

TULLY & HOLLAND

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The Demand Index

Direct Marketers | Demand & Circulation

2012 Q3 Analysis

Performance By Industry

YTD 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. The following analysis reflects Q3 demand and circulation performance for 2012.

Third quarter 2012 results continued the string of impressive performance seen through the first half of the year. Cumulative year-to-date demand remained relatively stable, up +4.5%, although this is slightly down from the second quarter's positive results of +4.7%. Thirteen of the 20 companies saw positive demand growth for the quarter. Of those companies, 7 had double digit increases in demand. Of the 7 declining companies, 2 had double digit decreases. This positive demand occurred despite a continuing year-to-date circulation decline of -3.0%. Clearly companies have begun to use paper catalogs a bit more judiciously, and probably rely on email/web generated demand to a growing extent.

Performance By Industry

In the subsequent chart, the 20 companies are sub-divided into five categories which best represents 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
Apparel	6.1%	9.9%
Home & Accessories	5.3%	-3.6%
Multi-Category	2.0%	-11.9%
Hobby	-1.1%	-4.4%
B2B	10.0%	-3.4%
Total	4.5%	-3.0%

The **Apparel** category year-to-date demand remained up +6.1% in third quarter. The year-to-date circulation for the category increased +9.9%. Apparel, which has struggled in recent years, appears to be pushing demand onto its customers.

In the **Home & Accessories** category, demand continued to grow as year-to-date demand increased +5.3% down slightly from the end of second quarter. The recovering housing market is likely supporting this category despite the decline in YTD circulation of -3.6%.

The **Multi-Category** group reported a cumulative increase in demand of +2.0% through Q3 despite a -11.9% decrease in circulation. Both numbers were consistent with the results through the first half of the year. The continued large decrease in circulation combined with the up tick in demand should result in healthy profits for these companies. This year's decrease in circulation is probably in response to last year's nearly +12% increase which resulted in only a +5.7% increase in demand.

The **Hobby** category continues to be the weakest category through Q3 of 2012. This sector reported a -1.1% demand decrease, the only category with a decrease, and a -4.4% decrease in circulation. Through the third quarter only one of the component companies reported an increase in demand.

Finally, the **Business-to-Business** category continued its upward demand trend boosting its year-to-date performance to a +10.0% gain, although down slightly from a +11.6% Q2 result. This positive year-to-date demand performance is in spite of a -3.4% decrease in circulation. This was the strongest category in the first two quarters and it continued the trend in the third quarter. Profits should be strong for this group as we head into the end of 2012.

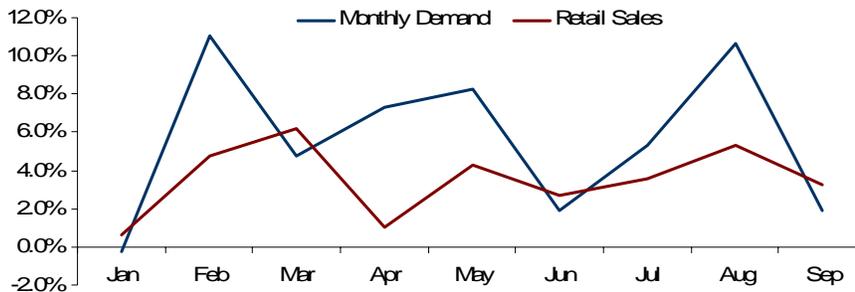
Through three quarters, 2012 has followed similar trends in all the categories, and the year end looks to close with positive year-over-year performance. For the majority of

the industry groups, demand is up on lower circulation leading to the potential of higher profits.

YTD Demand vs. Chain Store Sales

In addition to tracking demand and circulation for direct marketers, Tully & Holland monitors the performance of brick and mortar retail stores through a set of 25 public companies. The analysis focuses on four major sectors: Discount, Off-Price, Department, and Specialty Apparel.

Demand vs. Retail Sales



Through the first three quarters of 2012 direct marketers and brick and mortar have similar performance. Based on the data, direct marketer demand is stronger than brick and mortar, but more volatile. The monthly trends appear to be relatively synchronized, with higher peaks and more pronounced valleys for the direct marketers. The direct marketers' volatility is likely due to two factors: the first being their ability to control/push circulation and demand more directly than brick and mortar retailers that rely on foot traffic, and the second being the smaller size of the average direct marketer compared with the average brick and mortar chain.

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

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