Evolution in the ITAD Industry –

A Seismic Shift or a Minor Tremor?

With the recent announcement by Arrow regarding their decision to exit the ITAD market, is the buying spree by logistics and distribution companies now just a footnote in the history of our industry?

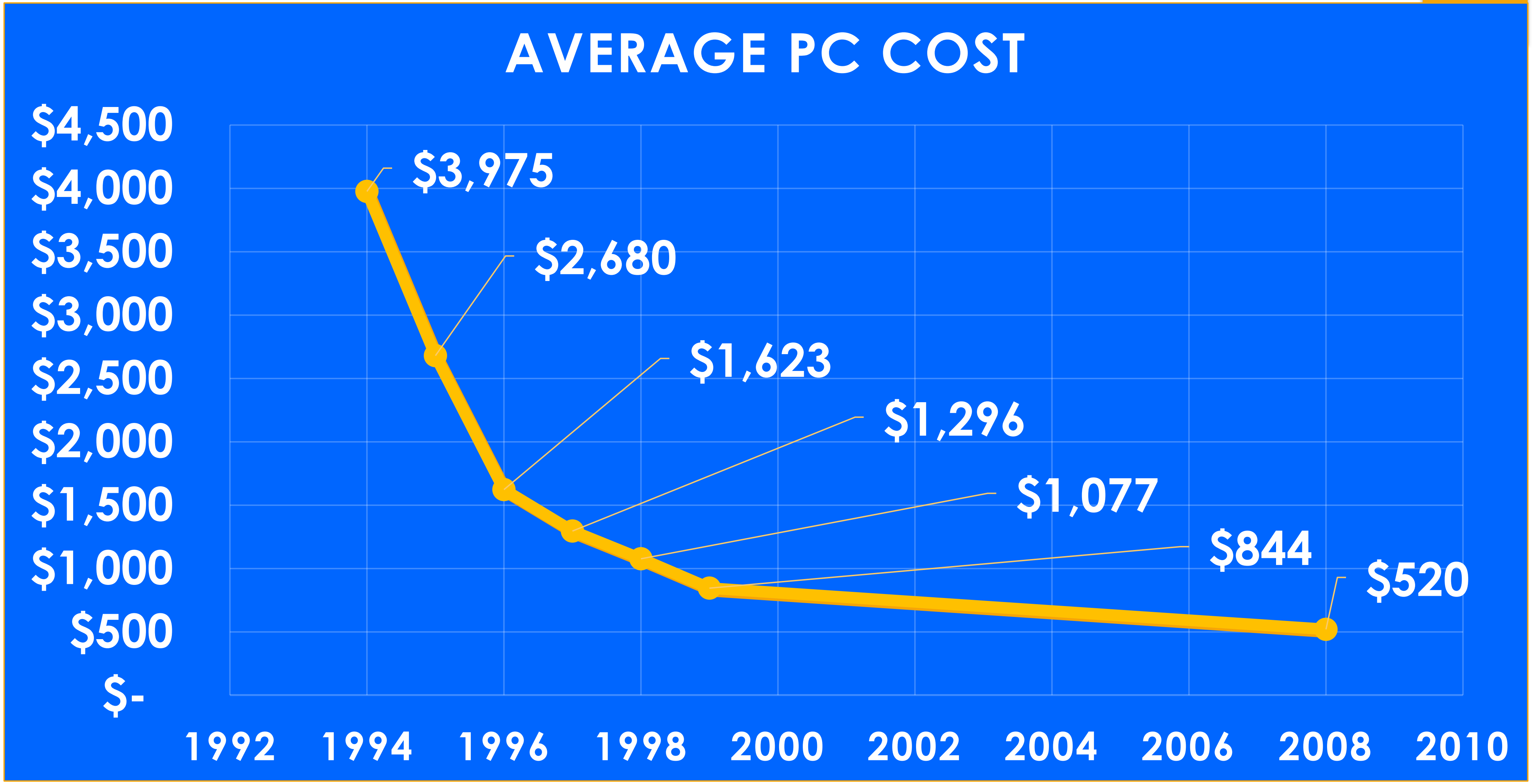
Growth Examples
Ingram Micro, Smith & Associates and IT Renew

