



## How Overcapacity Is Changing the Office Imaging Industry

Charles Brewer  
BTA Mid-America Gateway  
to Success Conference  
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### Biography and Contact



**Charles Brewer** is president of Actionable Intelligence, a US-based market research firm dedicated to the digital imaging industry. With over 20 years covering business and technology, Mr. Brewer was an editor for *Inc.* magazine and *ComputerWorld* during the 1990s and later the managing editor of Lyra Research's *The Hard Copy Supplies Journal*. Launched in 2009, Actionable Intelligence has established itself as a thought leader in the digital imaging space. Its website, [www.Action-Intell.com](http://www.Action-Intell.com), has attracted hundreds of thousands of visitors from across the industry, including executives from OEMs, remanufacturers, 3<sup>rd</sup>-party supplies vendors, and specialty chemical makers, along with legal experts, financial analysts, and many other industry watchers. In 2015, Actionable Intelligence added 3D printing to its practice areas to help its hardcopy clients pursue the opportunities that additive manufacturing technology provides.



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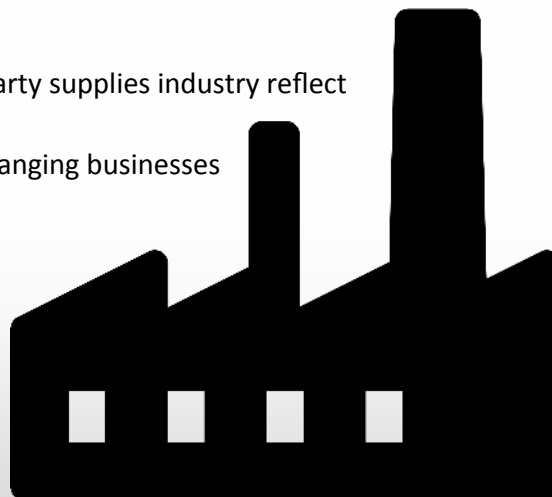
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## Agenda



1. Industry overview
2. Trends in the 3<sup>rd</sup>-party supplies industry reflect overcapacity
3. A look at OEMs' changing businesses



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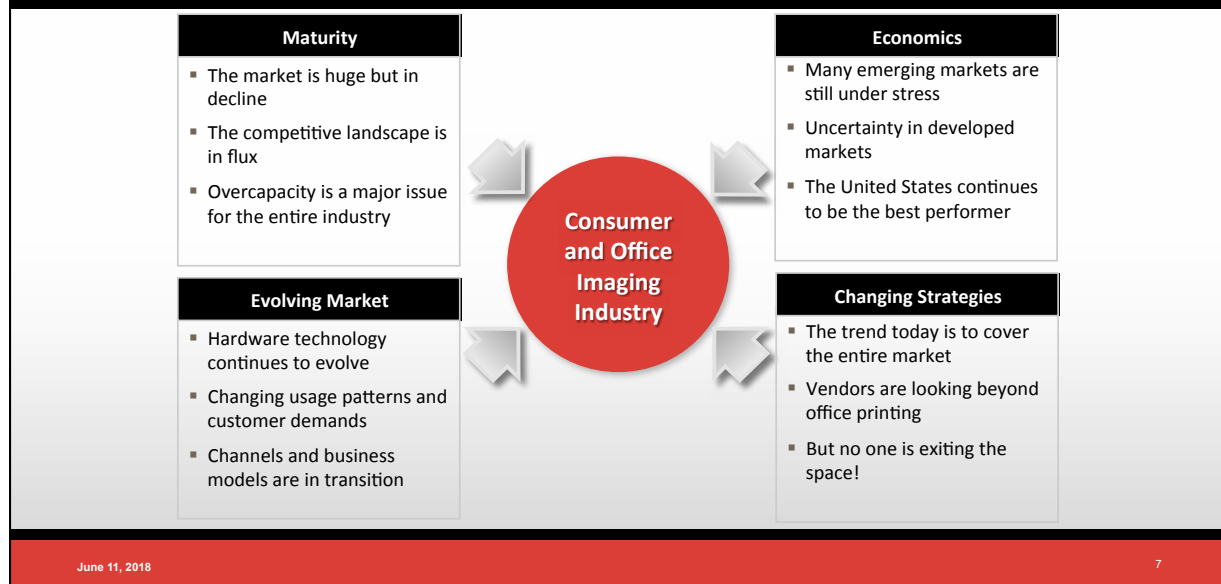
## Industry Overview

