

TULLY & HOLLAND

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The Demand Index

Direct Marketers | Demand & Circulation

2013 Second Quarter Analysis

Performance By Industry

Demand vs. Chain Store Sales

Tully & Holland has been collecting and reporting circulation and demand data from 20 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. Tully & Holland also records monthly sales data from 13 retail chains which it shares with select clients.

The following analysis reflects demand and circulation performance for reporting direct marketers during Q2 2013.

Slowing demand experienced during Q1 2013 spilled over into Q2 2013 but showed signs of a rebound as the quarter progressed. The +1.8% increase seen in Q1 2013 was offset by a -0.7% decrease in Q2 2013, impacted by April's poor results, -3.2% versus year-ago, and relatively flat results in May and June. Year-to-date demand in Q2 2013 ended at +0.5%. Despite a lackluster first half, there are preliminary indications of recent top line momentum as demand in the last two weeks of June increased sequentially.

Q2 2013 highlights by industry sector include continued Home & Accessories and Apparel industry demand decline, despite increased circulation in the latter sector, and continued increase in demand for the B-to-B category versus year-ago levels.

Details by company reflect 9 reporting direct marketers generating demand gains in the 2nd quarter, 3 of which were double digit increases. Of the 11 companies experiencing declining demand, 3 had double digit decreases versus a year ago. Cumulative year-to-date results through June show 11 companies of the 20 surveyed experiencing increasing demand, 5 by more than 10%.

Circulation growth slowed within Q2 2013, -1.0% versus year-ago, with 4 companies decreasing circulation within the quarter by 10% or more. Eleven companies increased

circulation cumulative year-to-date, 7 by more than 10%. Nine companies decreased circulation versus year-ago, 5 by more than 10%.

Performance By Industry

In the chart below, the 20 companies surveyed 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.

	Average YTD Change			
	Demand		Circulation	
	2013	2012	2013	2012
Apparel	-4.4%	5.0%	8.0%	7.0%
Home & Accessories	-6.3%	5.6%	-7.8%	0.9%
Multi-Category	2.1%	2.2%	-1.7%	-10.7%
Hobby	3.0%	-2.2%	7.0%	2.3%
B2B	8.1%	11.6%	14.0%	-10.2%
Total	0.5%	4.7%	2.6%	-1.6%

Source: T&H Analysis

The **Apparel** category's demand remains soft. Within Q2 2013, demand was down -6.6%, as year-to-date demand within the category dropped to -4.4% despite an 8% increase in circulation. This trend follows a strong 2012 for the apparel category.

The continued strengthening of the housing market has not translated into increasing demand for the **Home & Accessories** category. Year-to-date demand for this category is down -6.3% through Q2 2013. The second quarter's demand is down -4.5%, following Q1's decline of -8.3%. While circulation is down -7.8% through the first half, operators within this sector appear to be moderating their rate of circulation decreases. Q1 circulation was -11.7% and Q2 was -1.4%.

The **Multi-Category** group reported an increase in demand of +2.1% alongside a -1.7% decrease in circulation. Demand within this category has been consistently positive as circulation slows, indicating the potential for a healthy year.

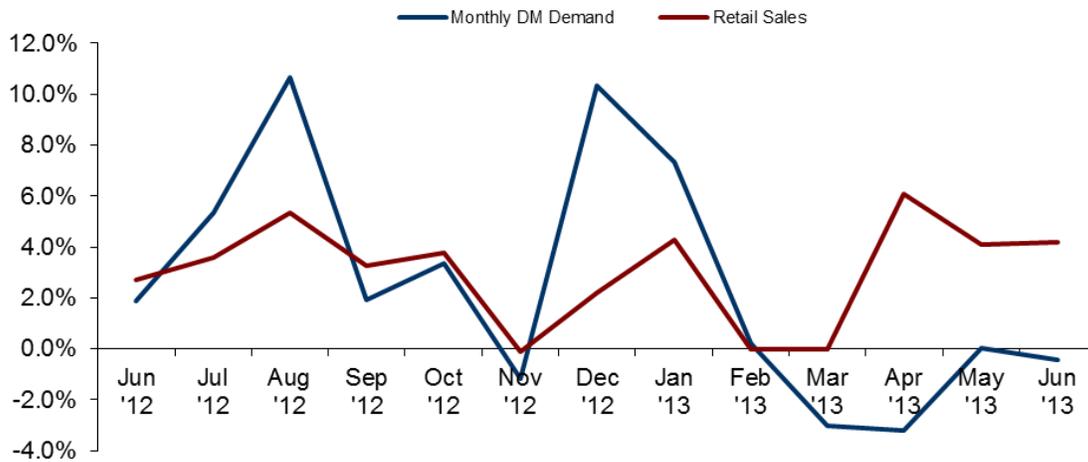
Hobby category performance continues to be strong, fueled by an increase in circulation. First half demand is up +3.0% versus prior year. Both Q1, +4.1%, and Q2, +2.3%, exhibited positive results behind a circulation increase of +7.0% year-to-date.

Finally, the **Business-to-Business** category continued its upward demand trend boosting its year-to-date performance to an impressive +8.1% gain. These results were accompanied by a +14.0% increase in circulation. This was the strongest performing

category for the second quarter in a row, following a solid 2012. Profits, however, may be troubled as circulation outpaces demand.

Demand vs. Retail Sales for the 12 Months ended June 29, 2013

Tully & Holland also records monthly sales data from 13 retail chains. The chart below provides a comparison between direct marketer demand and retail sales going back to June of 2012.



Source: T&H Analysis

Over the past twelve months direct marketer demand has been more volatile than retail sales. This trend continued into first quarter 2013 when direct marketer demand first increased then declined at a greater pace than retail sales. In contrast however, during second quarter retail sales have demonstrated a sharper rebound than direct marketer demand. We believe that this deviation from the norm is temporary, most likely caused by very conservative 2nd Quarter direct marketer circulation that declined -1.0% versus Q2 2012.

T&H continues to believe that direct marketers’ volatility is likely due to three factors: 1) the direct marketers ability to control/push circulation and thereby consumer demand versus brick and mortar retailers that rely heavily on foot traffic, 2) the direct marketers small size relative to the larger public retailers thereby magnifying monthly variation in performance, and 3) the direct marketers ability to benefit from increasing consumer acceptance of ecommerce.

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

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