State of ITAD Sector and Outlook

How Cloud, BYOD & Device Evolution will Impact Asset Disposition Sector

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AGENDA

- Evolution of ITAD up to Now
- Today: Transforming Landscape:
- Shape of a Sector within 5 Years
- Implications & Recommendations

The Beginnings

- 2002-2004: recognition that "recycling" can be major contributor to "Green IT"
  - Aided by oil prices of over $100
  - Corporate commitments of reducing carbon footprint
  - IT focused on energy consumption reduction & more effective asset disposition with REUSE at the center.

Organized Core Sector

- up to 2008:
  - Venture capital and investors fueling the strengthening of core ITAD companies
  - Demand in the secondary market for electronics and IT was strong
  - Parts and commodity markets were also strong

2008 Financial Crisis

- Major dent on economy and sector performance
- Fortune 1000 companies scaled back on spending and assets held longer
- ITAD sector investments froze

Post-08 Crisis Consolidation

- In US market alone consolidation affected key core ITAD companies that have expertise and real assets, including:
  - Redemtech,
  - Techturn,
  - Converge,
  - Intechra,
  - Etc.

Today's Picture

- There are still a handful of core ITAD companies but their numbers are dwindling:
  - Cloud Blue, US Micro, GEEP, etc
- Also seeing non-core companies active in the market, mostly real recyclers and logistics/transportation firms.

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Still Same Factors Driving Market Performance

- Secondary market remains key
- Enterprise dealing of frozen assets post 2008 proving opportunities in current conditions.
- Shift to Win7 and Win8 (going forward) will keep momentum going
- Services, in particular data security, are also key for ITAD firms
- Sources of revenue largely Fortune 1000, leaning toward financial & healthcare verticals.

Major Transformation Underway

- New dynamics affecting outlook include:
  - New product classes: move from classic IT products to tablets, smartphones and phablets displacing older practices, creating new needs.
  - New products carry design not so familiar to ITAD players: move from hard drives to SSD, from product that can be demanufactured to locked devices, from systems with high-performance processors to low-performance processors, etc.

Major Transformation Underway

- The big elephant in the room:
  - BYOD & Cloud
  - IDC Data shows movement toward the Cloud is creating shift in spending

