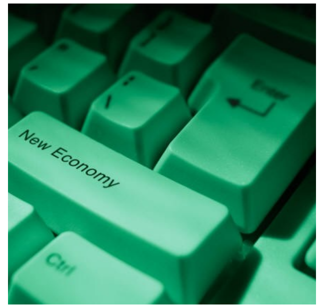

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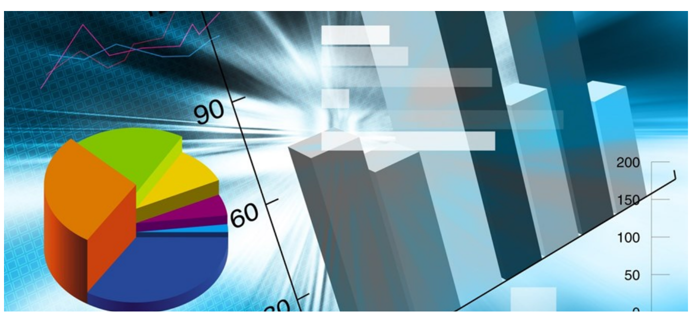

Forecast Report
May 2021

ITR ECONOMICS

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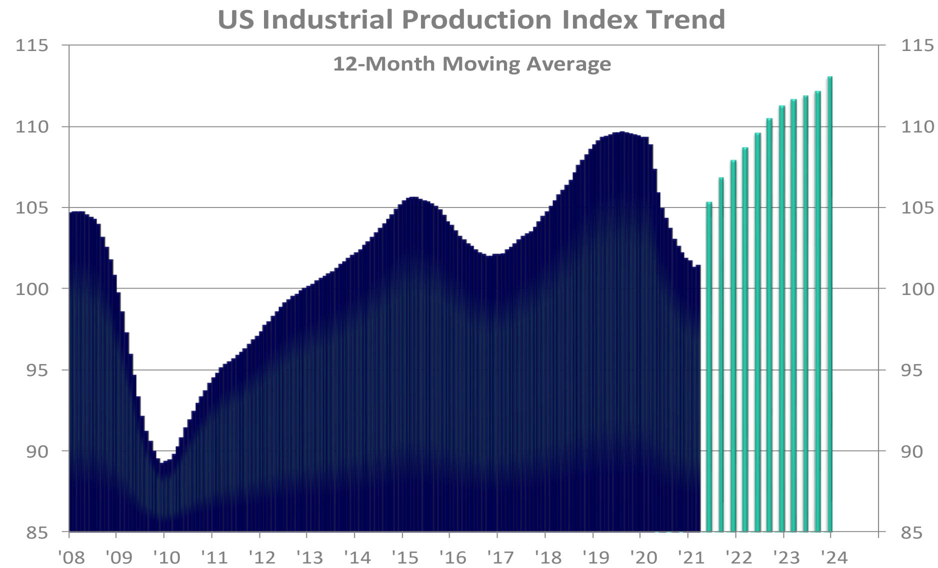
overview

The US economy is revving back up, and more rise is on the horizon. US Real Gross Domestic Product rose 8.6% from the pandemic low to the end of 2020 and has another 2.5% to go before equaling its last peak. Leading indicators point to sustained rise this year, with 2021 coming in appreciably stronger than 2020 for the vast majority of markets. We are forecasting robust rise for annual US Industrial Production in the near term, with record highs by around mid-2022 and rise extending through at least 2023.

Although COVID-19 still poses downside risks, potentially compounded by the spread of new variants, improvements in the death and vaccination rates are encouraging. Consumers will likely feel safer to venture out shopping, stoking demand for goods and services, and fewer employees will miss work due to COVID-19, helping alleviate supply-side snags. We will also see increased travel, for both business and leisure, which will assist recovery in a host of related industries, such as hotels, restaurants, airlines, and oil.

