

7th drupa Global Trends Report 2020 Executive Summary

Welcome to the 7th drupa Global Trends Report Executive Summary. The report series is unique in tracking key economic and market developments across the globe in all seven regions and the main market sectors. The survey conducted in November 2019 i.e. before the coronavirus outbreak, had nearly eight hundred participants with a good cross section from most regions and markets. Our thanks to the drupa expert panel recruited from printers and exhibitors who attended the 2016 show.

We circulate two separate surveys, one each for printers and suppliers, sharing some questions but also asking specific questions relevant to each group. 581 printers participated and whilst a small majority were from Europe (353), the rest of the world was well represented. Clearly there are fewer suppliers, but we were pleased to have 189 such participants, of which 119 reported on Europe but the remaining regions were well covered.

The results showed that at that time confidence remained positive, though clearly more cautious. The developed economies were made nervous by the threat of trade wars and the emerging economies by corruption and political turmoil. Packaging remains the growth sector, although the environmental plastics campaign means problems for some and opportunities for others. Certainly those in Publishing print and to a lesser degree in Commercial print are envious of the opportunities for growth in Packaging and Functional print.

At the time of writing, the scale and length of the impact of the coronavirus is unknown, but it will be major, as evidenced by the decision to postpone drupa until April 2021. However, whatever markets you serve and whatever socio-economic environment you operate in, the vital need to innovate is clear from these results. The demand for print will continue to evolve and it is those printers and suppliers who understand this and adapt themselves who will prosper.

Messe Düsseldorf, in its role as drupa organiser, must thank Printfuture (UK) and Wissler & Partner (Switzerland) for conducting and authoring this report series. We are confident you will find the resulting report insightful. We would be pleased to receive any feedback, so send us an email to drupa-expert-panel@drupa.de.

The drupa team
April 2020

drupa Global Trends April 2020

7th drupa Global Trends Report 2020 - Executive Summary

It pays to be an optimist in print and most of the drupa expert panel are just that. Nearly eight hundred printers and suppliers found the time in their busy lives to answer our 7th annual survey, conducted in November 2019 i.e. before the coronavirus outbreak. Globally there was a net positive balance of 17% more printers who described their company's economic condition as 'good' compared with those that reported as 'poor' (see Chart A). That net balance was

even stronger for Europe (+25%) and North America (+54%) but confidence had fallen in the remaining regions. It was a similar story for suppliers for Europe and North America, though they reported a far better net positive balance for 2019 in the developing regions; with the Middle East +45% higher, South/Central America +35% higher, Africa +30% higher and Asia +25%.

drupa Printer Barometer of economic confidence 2019

% net balance positive v negative

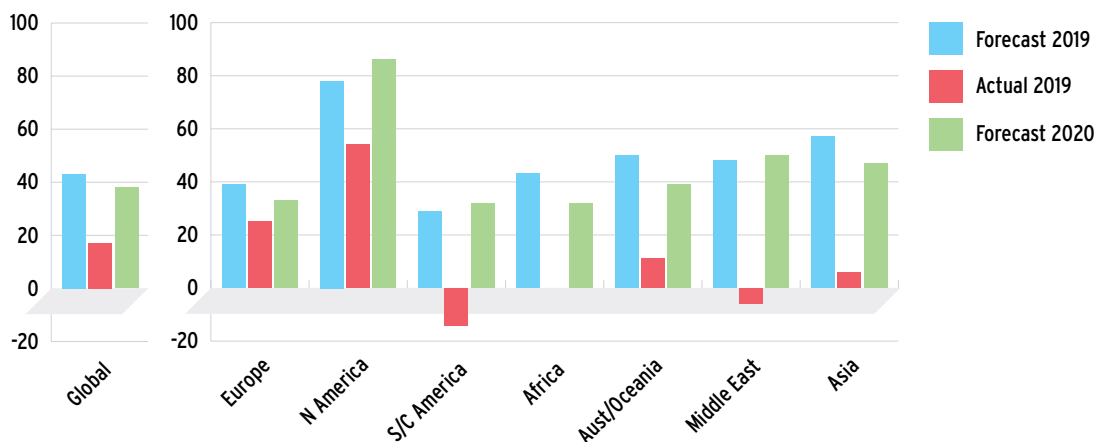


Chart A: How do you rate the current economic situation of your company? What are your expectations of your company's economic situation for the next 12 months?

