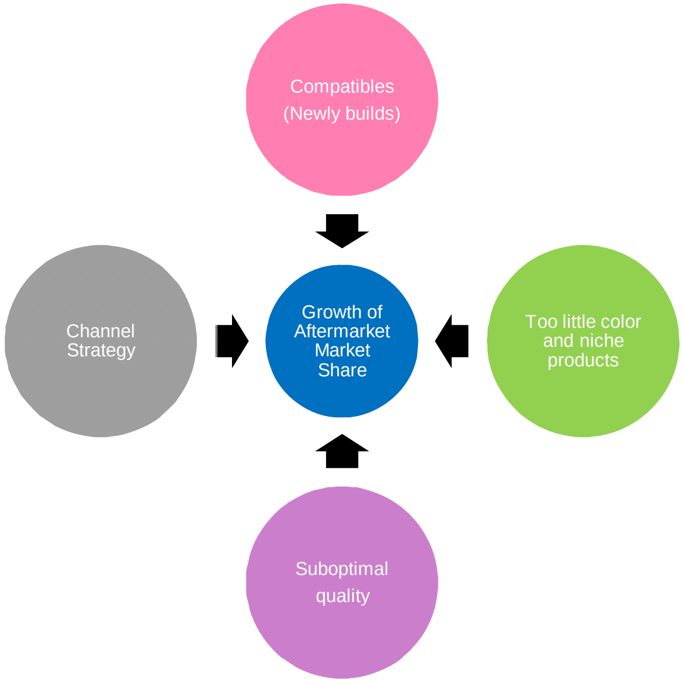

→ **In order to succeed long term the focus needs to be on color and niche products.**

- **Most dealer and remanufacturers only focus on high volume HP and Samsung monochrome cartridges with intense price competition.**
- **Higher margin is in the niche products such as:**
  - COLOUR CARTRIDGES – unfortunately, still a niche!
  - Branded high quality cartridges reasonably priced - unfortunately, still a niche as well.
  - Brother, Kyocera, Lexmark, etc.
- **A lot of remanufacturers are still reluctant to fully enter the colour market.**
  - They do not know how to build consistent good quality colour cartridges for all relevant OEM cartridges.
  - They are afraid to lose monochrome business if offering low quality colour cartridges
- **The window is wide open for the OEM.**

Let us have a look at colour cartridge customers …

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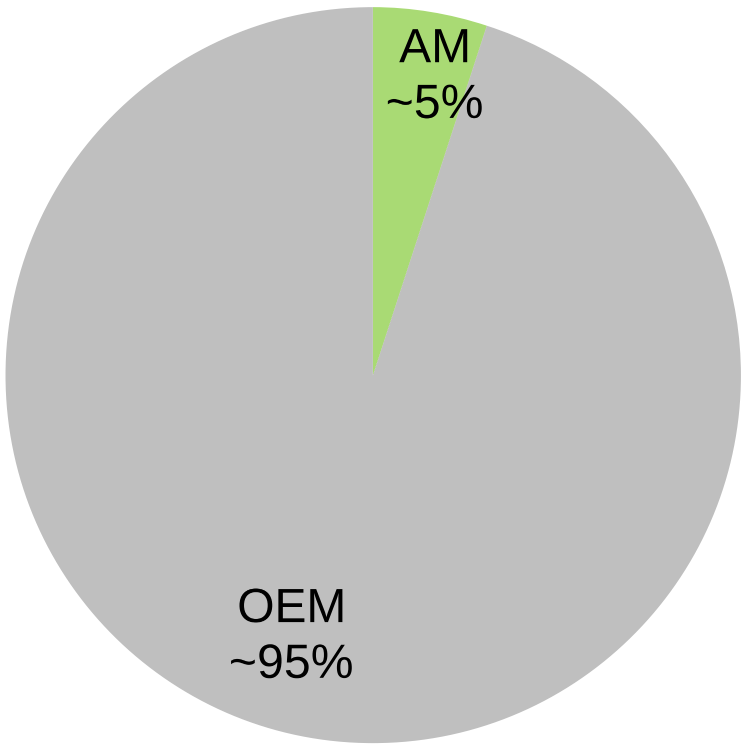
- **Growth is limited by:**
  - Poor quality of low priced cartridges available over the internet.
  - Focus only on price (savings > 50% against OEM) rather than on quality at a fair and still good price (saving of 15-30% against the OEM).
  - Applying the "monochrome" mindset to modern colour cartridges manufacturing and sales.