With the $1.9 trillion American Rescue Plan signed into law, fiscal stimulus now totals $4.9 trillion, or about 23% of US Nominal Gross Domestic Product (Nominal GDP) for 2020. The stimulus size is unprecedented; fiscal stimulus during the Great Recession totaled about $1.0 trillion, roughly 7% of Nominal GDP at that time, and the dispensation was much slower. The magnitude of the monetary stimulus is also much greater than during the Great Recession. The deflated M2 Money Supply annual growth rate peaked at 9.4% during the Great Recession, whereas the current growth rate is 21.1%, with more rise ahead. The scale of stimulus poses an upside risk to our forecasts. A portion of direct payments will be spent on discretionary items, boosting already record-high US Total Retail Sales, or will be put toward down payments in the booming single-family housing market. Financial behavior patterns established during the pandemic suggest that individuals will save some portion of their direct payments; boosted savings will likely bolster spending later this year and into 2022 as that money is tapped.

Due to the robust economic recovery already underway in the US and elsewhere, demand for commodities has spiked. Meanwhile, supply is lagging, resulting in significant upward pressure on prices. First-quarter Steel Scrap was up 52.0% from last year, Copper was up 59.1%, and Oil was up 26.3% compared to the first quarter



of 2020. With record or near-record shipping and labor costs compounding the situation, these increases will likely flow from producers to consumers. We recently raised our expectations for overall producer and consumer price inflation. Our outlook calls for inflation above 2% for virtually all of 2021 and 2022. Higher inflationary expectations will result in higher interest rates; this is already evident in US 10-Year Treasury Yields, which started the year below 1.0% and were up to 1.7% as of early April.

Many businesses are facing lengthening delivery times as suppliers and the global supply chain strain under backlogs from the pandemic, rising demand, and – in the South Central US – the complications wrought by severe winter weather. US Nondefense Capital Goods New Orders (excluding aircraft) during the three months through February were up 9.7% from the same period one year ago. Robust recovery in New Orders may be due in part to a new business practice: placing duplicate orders with multiple suppliers to prevent production hold-ups caused by missing parts. This may be inflating the latest New Orders data, and there could be a risk of canceled orders later this year.

The prevalent business challenges are changing as the economy recovers; "positive problems" are coming to the forefront. Think back to past periods of robust economic recovery and ask yourself what your business did well, and what you wish you had done. Apply those lessons for the current recovery trend. Most importantly, make sure you are taking proactive steps today to take advantage of cyclical rise ahead and prepare for record high activity in the industrial sector next year.

Terminology & Methodology

Data Trends:

Monthly Moving Total (MMT) vs Monthly Moving Average (MMA):

Totals are used when it makes sense to add the data together, as with units sold or total dollars spent. Averages are used when the data cannot be compounded, such as with an index, percent, price level, or interest rates.

3MMT/A and 12MMT/A:

A 3-month or 12-month moving total/average is the total/average of the monthly data for the most recent 3 and 12 months, respectively. The 3MMT/A illustrates the seasonal changes inherent to the data series. The 12MMT/A removes seasonal variation in order to derive the underlying cyclical trend. It is also referred to as the annual total or annual average.

Rates-of-Change:

A rate-of-change figure is the ratio comparing a data series during a specified time period to the same period one year ago. **Rates-of-change** are expressed in terms of the **annual percent change in a 12MMT/A, 3MMT/A, and actual monthly data.**

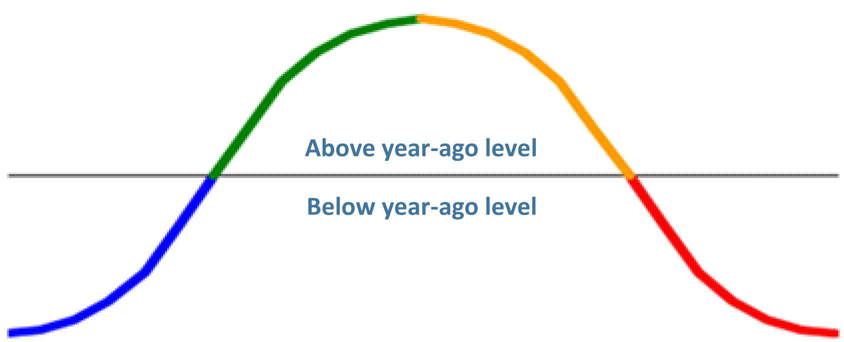
Rates-of-change reveal whether activity levels are rising or falling compared to last year. A rate-of-change trend illustrates and measures cyclical change and trends in the data.