The reason for the caution amongst the printers is clear when you view how revenues, prices, margins and utilisation have changed over the last 12 months (Chart B). Outside Europe and North America, the regional reports were challenging, although the Middle East reported an improvement. For suppliers, while revenues

climbed in all regions except Australia/Oceania, prices fell across the board and margins were under severe pressure without exception.

1. Numbers of printer and supplier participants by market sector and region are shown in the Main Report Appendix.

2. Column gaps in any chart indicate a nil result.

Printer financial performance by region 2019

% net balance positive v negative

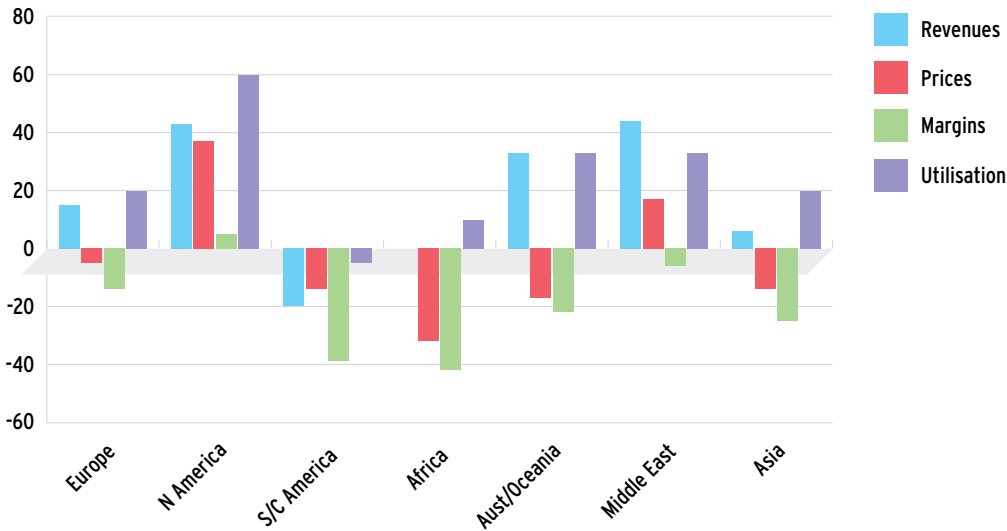


Chart B: How have your company's revenues/prices/margins/utilisation changed over the last 12 months?

If we look at the regions over time (Chart C), then North America stands out as buoyant over the whole seven years, Europe improving steadily until 2018 and the remaining regions in decline, with the encouraging exception of Africa that has turned up this year.

The suppliers share the same concern over the regions and mark down their forecasts for next year even more sharply than the printers, though they are modestly more optimistic for Africa, Asia and the Middle East than they were last year.

Printer regional economic confidence over time

% net balance positive v negative

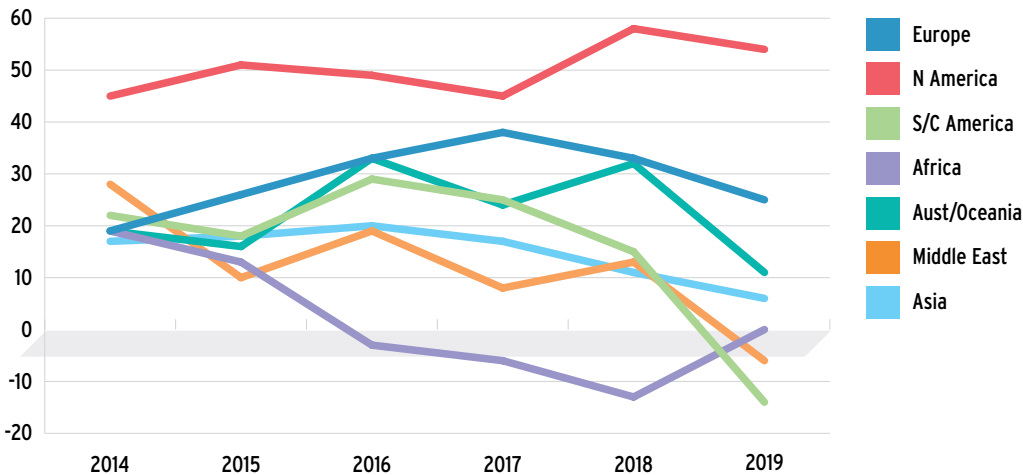


Chart C: How do you rate the current economic situation of your company? (Actuals)

In most years, the suppliers have been more realistic in their forecasts i.e. less tendency for over optimism or negativity, though as can be seen from Chart D they did get overexcited in 2017. Nevertheless it is remarkable how closely the global reports of actual economic confidence from so many printers and suppliers have been so similar year-on-year. The pattern is clear. First came slow but steady recovery in confidence from

the double hits of the 2007/8 global recession and the impact of digital media. Then since 2017, a lowering of expectations largely as a result of increasing concern over broader socio-economic issues such as political instability, global trade wars etc. The coronavirus outbreak undoubtedly reinforces that slowdown, though hopefully there can be a relatively speedy recovery.