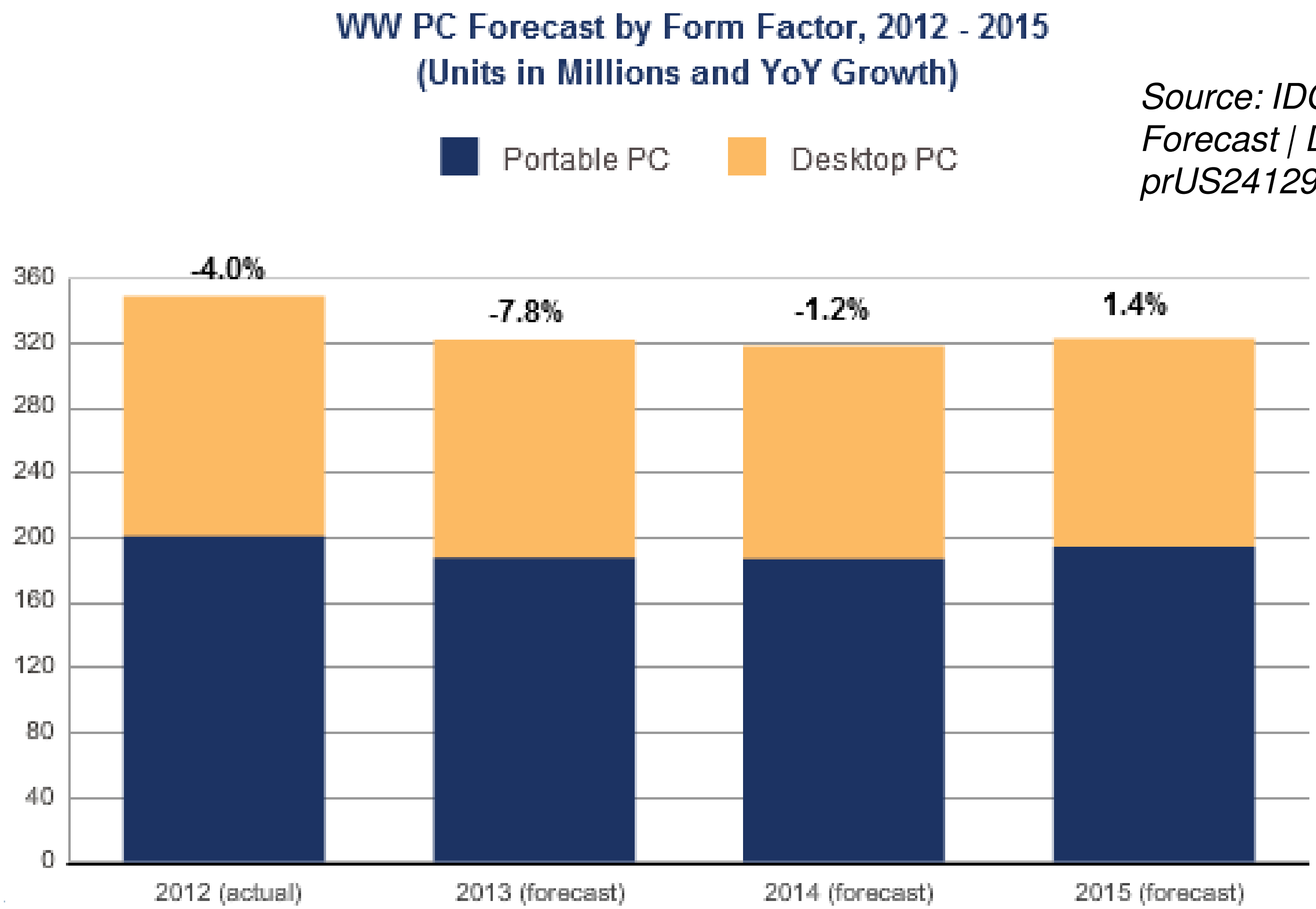
Is your cloud strategy impacting your equipment purchase?

	TOTAL
Yes, buying less assets as we migrate to the Cloud.	48.76%
Yes, buying more enterprise assets to support our Private Cloud.	30.58%
No change.	20.39%
Responding	363