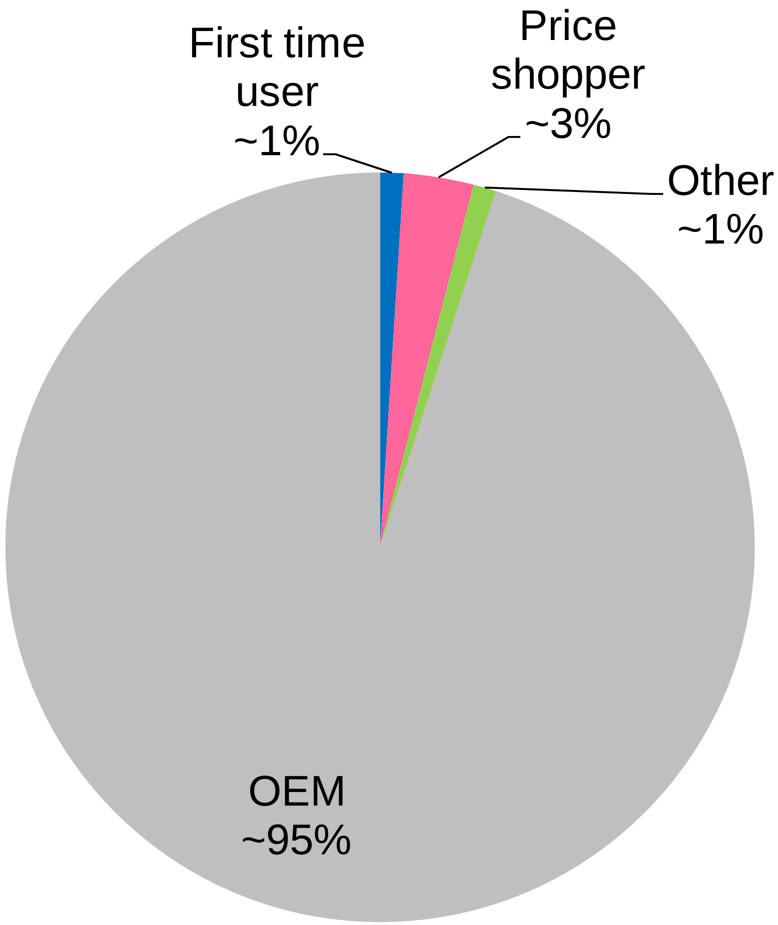
Market Share



Let us have a look at colour cartridge customers …

AM Split:

- Most current AM users are price oriented only.
- As for the first time user it is not clear if they get a hold of a good quality cartridge and keep on buying AM carts or if they get one of the larger percentage of inferior carts and are lost to the AM for a long period of time.
- The “Others” are actually mostly first adopters of quality AM offerings.
- BUT most users still buy the most expensive alternative → which is OEM carts.



