TULLY & HOLLAND

INCORPORATED

The Demand Index

Direct Marketers | Demand & Circulation

2014 First Quarter Analysis

Performance by Industry
Q1 2014 Demand vs. Circulation Analysis
Demand Momentum Analysis
T&H Conclusions

Tully & Holland has been collecting and reporting circulation and demand data from direct marketers since January 2011. Each week these companies, with sales ranging from $5 million to $400 million, confidentially send T&H weekly demand and circulation figures compared to the prior year. Each week the group's aggregated results are reported to the participating companies. This broad measure provides those companies a Demand Index by which they can measure their individual performance.

The following analysis reflects demand and circulation performance for reporting direct marketers during Q1 2014.

2014 First Quarter Analysis

First Quarter 2014 year-over-year growth was relatively flat, with participating Demand Index companies reporting 0.4% demand growth on a 0.4% circulation decrease during the period. Although aggregate statistics might suggest a steady market, a cross-sectional analysis of performance at the industry and company levels reveals a more variable depiction of the group's most recent quarter's performance.

Following a strong close to Q4 2013, Demand Index companies faced a soft January, during which aggregate demand fell 7.3% compared to the prior year, with 7 of the 15 companies reporting declines of 10% or more. However, the group pushed back toward flat demand versus Q1 2013 during February and March, led by impressive rebounds for companies in the B2B and Multi-Category Consumer Product segments.

When the dust settled at the end of Q1 2014, median aggregate demand marginally increased versus Q1 2013. However, individual company performance was skewed toward the negative, with greater observed levels of demand declines than demand increases. While 8 of the 15 companies posted positive demand growth compared to the prior year, only 1 company reported a rate greater than 10%, and 4 companies reported declines greater than 10%.

Variance in circulation was even more widespread. While 7 of the 15 companies reported increases in circulation, 6 companies reported an increase of 10% or more and 5 companies reported a decrease of 10% or more. Further analysis confirms a correlation between participating companies' circulation and demand growth rates, as well as continued evidence of year-over-year demand momentum (see following relevant sections for in-depth discussion).

Performance by Industry

In the following chart, participating Demand Index companies are sub-divided into five categories which best represent their respective industries. Since the sample size of the sub-categories is small, the findings are not statistically significant; however, we believe the sample is directionally indicative of the strengths and weaknesses of the various segments. Results reflect median growth rates for companies in each category.

	Median YTD Change					
	Demand			Circulation		
	Q1 2014	Q1 2013	Q1 2012	Q1 2014	Q1 2013	Q1 2012
Apparel	-12.5%	-10.7%	13.6%	-20.3%	18.3%	15.2%
Home & Accessories	-6.5%	-1.3%	13.5%	13.6%	-12.4%	6.8%
Multi-Category	6.4%	0.7%	2.9%	13.6%	3.6%	-3.5%
Hobby	1.8%	3.7%	-9.3%	5.8%	6.7%	5.8%
B2B	4.0%	10.6%	6.7%	-2.1%	4.4%	-19.8%
Total	**0.4%**	**3.7%**	**4.8%**	**-0.4%**	**3.4%**	**-1.2%**

Source: T&H Demand Index Analysis

The **Apparel** category faced another substantial year-over-year decline in demand, down 12.5% during Q1 2014, reflecting a second consecutive Q1 period of pull-back following the strong growth reported in Q1 2012. After an aggressive expansion in circulation yielded unsatisfactory results during the beginning of 2013, apparel companies decreased circulation by 20.3% during Q1 2014 presumably to bolster profit margins.

After a period of strong growth during Q1 2012, **Home & Accessories** companies had a second consecutive Q1 period of demand pull-back during Q1 2014, down 6.5% from the prior year. The most recent quarter of negative demand growth comes despite a 13.6% increase in circulation, which indicates increasing pressure on profit margins for companies in the category.

