

CEO CFO



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PNI Digital Media Continues To Grow As Consumers Seek Valuable Personalized Products Available From Any Of Its Retail Partners' 14,000 Locations

Business Services
Online and in-store order platforms
and software
(PN-TSX-V, PNDMF-OTC: BB)

PNI Digital Media Inc.

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Kyle Hall
Chief Executive Officer, Director

BIO:

Kyle Hall is the CEO of PNI Digital Media, the leading innovator of Online Digital Media solutions for retailers such as Costco, Sam's Club, Wal-Mart CA and CVS/pharmacy.

Born and raised in Ontario, Canada, Mr. Hall was appointed CEO of PNI Digital Media in 2008, after more than eight years in senior management with the company. Directly responsible for several of the larger partnerships over the last several years, Mr. Hall has been at the forefront of moving the company to a scalable, transaction-based business model that has driven revenue more than 6500% in the past five years. Mr. Hall's vision and business development acumen have positioned PNI as the leader in providing retailers with the ability to sell consumers a range of personalized products including photo prints, photo books and gifts, personal stationary and business cards, all for pick-up in as little as one hour.

Prior to PNI, Mr. Hall worked led sales and marketing efforts for innovative imaging companies including Telepix Imaging, MGI Software and Corel Corporation.

Mr. Hall is a graduate of the University of Western Ontario and played six seasons of professional football with the Ottawa Rough Riders and Winnipeg Blue Bombers.

Mr. Hall joined the Board of Directors on March 25, 2009.

Company Profile:

The world's top retailers rely on PNI Digital Media to offer personalized products such as photo prints, photo books and gifts, personalized stationary and business cards for pick-up in as little as one hour. PNI Digital Media successfully generates millions of transactions each year for retailers and their thousands of locations worldwide.

Interview conducted by:
Lynn Fosse, Senior Editor
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CEOCFO: Mr. Hall, what was your vision when you took over PNI Digital Media in 2008, and how has that been altered given the current economy?

Mr. Hall: "I have been with the company for nine years now. My background is sales and marketing, taking over the development and general leadership of the company for the last couple of years. It has been business as usual in terms of pushing the company ahead. Our vision for the company is that we are a transaction leader in the business of processing photo transactions through our platform with the ability of going into much more in the future. Being a technology provider for large retailers is our main focus and enabling them to transact the photo online business is the true vision. The economy itself hasn't impacted us much, photo is relatively immune to that and, as in years passed with companies like Ko-

dak, who used to say that they held sales during recessionary times, we're still quite solid and we have seen that transactions processed through our network keep going up quarter-over-quarter. That is mostly from the fact that if you have children you don't stop taking pictures of your kids and you don't stop ordering those pictures. That has been a good thing for PNI Digital Media and our retailers, because I am sure people have cut back in many other places, but they haven't cut back in the number of photos and photo gifts that they order."

CEOCFO: What is it you are providing and to whom?

Mr. Hall: "At PNI Digital Media we are a software provider for retailers that want to transact orders of personalized products like digital photos, photo books and gifts, business cards and more. So consumers take the initial photos to a retailer either in stores or kiosks or online to the website and order prints and gifts from them. Besides prints, they can order things like calendars and cards and photos books, each personalized with their own photos or content. We are the technology provider that makes that happen. We offer either the kiosk software that is used within the store or the website interfaces where consumers can upload their photos and choose which stores to pick up their order in as little as an hour. This transaction and routing platform is provided by PNI, all as a private label, meaning that we've branded all our implementations for our retailers. In the US market, we handle three of the top five retailers including CVS Pharmacy, Costco, Sam's Club, Fred Meyer and more. In Canada, we are the platform behind the top five retailers in the nation including Wal-Mart and Costco. We provide the platform as well for the top 2 UK retail-

ers, including Tesco and ASDA (Wal-Mart). We also do Wal-Mart in quite a few other countries such as Argentina, Puerto Rico, that kind of thing. In some places we provide online service for photos, other places we do kiosk, and some places we do both.”

CEOCFO: What is the competitive landscape for you and why have so many companies chosen to use your format?

Mr. Hall: “We really only have one large competitor out there and that is Hewlett Packard. In the US market, we have three of the top five retailers; they have the other two. In the Canadian market, we have five of the top five and in the UK market we have the top two. They are the only other company that have proven that they can offer scalability similar to us, meaning that we can build systems and infrastructure capable of handling millions of transactions through these large retailers. It is one thing to build a website that just takes transactional e-commerce; it is another to have the capability of handling millions of images being uploaded to them and then routing those orders to a variety of fulfillment options for delivery back to store or home. We actually use some large Telco’s for our data centers as we are one of the largest users of bandwidth within their facility and that is because photos are quite big. A normal e-commerce transaction might be a couple of kilobytes where is a photo transaction is megabytes upon megabytes. It is having the understanding of how to build the technology properly, but then having some hardware systems behind the scenes. It is really only us and Hewlett Packard that have that capability.”

CEOCFO: In dollars what is the market opportunity?

Mr. Hall: “The market opportunity around the world for just printing photos is in the billions. North American market if you took a standard number that I think would be acceptable is probably over \$2 billion worth of photos ordered every year at retail pricing. Photos and photo related merchandise and that still includes a legacy film; there are still people processing the odd roll of film. There are not that

many anymore, but basically if you want to get a print you are either dropping off film, you are sticking your camera card in a kiosk within a retail location or printers or instant print. You may also be ordering through an online interface and picking up your prints either in a store or having them mailed to home. The core demographics that orders prints or photo and merchandise are females 25 to 49 with kids. 75% of the people transacting photos through these retailers fit that demographic, it always has been; it is not something new. Sometimes we make presentations to a predominantly male audience maybe at an investor show, and people say, ‘Well I don’t get it, I never go to the store to pick up my prints’. We say, ‘Well you are not the demographic’. That demographic has a great appeal to the retailers, the retailers build their business

“For our large retail customers, they can use the same PNI Digital Media photo platform to offer consumers new products like customized business cards, letterhead, envelopes, personalized merchandise, even stationary, each of which is personalized but may or may not use a photo in as part of that customization. The key is that our retailers can use the same technology and infrastructure to open entirely new product lines.” - Kyle Hall

around marketing to that group and it has worked out quite well.”