Global economic confidence over time

% net balance positive v negative

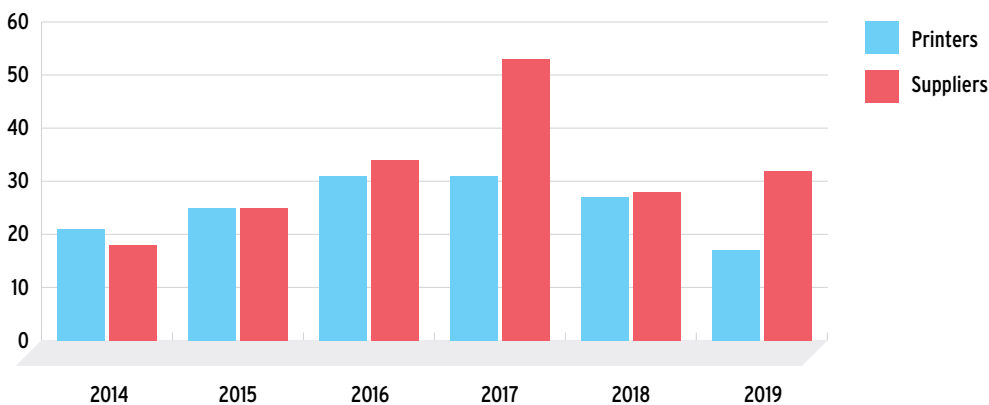


Chart D: How do you rate the current economic situation of your company? (Actuals)

Clearly confidence levels vary by market sector, with Packaging leading and Commercial and Publishing some way behind as shown in Chart E. Indeed, one of the features of open-ended replies, when asked what are the best opportunities in 2020, was the

number of companies hoping to diversify into the Packaging or Functional sectors from Commercial or Publishing sectors. Nevertheless all markets are impacted by broader socio-economic factors as evident from the trend shown over time.

Global economic confidence by market over time

% net balance positive v negative

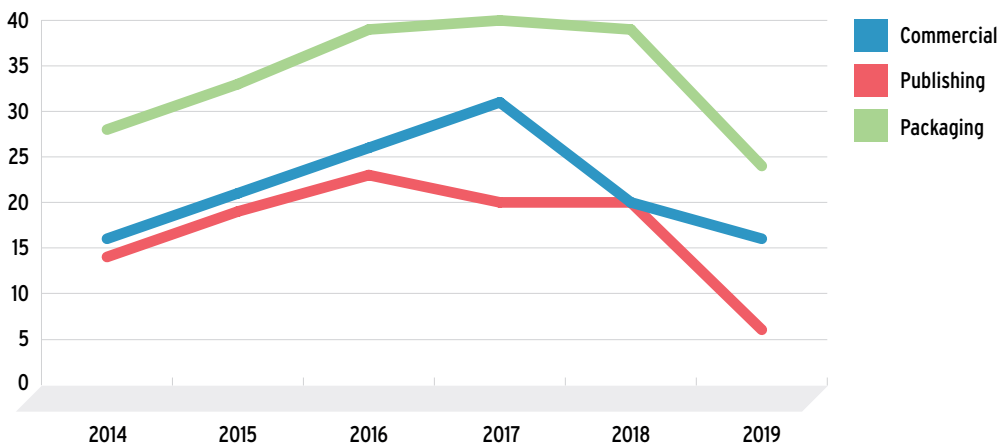


Chart E: How do you rate the current economic situation of your company? (Actuals)

If we drill down into the financial performance data over time for the three largest sectors (Chart F), we can see that in all cases, printers manage to sustain performance despite