ITR Economics' three commonly used rates-of-change are the **1/12**, **3/12**, and **12/12**, which represent the year-over-year percent change of a single month, 3MMT/A, and 12MMT/A (respectively).

A rate-of-change above 0 indicates the data is higher than one year prior, while a rate-of-change below 0 indicates the data is below one year earlier.

Business Cycle:

The data trends and rates-of-change identify positions in the business cycle. Those positions are:



Accelerating Growth (B): 12/12 is rising and is above zero; the data trend is accelerating in its ascent and is above the year-ago level. This is the second positive phase of the business cycle.

Recovery (A): 12/12 is rising but is below zero; the data trend is below the year-ago level and is either heading toward a low or is in the early stages of rise. This is the first positive phase of the business cycle.

Slowing Growth (C): 12/12 is declining but remains above zero; the data trend ascent is slowing or has stopped its rise, but it is still above the year-ago level. This is the first negative phase of the business cycle.

Recession (D): 12/12 is declining and is below zero; the data trend is below the year-ago level and the rate of decline is increasing. This is the second and final negative phase of the business cycle.

Business Cycle

Page Number	Industry	Phase	Current	2021	2022	2023
4	MTI Average Monthly Sales	A	-18.3%	10.5%	5.4%	-1.1%
6	US Industrial Production Index	A	-6.8%	5.9%	3.1%	1.6%
7	US Nondefense Capital Goods New Orders (excluding aircraft)	B	2.9%	9.9%	1.6%	0.3%
8	US Construction Machinery New Orders	A	-0.2%	10.6%	0.2%	2.8%
9	North America Light Vehicle Production	A	-19.1%	8.3%	10.1%	2.0%
10	US Heavy Duty Truck Production	A	-30.1%	17.2%	10.9%	6.1%
11	US Oil and Gas Extraction Production	D	-8.9%	1.0%	9.1%	3.1%
12	US Medical Equipment and Supplies Production	A	-8.3%	5.5%	2.2%	0.8%
13	US Civilian Aircraft Equipment Production	A	-29.4%	17.0%	14.4%	-4.0%
14	US Computers and Electronics New Orders	B	5.7%	7.2%	2.2%	2.3%