Source: IDC, 2012 Multi-Client ITAD Survey

Major Transformation Underway

Eroding Demand for Classic IT Client Assets



Source: IDC, May 2013 Forecast | Doc ID: prUS24129913

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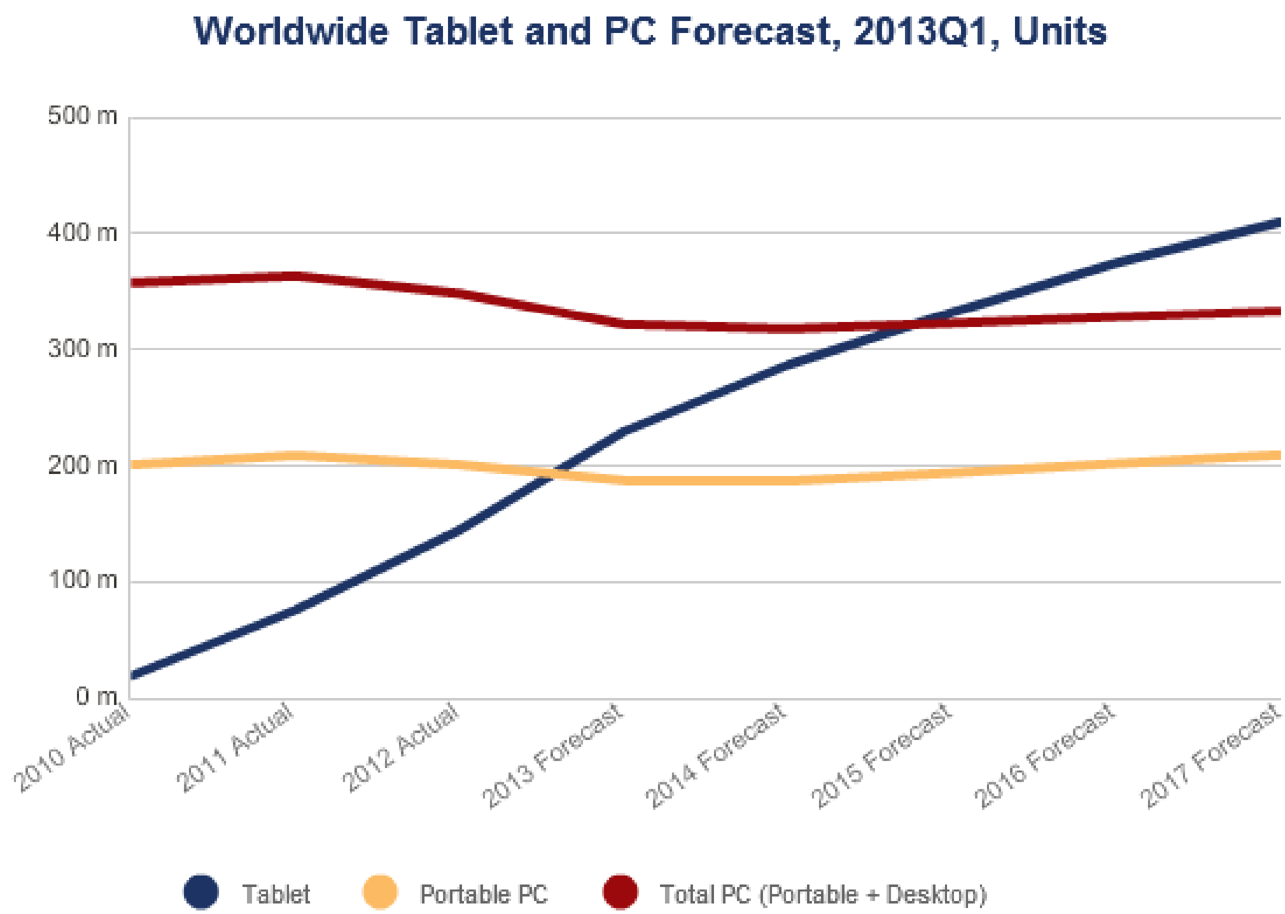
Major Transformation Underway