### The Industry Strengthened in 2017, but...

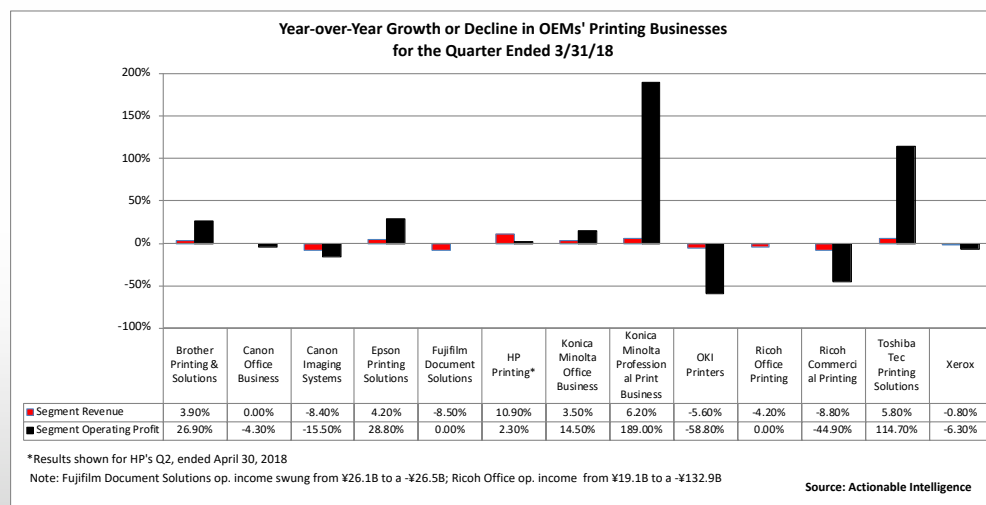


- Most hardware vendors said business improved in 2017, but reports are mixed in 2018
- Brother, Epson, HP, Konica Minolta, and Toshiba Tec experienced year-over-year revenue and operating income growth in their printing businesses during the period through March 31
- In the first three months of 2018, revenue and operating income fell for Canon, Fujifilm, OKI, Ricoh, and Xerox
  - Fujifilm and Ricoh saw profits from a year-ago completely erased and posted big operating losses
- Business conditions for North American 3<sup>rd</sup>-party supplies vendors remain harsh
  - Our research indicates that revenue is down at most large firms
    - New-build compatibles and OEMs continue to take market share and put pressure on prices
  - Mid-tier remanufacturers (<\$30M in annual sales) seem to be doing OK

## Forces Shaping the Industry



## A Chart Is Worth a Thousand Words



## There's More Good News Out of North America



- Hardware vendors continue reporting strength in the US market
- The healthy economy and rising employment fuels demand
  - The unemployment rate for May was 3.8%, which is the lowest it has been since April 2000!
  - 96% of 11,500 US-based employers polled in the latest Manpower Employment Outlook Survey said they will either increase or maintain staffing levels in Q2
    - Managers in all 13 of Manpower's industrial sectors plan to hire between April and June 2018
- Vendors continue to indicate that ASPs are increasing and the overall installed base includes a growing number of higher-volume units
  - Business and CISS inkjet units are growing along with color electrophotographic
- OEMs are taking market share from 3<sup>rd</sup>-party supplies vendors

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## 3<sup>rd</sup>-Party Industry Trends in North America

## North American 3rd-Party Supplies Industry Is in Flux



- The 3<sup>rd</sup>-party supplies industry in North America has evolved over the past 20 years
  - The industry is vastly different from what it was
- Less than 1/10<sup>th</sup> of the number of North American remanufacturers remain in business compared to 2000
  - Our 2018 survey indicates their business models are evolving
- Most companies outsource some percentage of their production
  - Many market so-called new-build compatibles as well as remanufactured cartridges
  - More remanufacturers offer value-added services and are looking for ways to offer more service
- Much of the North American remanufacturing industry's support infrastructure is gone
  - Only a few ink, toner, and component suppliers remain in the region
  - Empties collection programs for remanufacturers have been scaled back as more new builds hit the market
  - Regional industry trade shows, magazines, etc. have been shut down

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## Who's Growing and Who's Not?