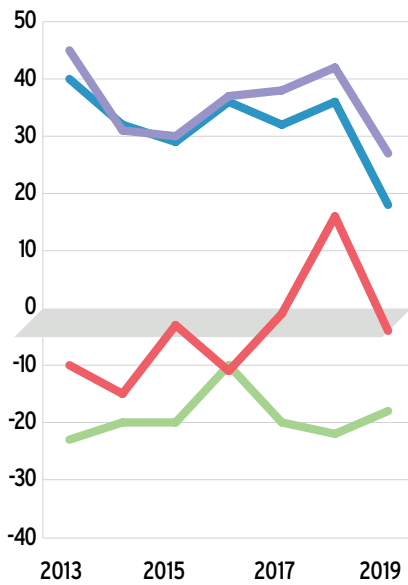
unremitting pressure on margins by increasing utilisation and therefore revenues, consequently over the period the pressure on prices has slowly reduced.

Financial performance over time by region by market

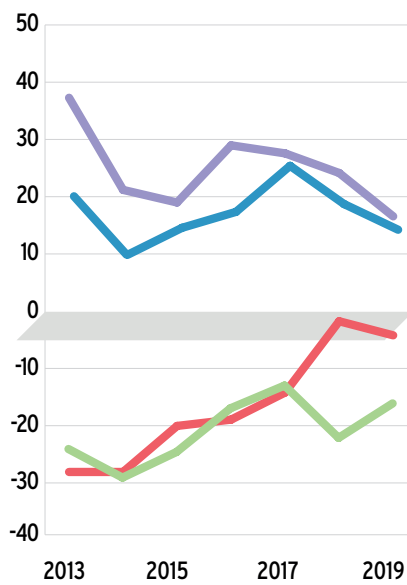
% net balance positive v negative

- Revenues
- Prices
- Margins
- Utilisation

Packaging



Commercial



Publishing

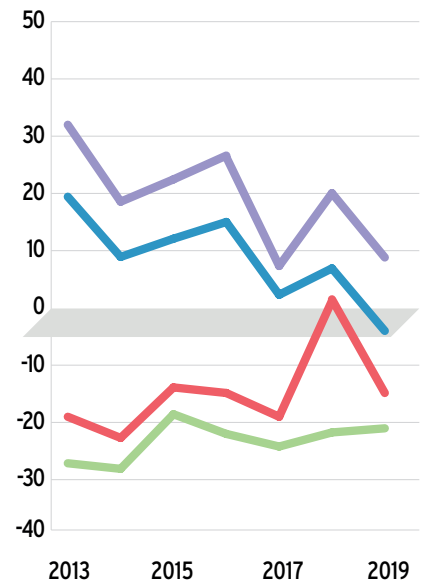


Chart F: How have your company's revenues/prices/margins/utilisation changed over the last 12 months?

The transition to digital print is slow but steady and whilst conventional (non-digital) print processes still provide the major cashflow for most printers, it is digital technologies that show

more rapid growth in most sectors (Chart G). The exception is Packaging where Flexo and Sheetfed Offset continue to thrive.

Major print volume changes 2019 by print process by market

% net balance positive v negative

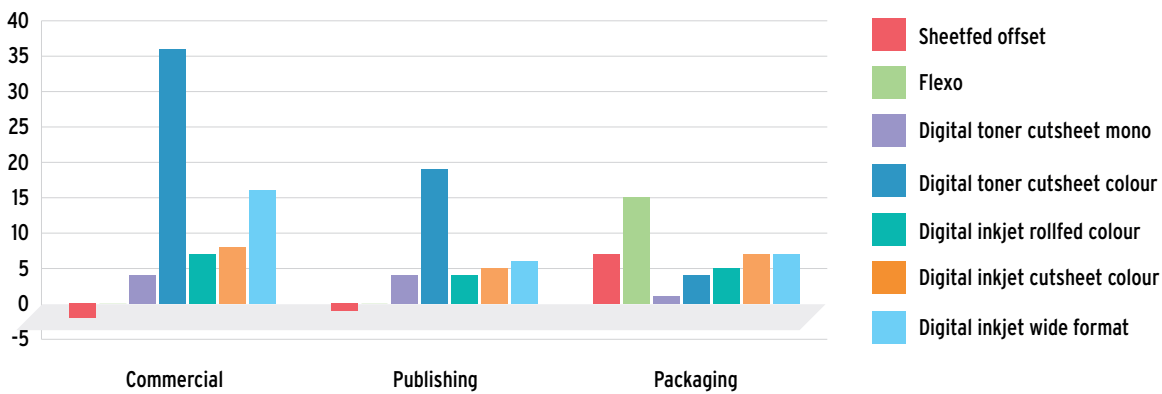


Chart G: How would you assess your printing volume has changed in the following technologies over the last 12 months?