Let us have a look at colour cartridge customers …

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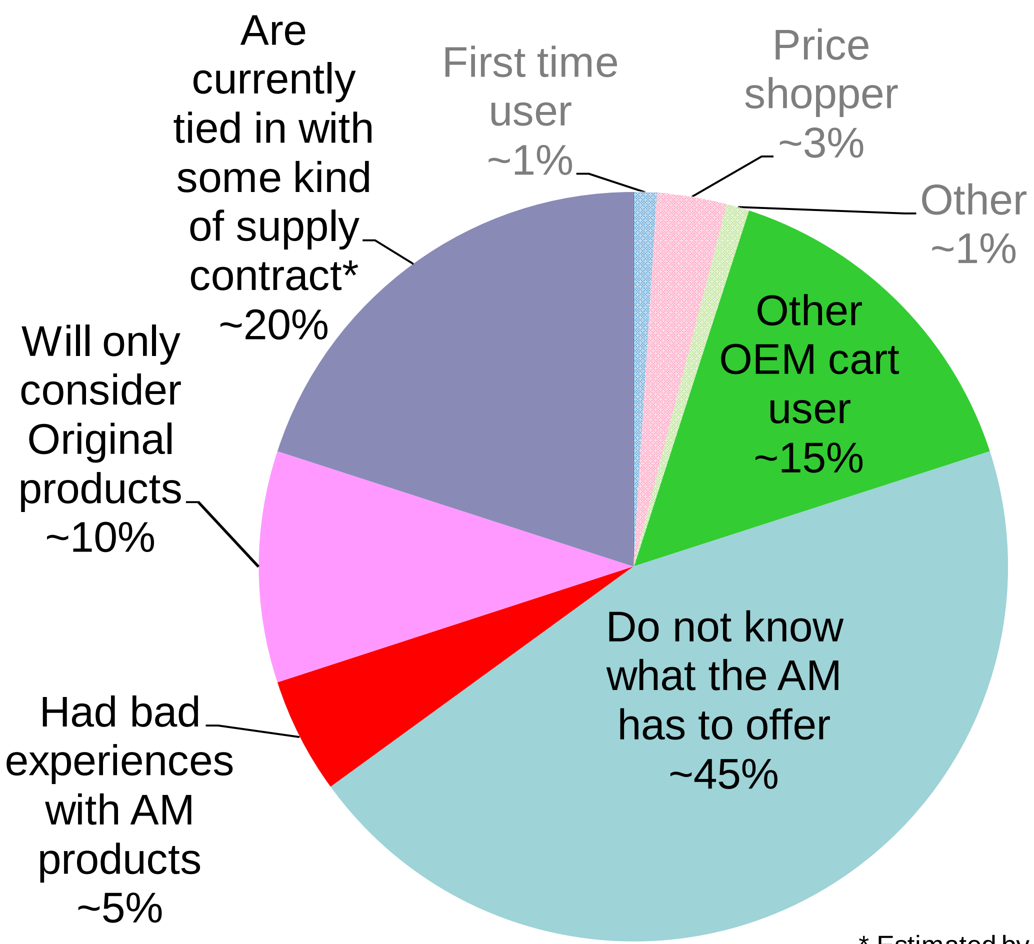
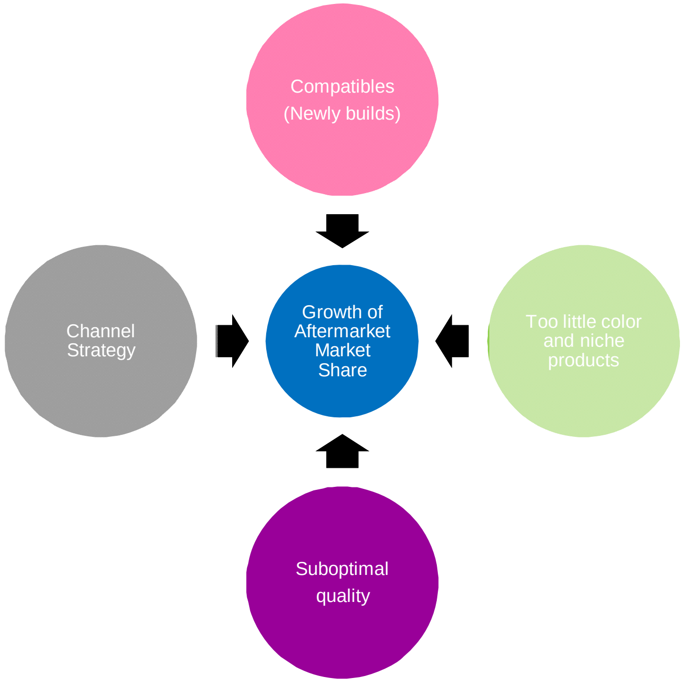
OEM Split:

- A lot of OEM cart users do not know the AM or the quality level of the AM.
- Benchmark markets show that the potential for the AM could be > 15% for colour and ~ 30% for monochrome.
- There will always be a big chunk of the market that the AM cannot serve → this is normal for an AM business model.



* Estimated by Photizo Group

Low quality kills the aftermarket



→ **In order to succeed long term cartridge quality needs to be improved.**

- **Because of multi cycle use of important OEM components the quality of aftermarket cartridges is not up to an achievable level.**
  - OEMs also experience price pressure and OEM cartridge components are of lesser quality than a couple of years ago.
  - Remember: OEM components are designed to survive one cycle plus safety margin only!
- **Use of cheap and inferior quality OPCs, toner and other components lead to poor cartridge quality.**
  - A lot of cheap Asian components are made for compatibles and NOT for empty OEM cartridges!
  - Good toner has a certain price because of the need for regulatory compliance and quality control.
- **Low quality aftermarket cartridges provide evidence for the OEMs to use in anti-aftermarket campaigns.**
- **An End-user with bad experience is a lost opportunity for the future.**