- With a well-established and loyal customer base, mid-tier remanufacturers are doing OK
  - These firms have built strong relationships and deliver services that customers value
- Small remanufacturers, which greatly outnumber their larger competitors, can't grow organically
- Recent strategic acquisitions are not working out for the big guys
  - According to Moody's, Clover Imaging Group (CIG) carries just under \$800M in debt thanks in part from years of purchasing competitors
    - Weaker demand over the past few years has resulted in layoffs across the company as CIG consolidates its production in Mexico and lowers US production
  - To become a "one-stop shop" (hardware, parts, and cartridges) for dealers and VARs, LMI Solutions purchased a couple of printer distributors and Parts Now
    - Integrating the acquisitions proved problematic and the firm has lost various key customers
  - Turbon USA acquired Clarity Imaging and ILG in 2013, but revenue has been dropping in North America since 2015, which has dragged down the firm's total revenue
    - This year the company's European sales are expected to fall, too

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## Remans Will Continue to Feel Pressure



- Supplies distributors, wholesalers, and importers have taken share from remanufacturers
  - A number of distributors, such as ACM, LD Products, OnlineTechStores.com (Supplies Wholesaler), and others, now serve the market that once belonged exclusively to remans
  - Most supplies distributors market new-build compatibles, either exclusively or with OEM or reman cartridges
- As organic growth dries up, the consumables distribution channel is consolidating, which will place even more competitive pressure on remanufacturers in North America
  - Several years ago, XSE added Printer Essentials to its Image Star business
  - In 2016, Carolina Wholesaler Group (CWG) added Digitek Computer to Arlington Industries, Carolina Wholesaler, Digitek, Monroe Systems for Business, Smoltz Distributing, and other distributors it owns
  - Blackford Capital, which has a history of rollups, recently invested in OnlineTechStores.com this year, and we expect more investments to come
- Large MPS practitioners are acquiring their own in-house remanufacturing assets
  - DEX Imaging's internal remanufacturing unit produces its EcoPrint-branded remanufactured cartridges

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## Foreign Investment



- For years, the consolidation of the North American remanufacturing industry and its distribution channel has been driven by domestic investors
  - A few examples include Blackford Capital, Golden Gate Capital, Kayne Anderson Capital, and Reliant Equity Investor
  - Foreign investors have also put money into the industry, such as Mitsubishi Chemical, Turbon, Sun Chemical, and others
- Chinese firms have long demonstrated an interest in the industry and this will continue
  - Years before its Lexmark acquisition, Ninestar purchased US-based assets
    - With access to new compatibles, remans, and high-margin chips, its Static Control Components affiliate is well-positioned to thrive in the current market
  - Last year, the Taiwanese firm General Plastic Industrial (GPI) purchased Katun
    - GPI is a stakeholder in Color Imaging
  - Long-life consumables vendor Beijing Laser Hi-Technology has maintained a joint-venture with Partsmart for years
- Hubei Dinglong (which owns Mito) and Suzhou Goldengreen appear to be looking for investments
  - We're certain there are others

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## OEM Lawsuits Help Remanufacturers



- As more new builds enter the market, OEMs have become increasingly active in the courts and with the US International Trade Commission (ITC)
- A number of firms marketing new builds have been sued over the past five years
  - In February, Canon sued 49 different companies for infringing certain gear patents
    - Many companies have already settled but many have vowed to fight
    - This could be the Big One! Or maybe not—some vendors claim to have non-infringing workarounds
  - Canon recently sued a couple of small firms for infringing other patents
    - Maybe that's the Big One?
  - Epson is pursuing new-build compatible vendors online with multiple suits
  - Toshiba settled with Katun last year
- So far, OEMs have focused recent lawsuits on compatible manufacturers and their channel partners
  - But remanufacturers could also be sued in the future

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## OEM Performance



## OEMs Keep Tweaking Tactics and Strategies



- While there haven't been any seismic shifts in the competitive landscape this year, there have been interesting headlines and more change is coming
  - The Xerox and Fujifilm drama has played out in multiple acts, and there will be more!
  - Toshiba Tec is investigating accounting irregularities in Europe
  - Various lawsuits involving 3<sup>rd</sup>-party firms
- Vendors are looking for new ways to better penetrate small- to medium-size businesses (SMBs) with new hardware
  - Many of these new machines are designed specifically for MPS programs and often employ higher-yield consumables, special software, etc.
  - On the transactional side of the business, we saw a lot of new low-priced A3 devices hit the market over the past 12 months
    - The A3 color market is among the industry's most active
- OEMs are taking market share from 3<sup>rd</sup>-party supplies vendors
  - Programs like HP's Quick Silver are proving effective

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## OEMs Keep Tweaking Tactics and Strategies