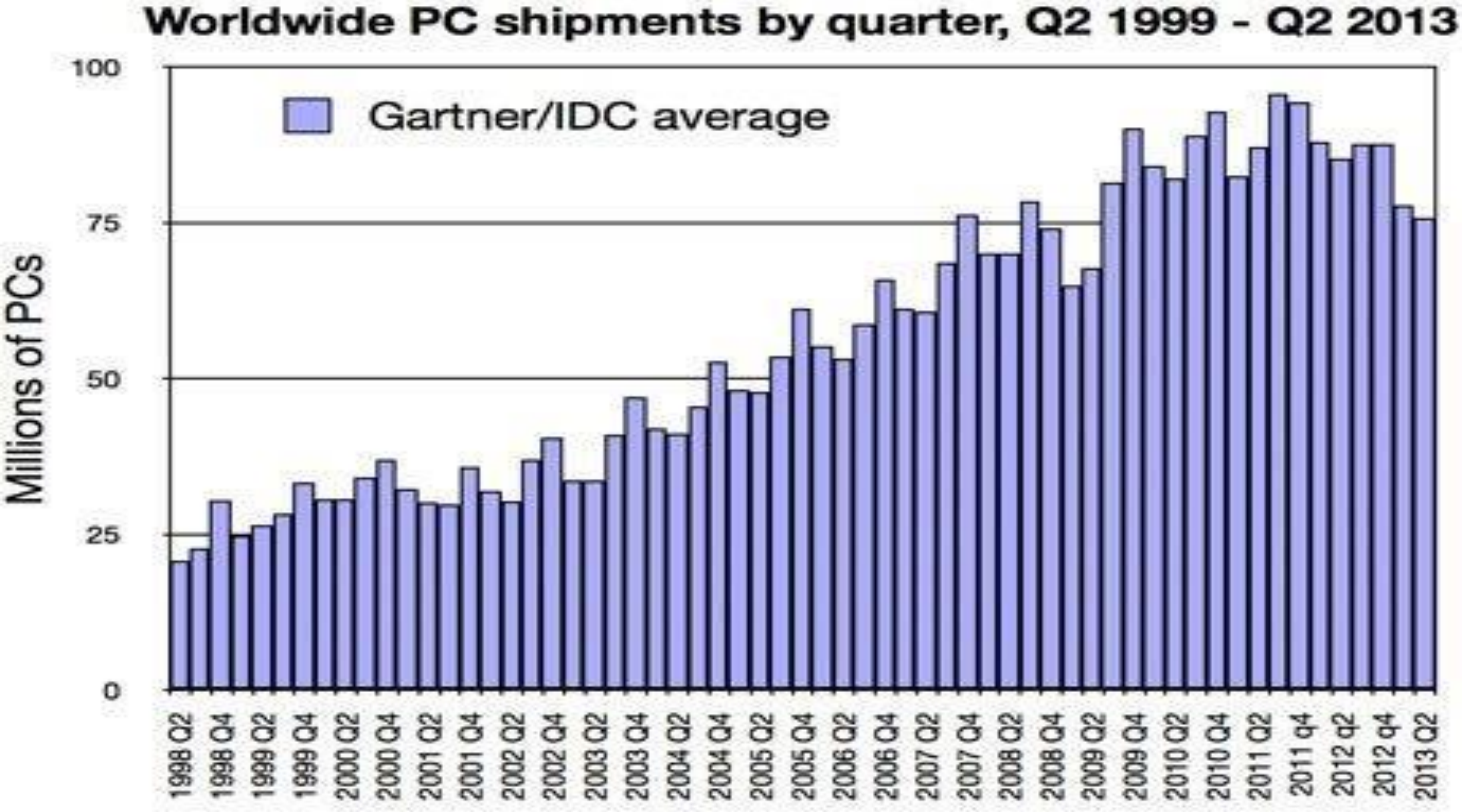
Contraction Examples
Arrow (exit), ECS (failure)
Clover Wireless (cartridge sales)

Early lessons in the PC Industry

Pressures on PC Industry are Unprecedented

- 1993 - IBM Posts $5 Billion Dollar Loss
- 1994 – 1999 Margins on PCs drops from 40% to <9%
- 1994 – 1998 Average PC Price drops from $3975 to $1077 (a 73% Drop in Price in just Four Years)
- 1996 – Apple Posts $740 Million Dollar Loss for Quarter
- 1997 – Apple Posts $1 Billion Dollar Annual Loss
- Focus on Product Returns Management and Customer Satisfaction drives Improvements in Recovery and Reductions in Warranty Expenditures
- Outsourcing to Secondary Market Vendors for Post-Warranty Parts Supply is <10% (‘94), >60% in (‘04)
- 1999 - Average Recovery on Returns Increases to 73%


AVERAGE PC COST
$4,500
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
$3,975
$2,680
$1,623
$1,296
$1,077
$844
$520


Worldwide PC shipments by quarter, Q2 1999 - Q2 2013
Gartner/IDC average
Millions of PCs
100
75
50
25
0
1998 Q2
1998 Q4
1999 Q2
1999 Q4
2000 Q2
2000 Q4
2001 Q2
2001 Q4
2002 Q2
2002 Q4
2003 Q2
2003 Q4
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2007 Q2
2007 Q4
2008 Q2
2008 Q4
2009 Q2
2009 Q4
2010 Q2
2010 Q4
2011 Q2
2011 q4
2012 q2
2012 q4
2013 Q2

What Drove the Acquisitions and were they Profitable/Strategic?

- With Reduced Profitability in PC Manufacturing & Distribution, the gross profits in Aftermarket Services (50%+) look very attractive
- Enhanced Service Offerings and Account Engagement/Management
- Product Lifecycle Management facilitates cradle to grave relationship on hardware/integration/service

How is our Industry Responding?