Proper sales channel selection is vital for long term success

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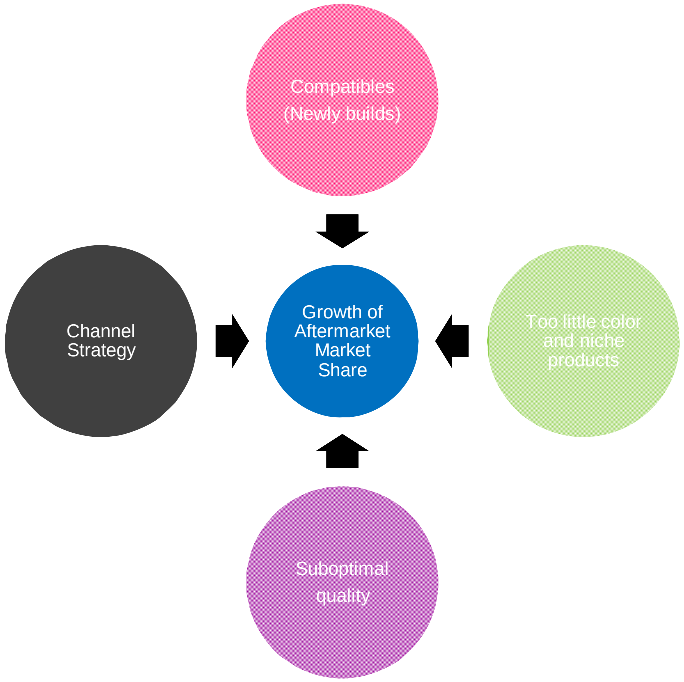
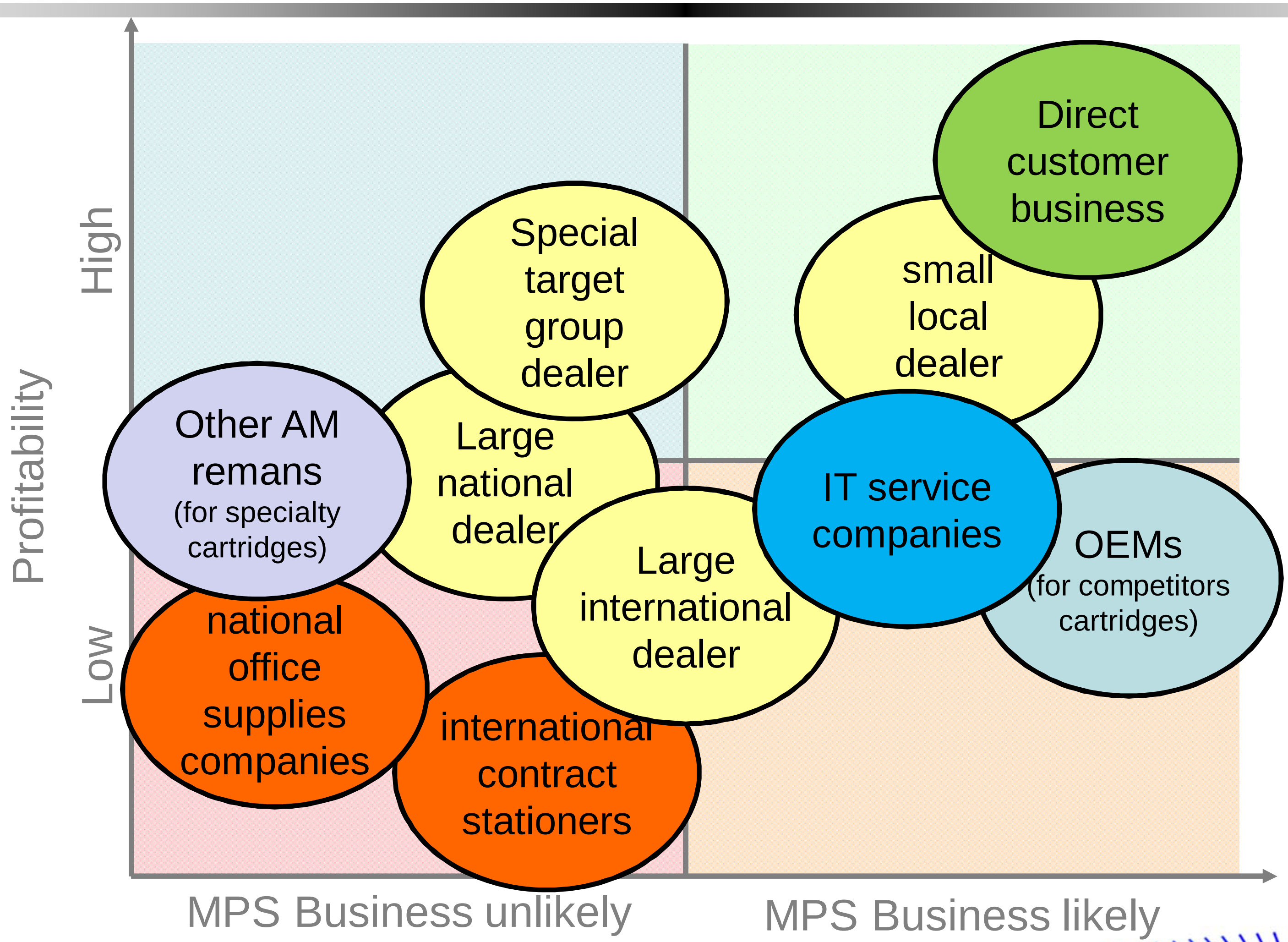