The printers surveyed all know that they must continue to invest if their companies are to succeed in the long term. Hence all regions reported net positive balances in both the actual capital expenditure trends for 2019 and their forecasts for 2020 (Chart H). The same was true by market sector though not surprisingly

Packaging showed the strongest net positive balance for 2019 at +30%, followed by Functional at +25%, then Commercial +23% and finally Publishing + 16%. 50% of printers plan to invest in Finishing, 48% in Print technology and 34% in PrePress/Workflow/MIS.

Printer capital expenditure 2019 by region

% net balance positive v negative

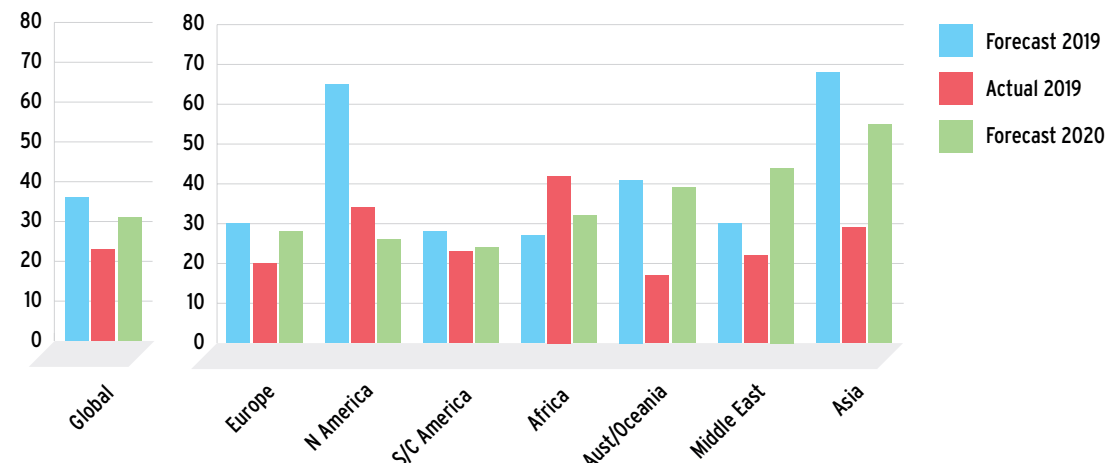


Chart H: How has capital investment changed over the last 12 months? Over the next 12 months will your company's capital investment...?

It was striking that despite digital print technologies showing the greater volume growth in Commercial and Publishing sectors, Sheetfed Offset was the second most popular press investment planned for 2020 (22% and 25% respectively) only behind Digital toner cutsheet colour (26% and 27%). For Packaging, it was no surprise to be told that Sheetfed Offset was the most popular (29%) followed by Flexo (26%). It was only in Functional that digital completely dominated - Digital wide format (roll and sheet fed) 38% and Digital toner cutsheet, mono and colour, both at 23%.

As for supplier capital expenditure plans, they vary greatly by region, with North America, Africa and Asia expected to do best. New sales channels are the most popular spend target, followed by raising efficiency and enhancing existing products. Given drupa was planned for 2020, it was to be expected that new product launches would increase in 2020.

For the first time we asked specifically about the broader socio-economic pressures and there were two clear patterns reported across the globe. For the developed regions the focus was concern about the risk of or reality of economic recession in the country or region, followed by concern about global trade wars and the impact of global warming/environmental pressures. For the developing regions, it was corruption and political instability creating economic recession that dominated. Most regions reported that market pressures were more important than these socio-economic pressures, although in the case of several of the more badly affected developing regions this was clearly more arguable. Perhaps not surprisingly, suppliers gave very similar replies to these socio-economic questions. The impact of the coronavirus outbreak will add to these concerns for all.

Turning to the specific market sector trends, for Commercial printers the clear message is the need to diversify, both in the submarkets you serve and the services you offer. There is endless price and margin pressure and only by offering something different to fresh clients can you avoid the race to the bottom in commodity markets. Commercial printers in the developed regions have on average taken greater advantage of this opportunity.