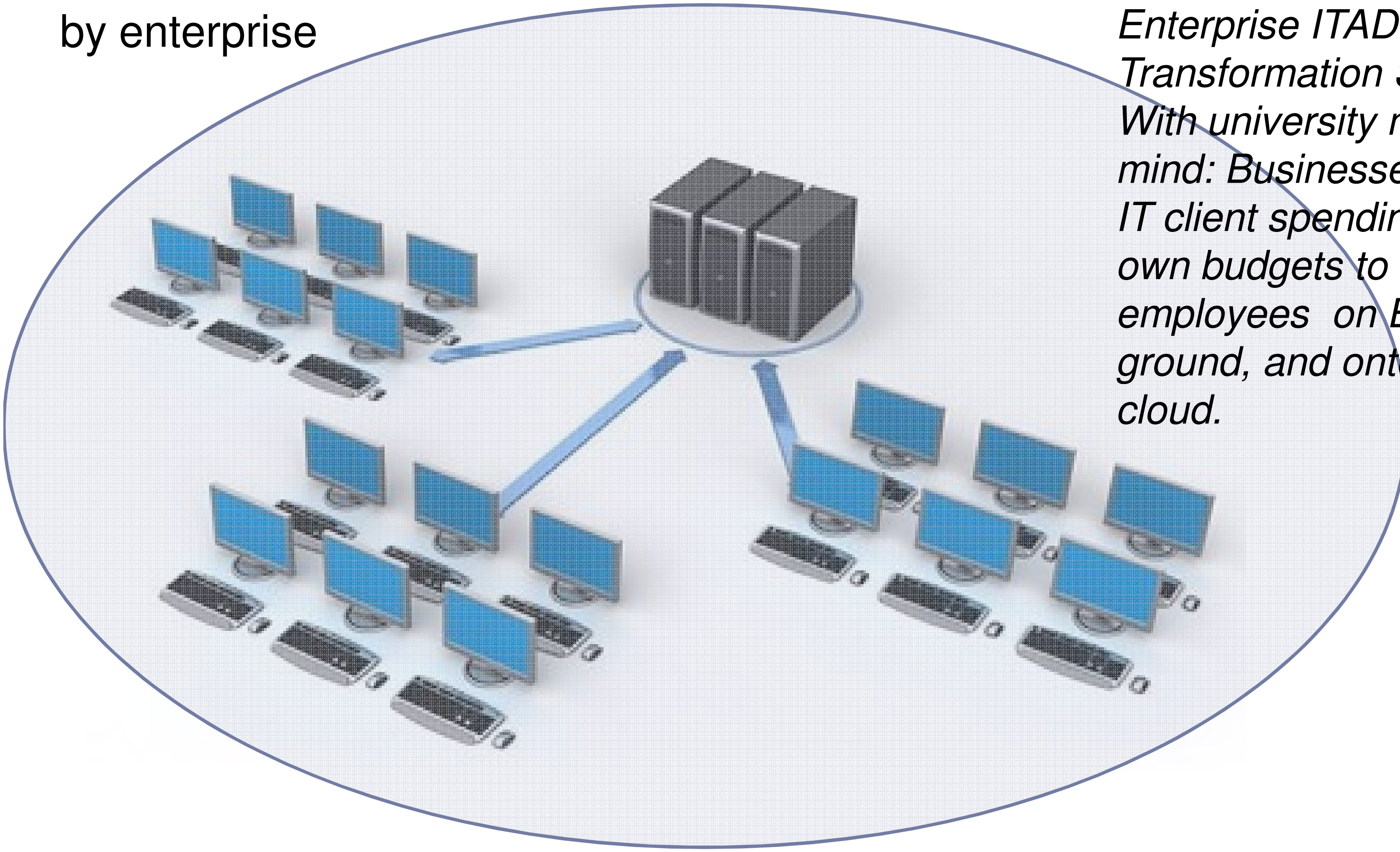
New Client Asset Classes Replacing Older Ones