A RECOVERY

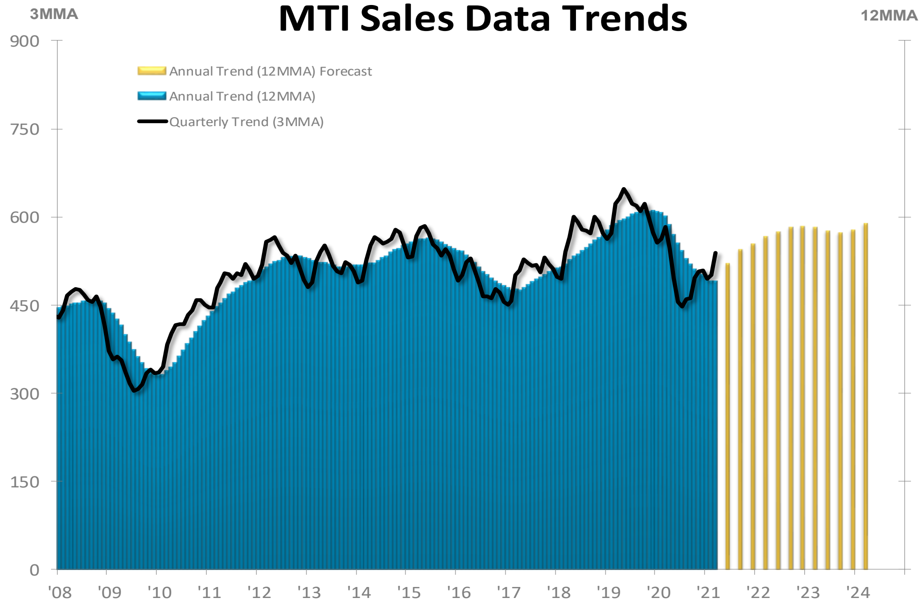
B ACCELERATING GROWTH

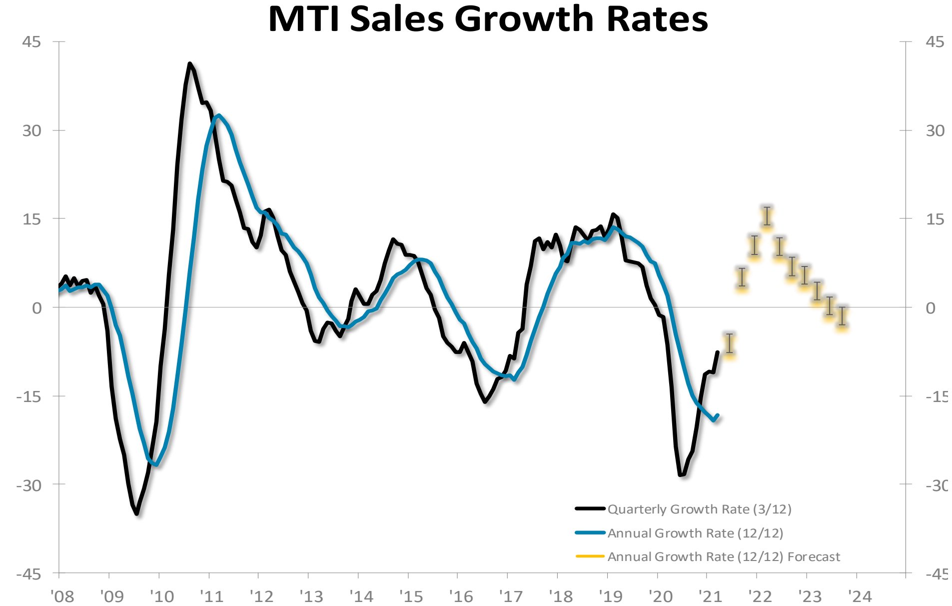
C SLOWING GROWTH

D RECESSION

MTI Average Monthly Sales

Forecast Revised; Rising Commodities Prices, Industrial Sector Recovery to Boost Sales





Industry Outlook

2021: 10.5%

2022: 5.4%

2023: -1.1%

Outlook & Supporting Evidence

- MTI Sales were 1.9% above the forecast range in March. We lifted our expectations for Sales by 15.7% for 2021, 7.3% for 2022, and 3.6% for 2023, in line with revisions to our macroeconomic outlook and commodity price forecasts. We expect annual average Sales to rise into late 2022. Sales will