- Copier companies have grown increasingly active in lower market segments
- Last March, Xerox had the largest product rollout in its history, launching 29 monochrome and color A3 and A4 printers and MFPs
  - There are signs that performance of the firm's hardware and post-sales businesses improved this year
- Canon filled out its A4 portfolio as the imageRUNNER and imageCLASS lines began to merge
  - For the past three years, the company has been increasingly active in the A4 laser market
  - In 2017, Canon provided more access of its A4 machines to its dealer channel
- Although they weren't released in one big launch, Ricoh introduced 21 new devices last year
  - One-third of the machines were A4 units priced under \$500, including two color MFPs
  - Ricoh is willing to compete on both acquisition and operating costs
    - The SP 377DNwX mono printer (MSRP \$195) and SP 377SFNwX mono MFP (MSRP \$365) have per-page costs (\$0.016) about half that of the competition's machines
    - Based on a Kyocera platform with long-life drum units, the A4 mono SP 5300DN, SP 5310DN, MP 501SPF, and MP 601SPF operate at just over a half-cent per page and MSRPs for the machines range from \$1,229 to \$4,499

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## Printer Vendors Look to Move Upmarket



- As copier makers attack the sub-\$500 market, traditional printer firms are releasing higher-end devices
- Lexmark was quiet in 2017, but it did introduce the CS and CX 920 lines of A3 color printers and MFPs
  - Pricing for the machines starts at \$2,699 and runs to over \$10,000
    - Machines use a 3<sup>rd</sup>-party print engine—probably from Fuji Xerox
  - The new A3 units follow the 2016 debut of various A4 units priced over \$10,000, including the XC8160, which was released with a \$25,996 price tag
- Samsung was also quiet in 2017 but did release the ProXpress C4012ND A4 color printer (\$2,699) and C4062FX A4 color MFP (\$4,699)
- Brother punched through the \$1,000 mark with the four-function MFC-L9570CDW, which was introduced at \$1,249.99
- OKI will limit its office devices and look for more opportunity with “industrial” units

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## HP Seems on Track to Take Share in the A3 Market



- Targeting contractual markets, HP started shipping its first A3 LaserJet machines featuring Samsung engines last April
- Over the course of the last year, the firm released a number of A3 units
  - The new color lasers included the Color LaserJet Managed MFP E77822, E77825, and E77830 along with the E87640, E87650, and E87660 A3 color MFP models
  - The mono A3 MFP machines include the LaserJet Managed E72525, E72530, and E72535 and the E82540, E82550, and E82560 lines
  - HP's Canon-based A3 LaserJets are doing better than expected through transactional channels
- HP also launched a number of A3 units based on inkjet technology
  - The PageWide Managed P75050 A3 color inkjet printers and the PageWide Managed MFP P77740, P77750, and P77760 series A3 color inkjet MFPs are for contractual deals
  - The PageWide Pro 750 printer family and the PageWide Pro MFP 772 and 777 lines of MFPs are for transactional channels
- Look for resellers to clamor for more A3 transactional devices if the Samsung and inkjet machines are popular

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## OEM Business



- In 2017, Brother's Printing and Solutions (P&S) business accounted for 57.8% of total company revenue and 69.0% of company operating profit

- Total P&S sales up 7.4% in FY2017
- Laser hardware sales were up 17% and consumables sales were up 3%
- Inkjet hardware sales up 4% for the year and supplies sales were up 6%

- The firm says the P&S group's revenue and operating profit will be down 5.1 and up 3.3 percent, respectively

- Canon turned its business around in FY2017
- In FY2017, the Office business's revenue grew 3.2% and operating profit was up 6.6%
  - MFD sales were up 2.6% and laser printer sales were up 5.8% in FY2017
    - -5% B&W MFDs, 10% color MFD
    - 0% B&W printers, 4% color printer
- Inkjet printer sales were up 1.4% and unit shipments grew 1%
- Office sales forecast to grow 3.9% this year and OP up 30.4% on strong consumables sales
- In Q1 FY2018, MFD and laser printer sales declined 1.4% and 2.1 percent, respectively, and inkjet print sales dropped 4.5%.
- The firm continues to forecast revenue and profit growth for the year

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## OEM Business



- Epson managed to grow its revenue and business profit last year, but operating and net profits declined
  - Revenue grew 7.5% in FY2017 but OP fell 4.3%
- Printing Solutions sales were up 7.3% and inkjet printers revenue climbed 8.7%
  - Falling cartridge sales were offset by sales for high-capacity ink tank printer.
- The company says revenue will decline in 2018 but profits will increase