There has been a decline in the proportion of printers who report that Publishing is their prime market. In 2013 it was 28% and has declined steadily since then to 19% in 2019. As the proportion of Commercial and Packaging printers has remained broadly stable, this suggests that there is an active decline in the number of Publishing printers. Digital book production is on the rise, whilst newspapers and magazines are in active decline. Many Publishing printers are seeking to diversify, often into Packaging.

Packaging printers themselves face challenges, particularly those using plastic substrates in the face of a global campaign against single-use plastics - an opportunity for those using fibre based substrates. Those using plastics are seeking more environmentally friendly options. The proportion of SKUs that specify digital print is growing steadily across the globe.

Most of the Functional printers who participate in the survey have diversified into that market and it is clear that they find the growth opportunities attractive as the proportion of total turnover that is Functional print has grown fast. Textiles were mentioned as an attractive and rapidly developing field. Whilst screen and pad is still a common print technology, toner and inkjet digital are now the most common technologies.

Conclusion

In conclusion we must remind you that the survey was conducted before the coronavirus outbreak. Add to that the global economy is past its peak in recovering from the previous recession and the global print industry, so closely aligned with advertising, is feeling the downturn. The developing regions have the additional challenges of corruption and political instability - indeed some might argue that the developed regions also suffer from these. However, looking at the longer term, and beyond the impact of the corona virus, the industry has adapted well to the challenge of digital communications.

'[The threat is] economic situation and corruption'
Publishing printer, South Africa

'Climate change is a global threat that is going to affect every industry, most negatively, followed by political unrest and growing nationalism. Socio-economic problems are impacting our business in South America, Central America, Hong Kong, and the list just keeps growing.'
Supplier, Commercial market, N. America

'Develop new business models by combining state of the art digital printing with the Industry 4.0 technology framework, so customers can increase their outcome/value by using our services.'
Commercial printer, Germany

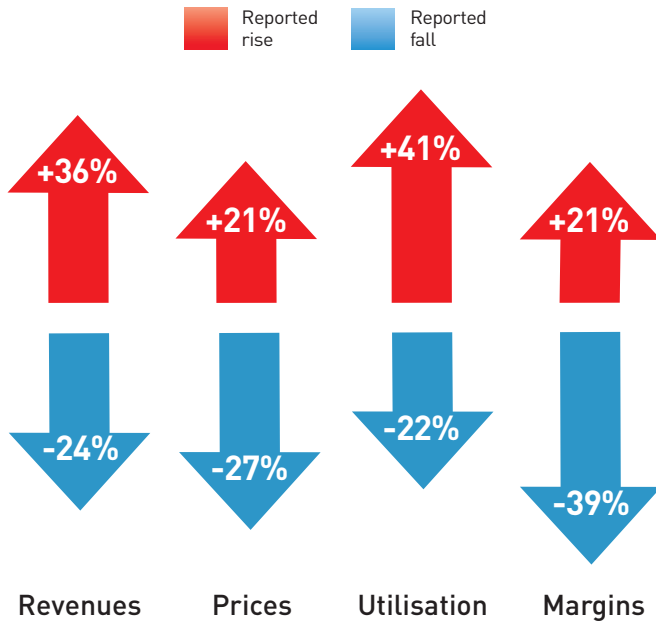
'[Our biggest opportunity is] changes in technology allowing significant performance improvements on our current manufacturing.'
Commercial printer, Great Britain

That is not to say that there is not never-ending pressure on prices and margins, but for those who invest wisely, bring their costs down steadily by increasing productivity, diversify or at least innovate with new products and services and who invest in their people to create an enthusiastic and committed team; they will prosper. What better place is there to explore how best to turn those principles into practice than drupa 2021 - Düsseldorf April 20-30? See you there!

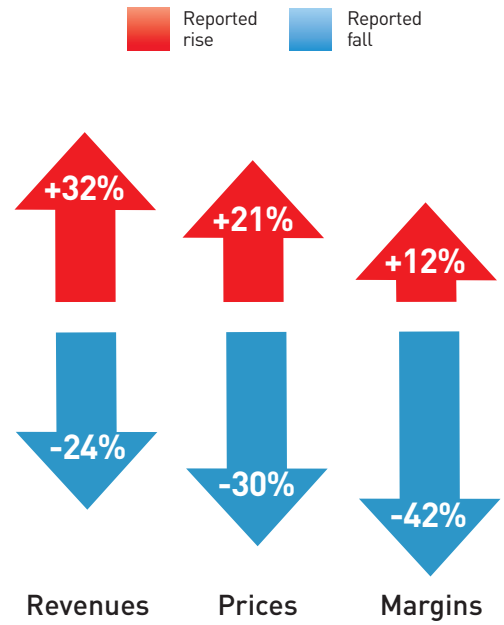
'Our biggest opportunity is gaining knowledge at drupa 2020.' Commercial printer, India