then decline mildly for the majority of 2023 before rise takes hold through at least the first quarter of 2024.
- A multitude of industry utilization rates are moving higher. Combined with rising prices of commodities, including oil and steel, these trends signal that business cycle rise in Sales will persist into at least the latter half of this year and likely into next year.
- Semiconductor shortages could impact supply chains, negatively impacting MTI end-use markets. This poses a downside risk to the outlook.

Phase & Amplitudes

Phase A

Recovery

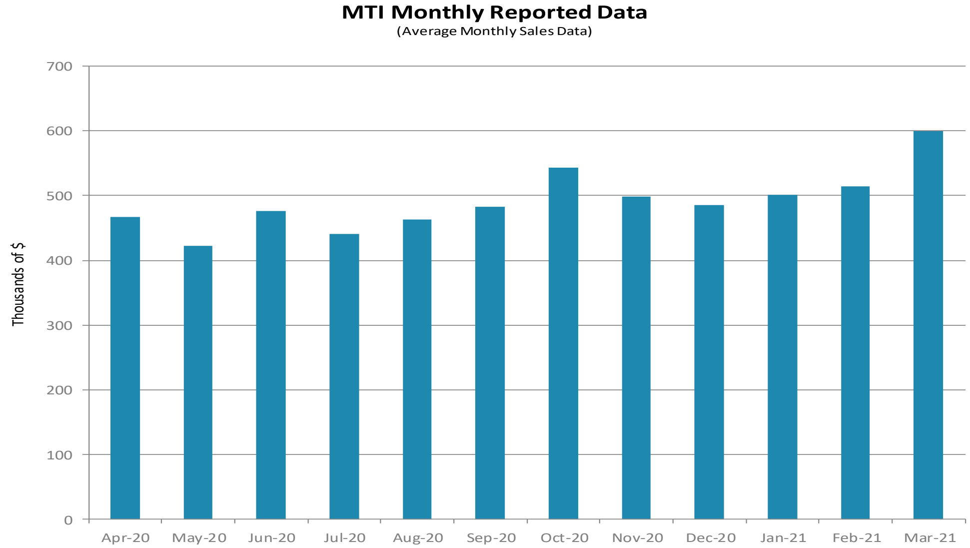
March 2021 Annual Growth Rate (12/12): -18.3%