→ **In order to succeed long term the right sales channel needs to be chosen.**

- **The gravitation of mass volume attracts a lot of remanufacturers and all of the OEM.**
  - Contract Stationers, large Dealer, megastores, etc. are the prime target of the OEM and of large volume remanufacturers. Price wars and minimum tolerance contracts with penalties are squeezing AM players.
- **Without a strong brand, premium quality, a relevant product range including niche products and with no direct end user contacts the negotiating power is always with the intermediate dealer.**
  - In private labeling you are always just a tolerated partner that can be substituted relatively easy.
- **Access to MPS contracts requires tools and team work.**
  - Managing and maintaining a productive print fleet at low costs and maximum reliability requires much more than just good quality cartridges. Can your dealer help here?
  - Do not forget that heterogeneous print fleets cannot be turned into homogeneous ones by the OEM quickly, The AM could be a good source for competitors cartridges.

Where are you heading to?



In an AM business environment big is certainly not beautiful

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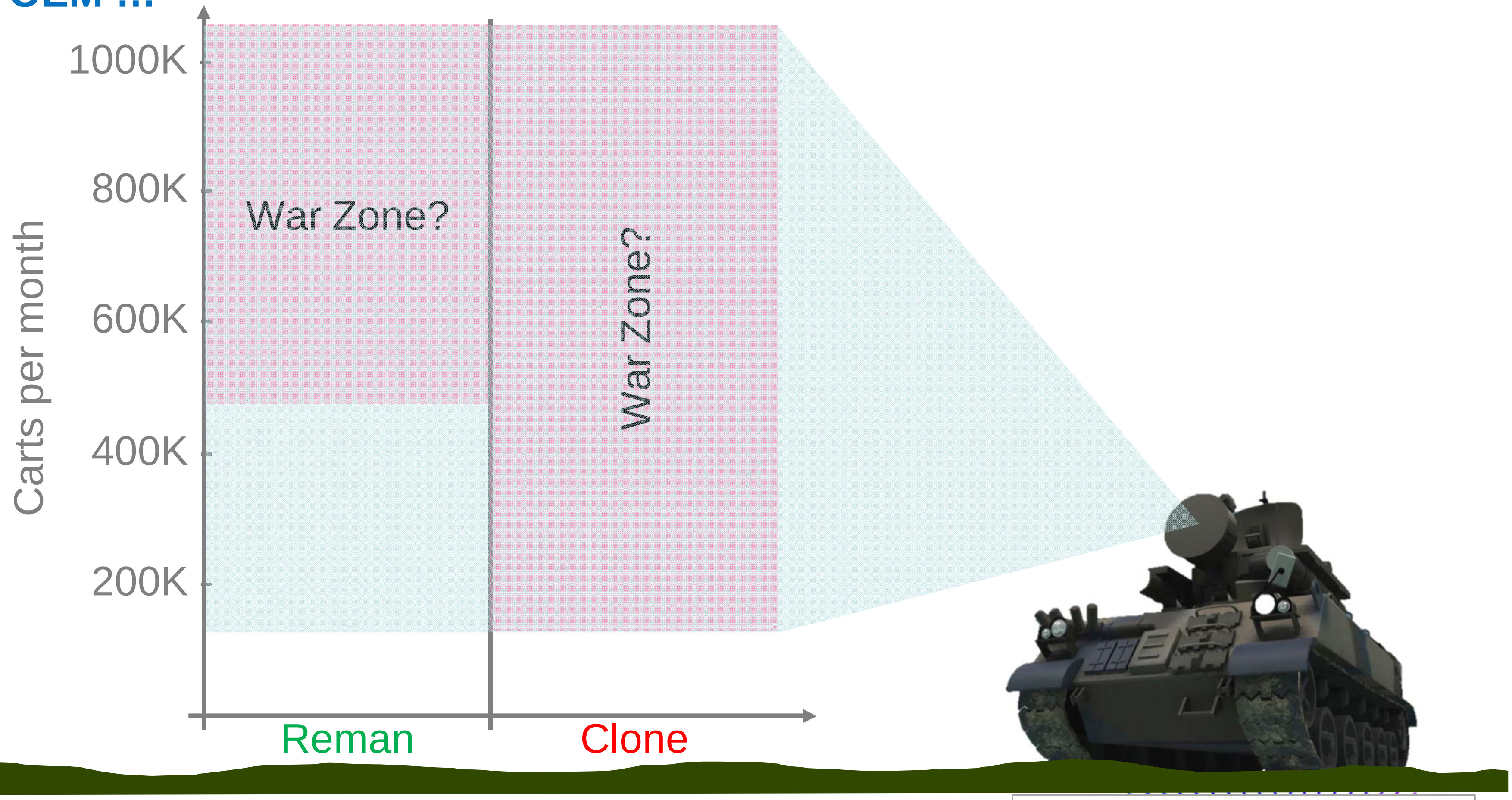
The 2010 and 2012 actions by the OEM suggest that there are certain battle lines for the OEM …