'Looking forward to the impact of the drupa show.'
Supplier, Packaging, N. America

Key financial measures for printers



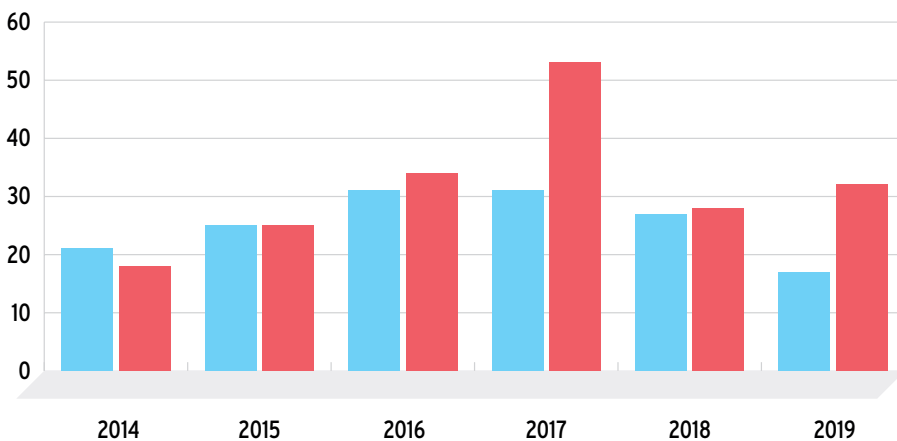
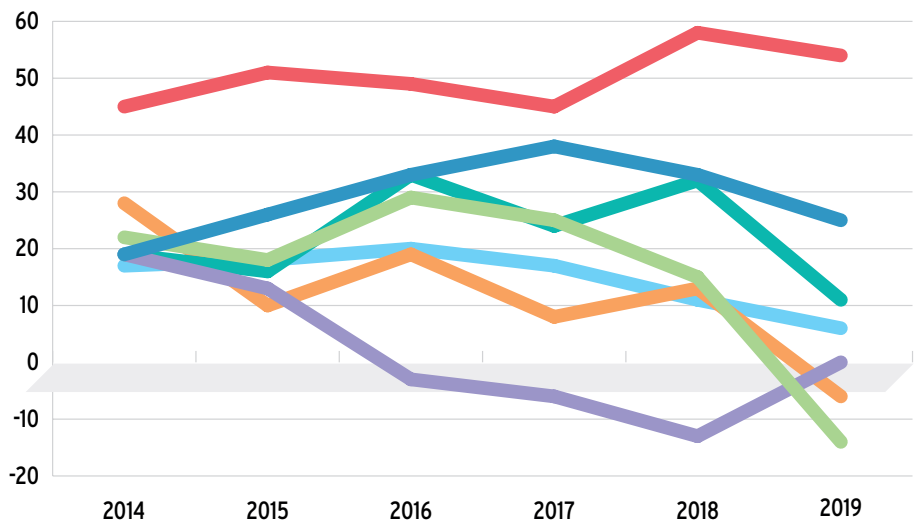
Key financial measures for suppliers