CEOCFO: What is the financial picture at PNI today?

Mr. Hall: “We are really just making that turn right now. We have invested so heavily into the business in the last eight or nine years, where we are coming into a situation that we can see profitability. We have been cash flow positive for three quarters in a row now, and our state of public position is that we will be cash flow positive on an ongoing basis going forward. The company is sound in the sense that we don’t need outside funding or money to survive; we can live off of the money that we are generating. We have cash in the bank and everything that we need to invest in the business we have. So in that regard we feel like we have been fortunate in this current financial crisis. We are not a company that needs to raise money, so we turned the corner at the right time. The growth opportunity is

looking good for us as we are starting to expand around the world. We are now active in China; we have over a thousand stores connected in China, we are active in Australia, Argentina, and other places in South America. We are also going into some vertical markets and leveraging our technology and platform into things like digital printing services. For our large retail customers, they can use the same PNI Digital Media photo platform to offer consumers new products like customized business cards, letterhead, envelopes, personalized merchandise, even stationary, each of which is personalized but may or may not use a photo in as part of that customization. The key is that our retailers can use the same technology and infrastructure to open entirely new product lines. We see some good growth opportunities and we think that there is nothing blocking us from growing.”

CEOCFO: Are there any differences geographically in the way people view photos or use photos or process them?

Mr. Hall: “There definitely is! The Chinese market is a great example in the fact that they skipped right over the whole landline telephone market and there are 600 million cell phones in China. Photos are predominantly taken on mobile handsets. Our interface within stores are capable of taking the images off the handsets and putting them into a personalized product. That market isn’t so much the 4X6 print market like North America is, but people are ordering photo books and calendars. So there is some differentiation there for sure, especially in the developing world such as South America; we are seeing quite different usage patterns. One thing we are seeing a lot of in North America and around the world is the use of photos in social media, the Facebooks and MySpaces of the world. The interesting thing is we are seeing a migration from that whereas those entities are great for the social networking capabilities, but not so much if you want to order print. The retailers are really making their mark by saying that you can use Facebook to share and do everything you want to do, but if you want to order, come back to us. That

will continue to evolve, but the retailers need to make sure they maintain their places as the output king.”

CEOCFO: Do you get paid per transaction; what is your revenue model?

Mr. Hall: “Yes, we record a percentage of every transaction. It is slightly different depending upon which part of the world we are in or what type of the customer they are.

CEOCFO: From your last earnings report, you reduced cash expenses by 17% year-over-year; which is significant. How have you done it?

Mr. Hall: “We invested quite heavily a year ago in our technology platform. We have made it much easier to add new customers and much easier to add new features and products and scale the business. Prior to that, they had to use a lot of manpower in order to make the customization for the customers and what we did is we went back and we looked at how we need to architect our system. What we did was separated the core logic and framework, the background code that runs our platform from the application layer, which is the photo book feature or the calendar feature, where we can turn those on and off it at will. Then we have a third layer, which we call our design layer that we can skin any site to make it look different, so that the CVS site doesn’t look like the Costco site. We can make them all unique. Developing that three layered technology and scalability within our platform took a bit of money, but it is

paying off now. It is allowing us to do quite well financially in terms of letting our revenues scale and keeping expenses flat.”

CEOCFO: What are the innovative solutions you are developing for the coming holiday season; what will be different this year?

Mr. Hall: “The photo industry has quite a cyclical pattern, such that the holiday season is by far the largest season of the year and as with most other retailers it just ramps it up. However, there is a drop off in January and February. People don’t like taking pictures in the winter, but it has always been like that and then it gradually climbs back up in the summer. The summer months are strong; it flattens a bit in September, but then takes off for holidays again. A lot of our plans are to really maximize the usage of these sites, so that people can get more out of them. So the implication for the holiday season is that it is great for greeting cards, Christmas cards and such. People like to order those, so we are improving the workflow around greeting cards and improving the selection of content. It is the same for calendars, which is a very big 4th Quarter product where we need to allow the enable consumer choice and production scalability. We made investments there this year, so those we expect to pay off as more and more people are choosing to give customized personalized products. If anything, the economy has actually helped us. If consumers are going to cut back and not give grandma

some \$50 Christmas gift, they may want to give her a \$14 calendar of the grandkids. You not only save money, but you give her a gift that has more meaning – that is personalized. That personalization is powered by PNI. So the economy has empowered people to look at value-based options like these great personalized products that can add meaning into gift-giving, and those types of products will perform well during holiday season.”

CEOCFO: In closing, why should potential investors look at PNI Digital Media?

Mr. Hall: “We are definitely a leader in our space and still a young growing industry that has a lot of growth in it. We are not giving guidance, but we have publicly told the market where we are heading and what we are doing and that we expect to keep growing quite strongly for the next few years. Even with the general stock market having fallen off like it did, we believe we are undervalued today. So with the future ahead of us, we believe it is just a matter of time before investors can do a little bit of math to see our cash flow and our revenue and be able to decide for themselves where that share price should be; we believe it should be quite a bit higher than it is today. Our transactional business model is one of recurring revenue, our revenue keeps growing, and our customers are all getting bigger as they are the best set of retailers in the world who know how to market a product. Over all the numbers of transactions just keep going up.”



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