You can grow the aftermarket share!

What are the best shots we have to capture market share from the OEM?

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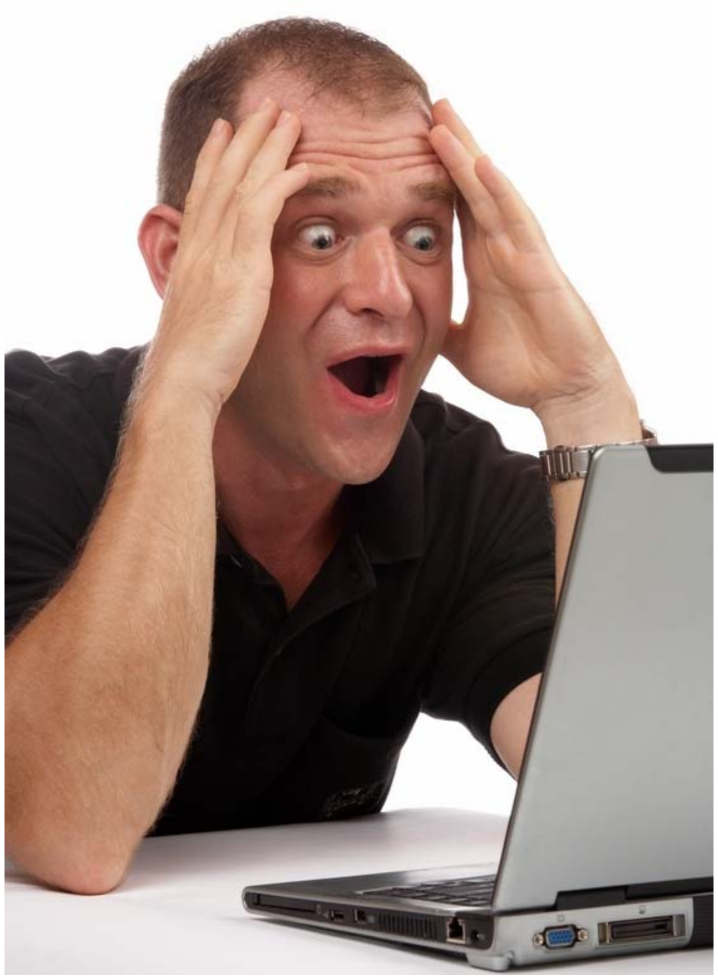
Price advantage	• The switching barrier varies. 15-30% seems to be fair value. • Low prices are often associated with low quality.
Comparable performance and quality	• World Class suppliers. • Availability of chemical toner just like the OEM. • Worldwide recognized standards. • Extensive testing as well as quality and regulatory compliance control.
True innovations	• Jumbo Cartridges (with enlarged Hoppers) well suited for MPS offerings. • Bio-based toner and bio-based plastics. • Conversion Kits to turn low value empties into high value cartridges.
Green credentials	• Refill instead of land fill. • Reuse is more favorable than recycling. • Better carbon footprint. • Eco Labeling (Blue Angel, Nordic Swan, etc,)



Any Questions?

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Thank you