March 2021 Annual Average (12MMA): $490.9 thousand

MTI Average Monthly Sales Forecast

	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
3MMA*	577.5	554.7	548.3	587.6	610.5	582.9	557.5	578.5	589.2	569.3	575.8	623.1
3/12	**26.9%**	**20.1%**	**7.8%**	**9.2%**	**5.7%**	**5.1%**	**1.7%**	**-1.6%**	**-3.5%**	**-2.3%**	**3.3%**	**7.7%**
12MMA*	521.6	544.8	554.7	567.0	575.3	582.3	584.6	582.3	577.0	573.6	578.2	589.3
12/12	**-6.1%**	**5.1%**	**10.5%**	**15.5%**	**10.3%**	**6.9%**	**5.4%**	**2.7%**	**0.3%**	**-1.5%**	**-1.1%**	**1.2%**

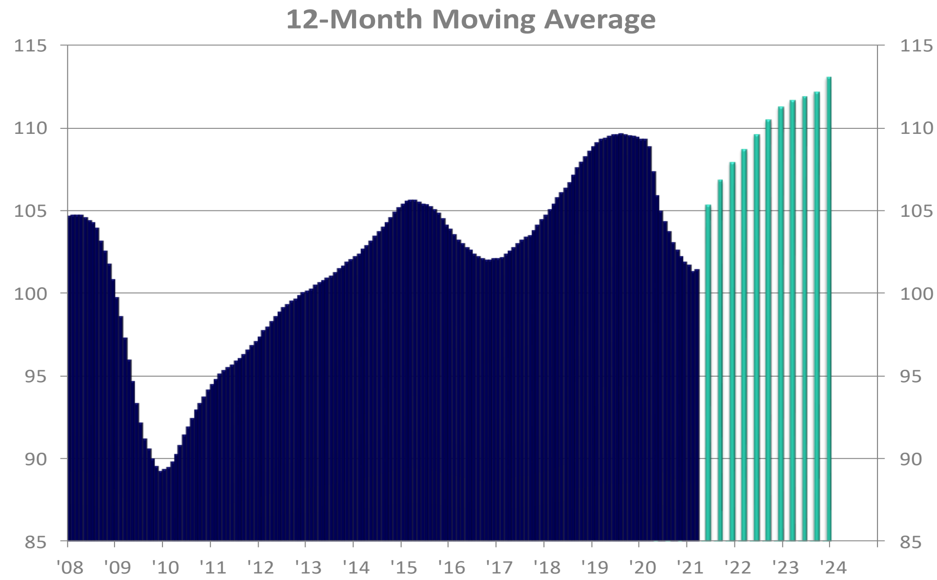
MTI Reported Average Monthly Sales Data

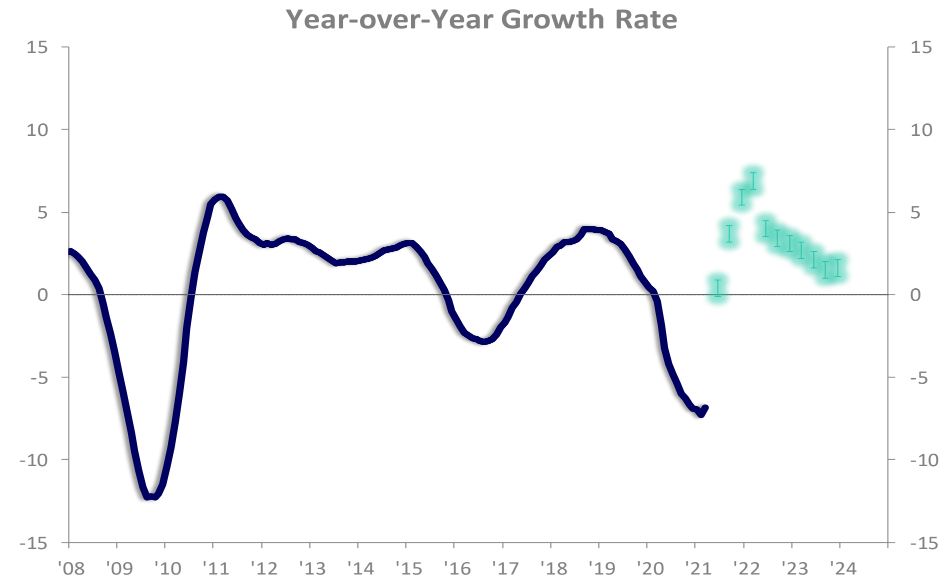


	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Monthly*	466.4	422.8	475.7	440.8	462.8	482.2	542.7	497.9	485.4	501.2	514.3	599.0
1/12	**-26.6%**	**-33.7%**	**-25.2%**	**-25.8%**	**-26.5%**	**-20.6%**	**-13.9%**	**-11.0%**	**-8.9%**	**-12.7%**	**-11.3%**	**0.9%**
3MMA*	546.5	494.2	455.0	446.4	459.8	461.9	495.9	507.6	508.7	494.8	500.3	538.2
3/12	**-13.6%**	**-23.6%**	**-28.5%**	**-28.3%**	**-25.8%**	**-24.3%**	**-20.3%**	**-15.3%**	**-11.4%**	**-10.9%**	**-11.0%**	**-7.6%**
12MMA*	586.6	568.8	555.4	542.6	528.8	518.3	511.0	505.9	502.0	495.9	490.5	490.9
12/12	**-1.1%**	**-4.6%**	**-7.4%**	**-10.2%**	**-12.9%**	**-15.0%**	**-16.2%**	**-17.0%**	**-17.8%**	**-18.5%**	**-19.2%**	**-18.3%**

US Industrial Production Index

Forecast Revised Upward; Annual Production to Surpass Late-2019 Peak Around Mid-2022





Industry Outlook

2021: 5.9%

2022: 3.1%

2023: 1.6%

Outlook & Supporting Evidence

- Annual Production tentatively transitioned to Phase A, Recovery, in March. Although still below year-ago levels, quarterly Production (not pictured) has risen 13.6% from the pandemic low.
- The strong rebound in quarterly Production and our analysis of the latest economic evidence led us to adjust the forecast. The primary change is that we now expect annual Production to surpass the August 2019 high around mid-2022, earlier than previously forecast. Annual Production will reach a low imminently and then rise through at least 2023.
- Overall rising trends in the US Total Industry Capacity Utilization Rate and the US ISM PMI (Purchasing Managers Index) bode well for manufacturing production this year. Additionally, increasing demand for oil and rising oil prices will drive higher production in the oil and gas sector, boosting overall US Industrial Production this year.