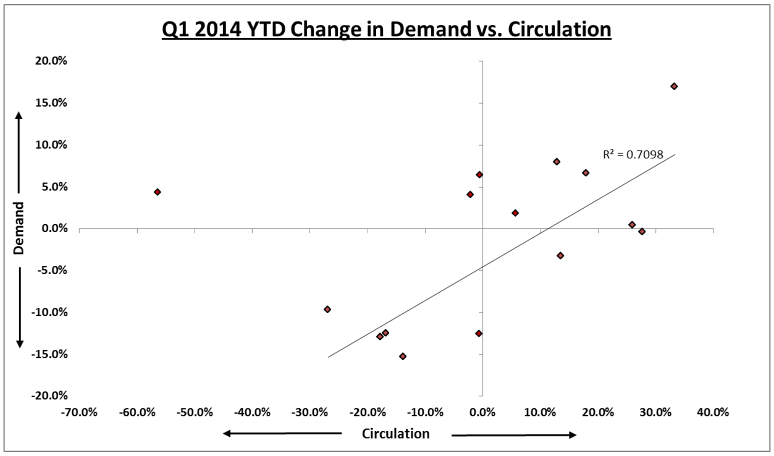
After a period of anemic growth during Q1 2013, the **Multi-Category** group ramped up circulation in Q1 2014 by 13.6%, and subsequently delivered a 6.4% increase in demand. The group's third consecutive period of Q1 demand growth also represented the strongest performance of the five demand index categories for this period, although demand growth continues to lag the increase in circulation.

The **Hobby** category posted 1.8% demand growth in Q1 2014 on top of the 3.7% demand growth it achieved during Q1 2013. However, 3-year demand growth in the category has been negative despite increases in circulation. Since 2011, Direct Marketers in the category have increased circulation by 19.4%, while total demand has decreased 4.3%.

The **Business-to-Business** category continued its robust growth during Q1 2014, with demand increasing 4.0% during the period despite a 2.1% decrease in circulation. The category was down 14.6% year-over-year in January, but came roaring back to surpass Q1 2013 demand with all category participants posting double-digit growth during March. The rate at which demand growth has surpassed the rate of change in circulation points to increasing growth in profitability for companies in the Business-to-Business category.

Q1 2014 Demand vs. Circulation Analysis

Analysis of the relationship between circulation and demand for participating Demand Index companies during Q1 2014, not surprisingly, shows a correlation between the two variables. As one would expect, with the exception of one significant outlier, Demand Index companies that increased or maintained the level of circulation from the prior year reported stronger relative demand performance than those companies that aggressively decreased circulation.



Source: T&H Demand Index Analysis

This trend is considerably more statistically significant for companies that chose to increase or decrease circulation by greater than 10%, for which the R-Squared coefficient jumps to 0.71.

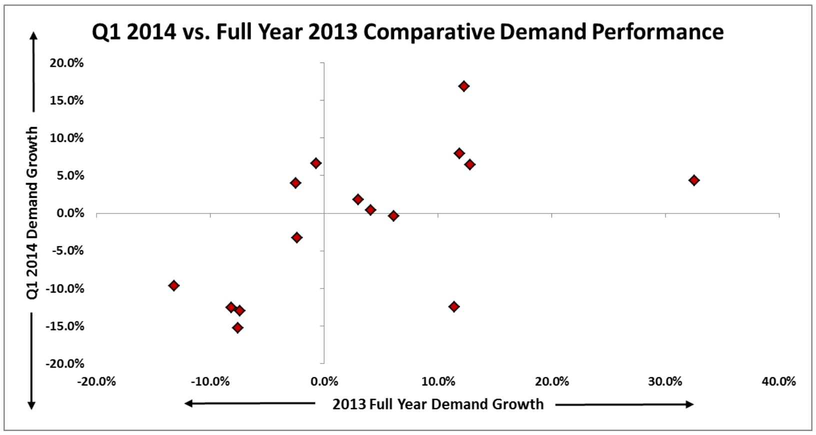
In the lower left quadrant, we saw several companies decrease circulation significantly after increases in 2013 circulation failed to yield positive demand growth. The subsequent decrease in Q1 2014 circulation has contributed to negative demand trend for these companies, and they must carefully balance the risk of decreasing circulation and the resulting decrease in demand moving forward.