Source: IDC,1Q2013 | Doc ID: prUS24129713



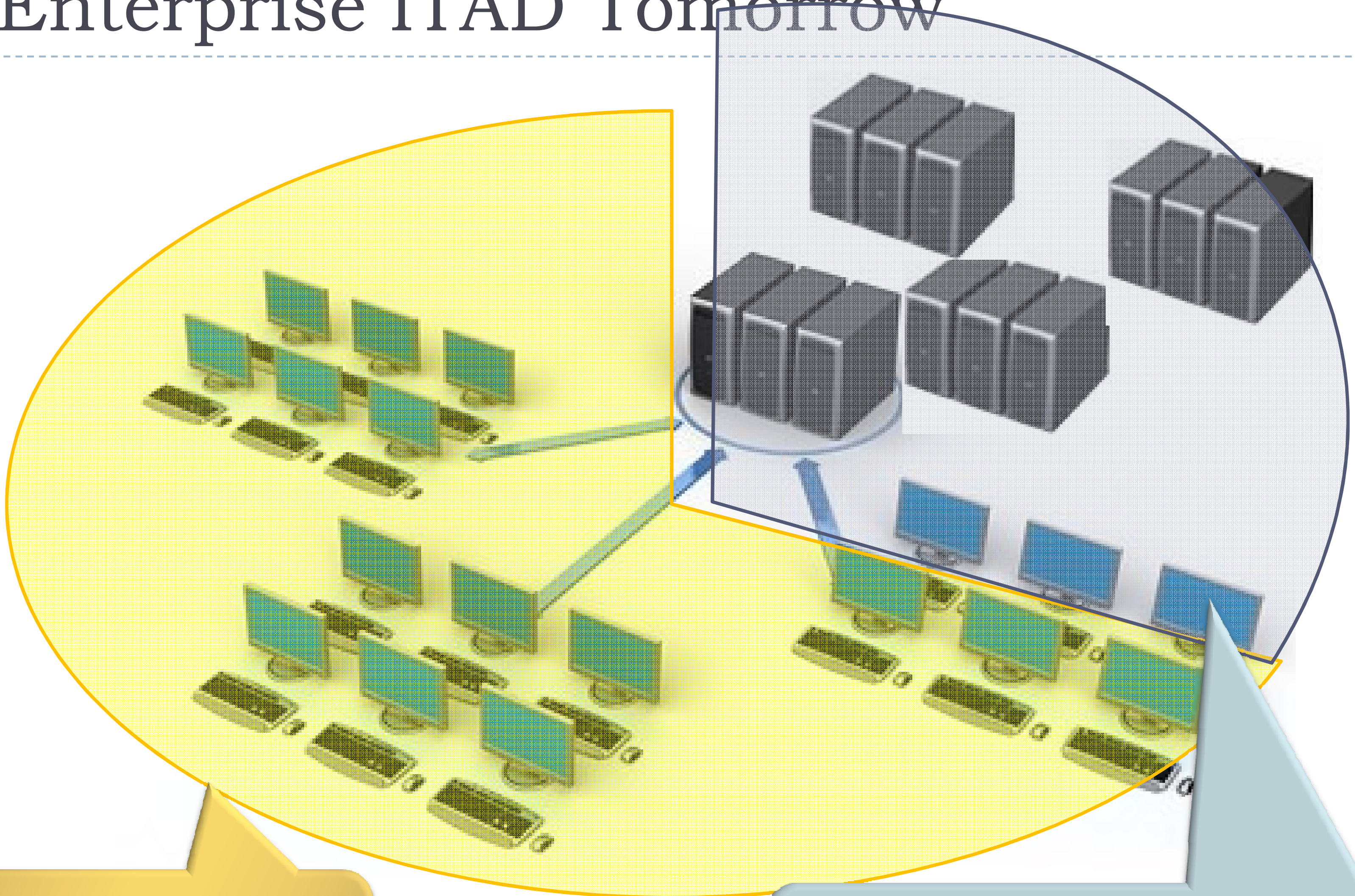
Enterprise ITAD Now

Traditional model of clients and data center owned by enterprise



Enterprise ITAD Transformation Scenario: With university model in mind: Businesses shifting IT client spending from own budgets to employees on BYOD ground, and onto the cloud.

Enterprise ITAD Tomorrow



BYOD and Cloud moving client "burden" to employees

Enterprise focus on data center (client platform agnostic) and some client assets

Implications

- **ITAD services will increasingly become data-center focused**: sale cycle lengthier, more complex, more focused on compliance and security.

- **Client devices will have consumer/retail characteristics**, but enterprise will play key role in determining requirements and configurations due to compliance

- **New players will impact enterprise ITAD policy**: employees to a certain extent, but also telecom function and datacenter function.

- **Prices in secondary market** already under intense pressure. New systems with low-energy consumption processors are getting cheaper and cheaper. Secondary market could further erode as prices of new systems continue to fall

- **Unprepared ITAD firms**, those focused on classic IT assets will have difficulty growing.

Recommendations

- In the next 2-5 years, focus on “business as usual” helping companies move to Win 7 and then to Win 8. Rate of decline in new PC sales may not be mirrored in end-of-life for some 5 years.

- But brace for continued consolidation and growing role of new players

  - Handling smartphones and tablets at ITAD level is very different than handling classic assets.

  - Some issues facing sector include: data security with shift from hard-drive to SSD, upgradability and component challenge, “demanufacturability” issues, etc.

Recommendations

- The good news: Beside Win7/8 move, brace for new strong demand for new gen products within the secondary market

- Emerging markets likely to remain hot, though demand for “latest-1” generations of products will be in high demand in mature economies

- The challenge: All this would possibly require new channels and tracking mechanisms, new lower pricing, more horizontally distributed markets, etc.

- Form alliances with retailers, have creative ideas with enterprises, and new relationships with municipalities should open some opportunity in consumer/retail sector… enhancing the environmental factor, not necessarily on the services front.

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