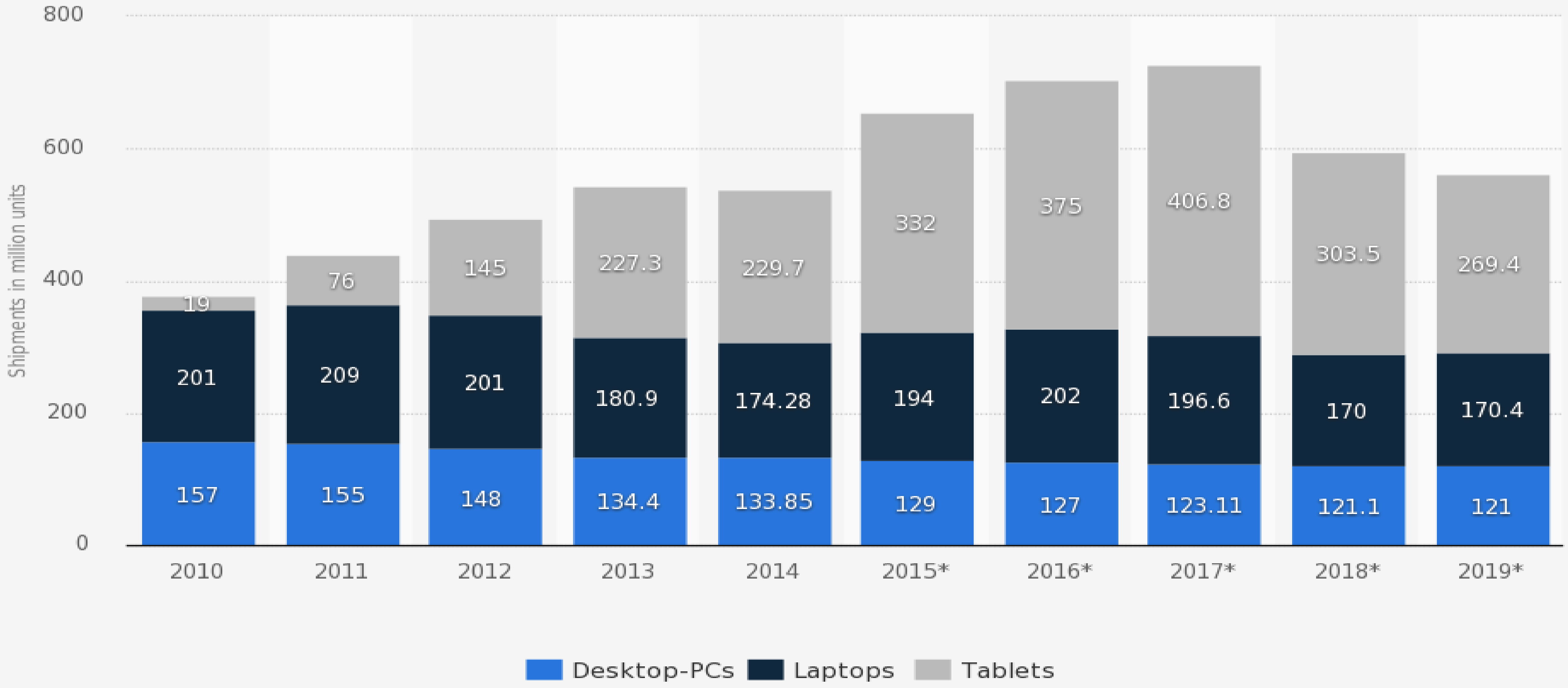
Acquisition/Investor Profiles that are Increasing:

- Global Aftermarket & ITAD Services – Industry Consolidation
- Managed Service Providers
- Related Aftermarket Service Providers – e.g. Call Centers (iQor)
- Private Equity Firms involved in Technology Lifecycle Management and Services

How are Changes in Recycling, Value Recovery and Costs Impacting the Industry?

- Average Recovery of ITAD Resale - **Modest**
- Technology Refresh Cycles - **Modest**
- End-user usage accelerating growth in appliance/cloud model using Mobility & Ultra-Mobility Devices – **Significant**
- **Fewer Entities Control Flow of High $ Devices & Low $ Devices = throw away at EOL**

Shipment forecast of tablets, laptops and desktop PCs worldwide from 2010 to 2019 (in million units)



Source:
IDC

Additional Information:
Worldwide; IDC

Does this Present Opportunities for ITAD Companies to Create New Business Models and Alliances?

- Reverse Logistics & Returns Management
- Service Parts Supply & Warranty Management
- Remanufacturing
- Trade-in Programs
- Technology Refresh
- Product Lifecycle Management
- ITAD
- Recycling

Lessons Learned

The ITAD and Aftermarket Services Industry (in general) is different. Trust the Experts from within.

Keep your talent and you’ll keep (and grow) your customer base.

Focus on the value of your role in Product Lifecycle Management Services and leverage your strengths.

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