In the upper right quadrant, the strongest YTD growth was generated by companies that reversed poor Q1 2013 demand with aggressive circulation increases. Several other companies that posted respectable, but marginally lower, YTD demand growth increased circulation at a more conservative rate in order to steadily build on Q1 2013 growth.

Regression analysis for the period shows that for every 1 percentage point direct marketers changed circulation, they were able to change demand by 0.4 percentage points. This represents a substantial decline in the marginal utility of changing circulation from prior years, when we measured 0.6, 0.5 and 0.56 percentage point changes in demand for every 1 percentage point change in circulation during 2011, 2012 and 2013, respectively.

Demand Momentum Analysis

In the past we have observed the impact of prior-year momentum on demand growth during Q1 periods. In Q1 2014, we once again observed this trend, the examples of which are seen in the lower-left (negative demand momentum) and upper-right (positive demand momentum) quadrants of the graph below. We also dug a little deeper to understand the anomalies amongst the group, where prior-year demand momentum was reversed, which are observed in the upper-left and lower-right quadrants.



Source: T&H Demand Index Analysis

In Q1 2014, we observed the profound impact of negative demand momentum on first quarter performance. Five of the 7 companies that ended 2013 with negative demand growth continued to report declines in Q1 2014. Further, 3 of those companies reported a Q1 demand contraction greater than that of the prior year. As previously noted, this is primarily explained by companies decreasing circulation in response to poor prior-year performance, which perpetuates the negative trend.

The two companies in the upper-left quadrant that reported significant demand growth in Q1 2014, following negative growth in Q1 2013, did so by aggressively increasing circulation during the most recent quarter to combat a poor prior-year performance.

Of the 8 companies that reported positive year-end demand growth in 2013, 6 of them reported a demand increase in Q1 2014.

The only company to report a significant decrease in demand during Q1 2014 following growth in FY 2013, seen in then lower-right quadrant, did so as a result of a significant decrease in Q1 2014 circulation.

Finally, the two companies that reported flat (+ or – 0.5%) demand growth in Q1 2014 did so following prior years of stellar demand growth, which made prior year performance more difficult to beat.

T&H Conclusions

Our analysis illustrates the different effects that changes in circulation can have on direct marketers' demand under varying business conditions.

Companies posting positive 2013 demand growth that increased or maintained circulation in Q1 2014 were able to increase or maintain (+ or - 0.5%) prior-year demand during the period. Conversely, of the companies posting negative 2013 demand growth, we observed examples of companies that perpetuated the negative trend in Q1 2014 and companies that were able to halt this decline.

Companies that broke the negative trend benefited from both internal and external mechanisms. While positive demand growth was influenced by increased circulation, the companies also belonged to product categories that produced relatively strong quarterly results. Overall, the companies that posted the weakest quarterly results were affected by a combination of decreasing circulation and operating within poorly performing overall product categories.

In summary, our analysis confirms industry-wide sentiment that changing circulation, while still effective, is having a less significant impact on driving demand than it has in prior years.

If you would like to participate in the Demand Index and receive weekly reporting, please feel free to contact me.

Stuart Rose I Managing Director
T 781-239-2900 x17 I M 617-653-6393
srose@tullyandholland.com

CLICK HERE FOR TULLY & HOLLAND DEMAND INDEX CHARTS

Tully & Holland, Inc.
Investment Banking for Consumer Product Companies
Food & Beverage, Direct Marketers, Retailers, Manufacturers & Distributors
www.tullyandholland.com
(781) 239-2900