Printer regional economic confidence over time

% net balance positive v negative

- Europe
- N America
- S/C America
- Africa
- Aust/Oceania
- Middle East
- Asia



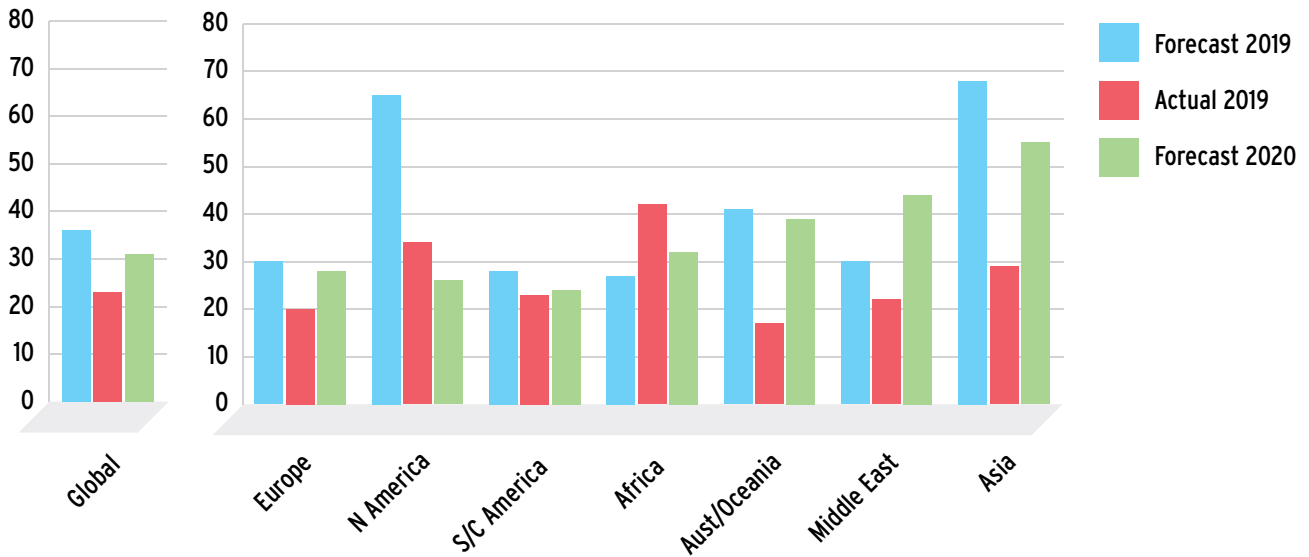
Global economic confidence over time

% net balance positive v negative

- Printers
- Suppliers

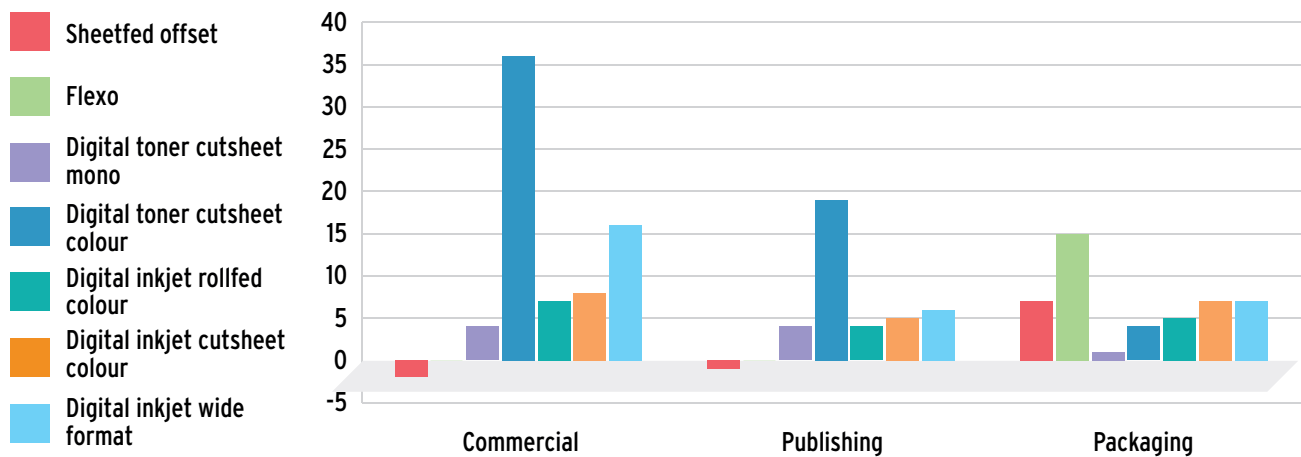
Printer capital expenditure 2019 by region

% net balance positive v negative



Major print volume changes 2019 by print process by market

% net balance positive v negative



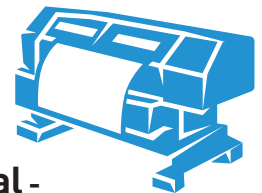
Top two print technology investment plans by market 2020



Publishing -

27% Digital toner cutsheet colour

25% Sheetfed offset



Functional -

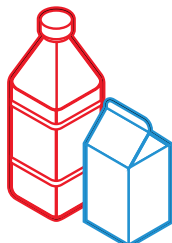
Digital inkjet wide format 38%

Screen print 31%

Packaging -

Sheetfed offset 29%

Flexo 26%



Commercial -

26% Digital toner cutsheet colour

22% Sheetfed offset