- Fujifilm total revenue increased 4.8% but OP dropped 24.1%
- Document Solutions revenue fell 3.1% as operating income plunged 83.1%
  - Operating income margin contracted from 7.6% in FY2016 to 1.3% FY2017
  - Revenue fell for Office Printers, Production Services, Solutions and Services, and Other
  - Sales volumes of printers were down due to scaling back on Fujifilm's low-end printer business
- Fujifilm projects modest revenue growth in the present fiscal year and a bounce back in operating income, but lower net income

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## OEM Business



- In fiscal 2017, HP's printer business improved modestly
  - Commercial hardware revenue slipped 1.5% and consumer hardware revenue was up 2.6%
  - After 15 consecutive quarters of declining supplies sales, consumables revenue was up 10% over Q4 and grew 4.6% for the year
- Supplies revenue has remained strong this year as overall sales have surged
  - In H1, supplies sales were up 9%
  - Commercial hardware revenue jumped 27.1 percent and consumer revenue was up 6.9%



KONICA MINOLTA

- Konica Minolta managed a better-than-expected fiscal 2017 with total revenue up 7.1% and OP up 7.4%
- The Office Business had revenue growth of 4.6% exceeding Konica Minolta's outlook
  - Sales of office products such as MFPs and consumables was up 3.6 percent but the OP margin was down 0.2% to 7.7%
  - For the full year, Professional Print grew revenue 5% and OP was up 12.4%
- For the year ending on March 31, 2019, Konica Minolta forecasts revenue to grow 4.7 percent, with operating profit up 11.4% and net profit up 14.7%

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## OEM Business



- OKI's net sales fell 3% for the year ending March 31, 2018 as operating income skyrocketed 203.4% and net profit climbed 25.6%
- Transitioning its Printer business from office devices to "industry" printing products, OKI's Printers segment had a 3.1% drop from the previous year, which was better than forecast
  - Operating income was up 170 percent and the operating margin grew 0.9 percent to 2.5 percent
- Net sales and operating income for the year ending in March 2019 are expected to grow 2.7 percent and 81.3 percent, respectively, while net income falls 15.1 percent
  - For the Printers segment, OKI projects full-year net sales of ¥105 billion, down 3.6 percent, and operating income of ¥3.5 billion, up 29.6 percent

OKI

RICOH

- Last year, Ricoh's total revenue fell 1.9% as sales in the Americas fell 5.2%
- The firm had record losses last year as hardware margins sank
  - Office Printing revenue dropped 1.9 percent due mainly to a 5.2% drop in America sales
    - The US market declined due to changes in its sales channel structure
    - Slumping supplies in EMEA added to the decline
- Printer shipments fell by 16% and MFP shipments decreased by 3%, as A3 MFPs fell 6%
  - A4 MFP shipments, however, grew 4%

Rico's forecast that revenue for the year ending in March 2019 will drop 4.4%

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## OEM Business



- In fiscal 2017, Toshiba Tec's net sales were up 3.2% as OP jumped 67.6% and business grew in its Printing Solutions group
- Printing Solutions net sales were up 5.8% as operating income climbed 114.7% and operating income margin more than doubled to 3.7%
- Toshiba expects net sales to decline 1.3% this year as operating profit declines 26.7% and net profits fall 54.3%
  - Printing Solutions revenue is forecast to rise 4.5%, with operating income up 30.1%

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- Last year, total Xerox revenue dropped 4.7% and the operating margin was up 0.3% to 12.8%
  - Equipment sales fell 6.9% and post-sale revenue was down 4%
- Hardware sales in Q4 suggest that the firm's turnaround strategy may be starting to work
  - Entry A4 color MFP installations were up 32% and B&W up 34%
  - Midrange color machine placement were rose 14% and B&W advanced 1%
  - High-end color installations were down 5% and B&W were down 10%
- Revenue is forecast to improve 2% to 4%

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## Key Takeaways



- Hardware vendors are having a mixed year and forecast lower revenue worldwide
- Most firms, however, have indicated that the US market is the strongest
- Conditions for North American remanufacturers are harsh as new-build compatibles continue to penetrate the market
- The Top 3 remans in the region are experiencing declining revenue and other difficulties
- Things are better for mid-size and small remanufacturers and revenue is flat to growing
- OEMs are actively pursuing companies that manufacture infringing compatibles and their channel partners
- New OEM channel programs are taking market share from 3<sup>rd</sup>-party supplies vendors
- Copier and printer OEMs are competing toe-to-toe especially for the small- to medium-size business market
- Contractual market continues to grow modestly but we expect to see new transactional opportunities

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**Questions?**  
**Ask me about our North American reman study!**

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