Phase & Amplitudes

Phase A

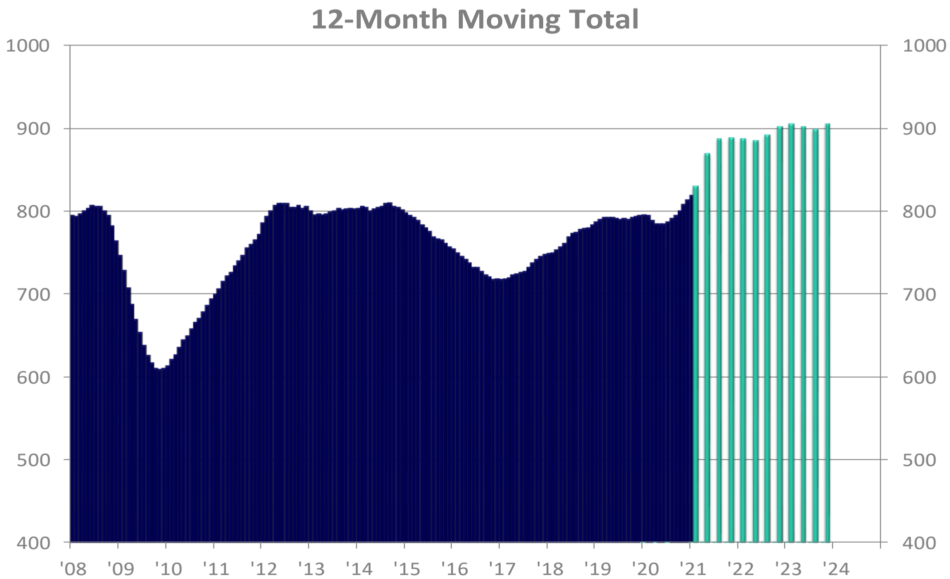
Recovery

March 2021 Annual Growth Rate (12/12): -6.8%

March 2021 Annual Average (12MMA): 101.4

US Nondefense Capital Goods New Orders (excluding aircraft)

Forecast Adjusted; New Orders Expected to Rise at Accelerating Pace Through Much of 2021



Industry Outlook

2021: 9.9%

2022: 1.6%

2023: 0.3%

Outlook & Supporting Evidence

- With airline industry orders normalizing following their negativity in 2020, we are returning to using the unmodified US Nondefense Capital Goods New Orders indicator. We are issuing a new forecast accordingly.
- Our forecast takes into account the latest leading indicator evidence, including the recent surge in commodity prices. Accordingly, MTI members should take note of the expected higher year-end 2021 growth rate, which is due to the mounting inflationary pressure.
- We expect annual New Orders to generally rise through 2023, with brief plateaus from late 2021 to mid-2022 and in early 2023. The first plateau is due to companies placing early and duplicate orders, which may result in cancellations and a dearth of orders later on. The plateau in 2023 will be due to waning macroeconomic conditions.

Phase & Amplitudes

Phase B

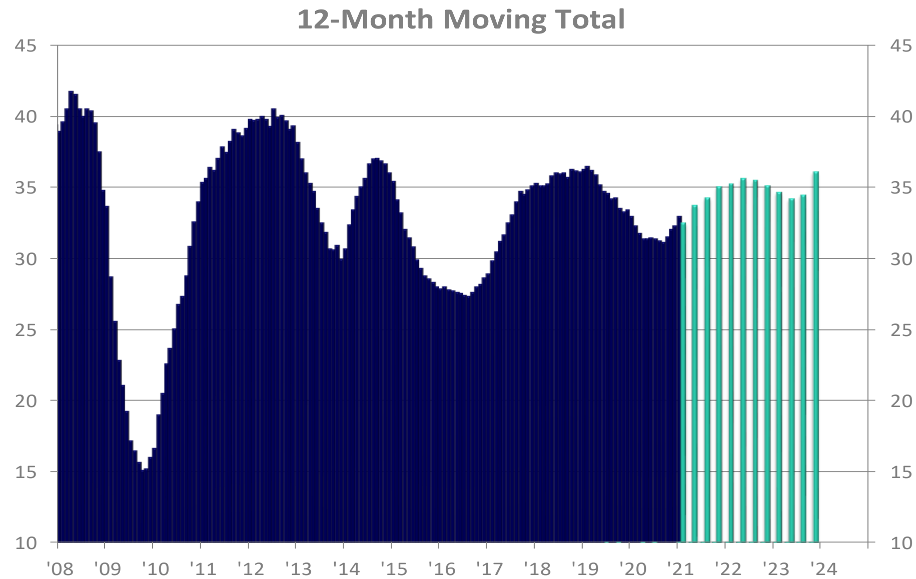
Accelerating Growth

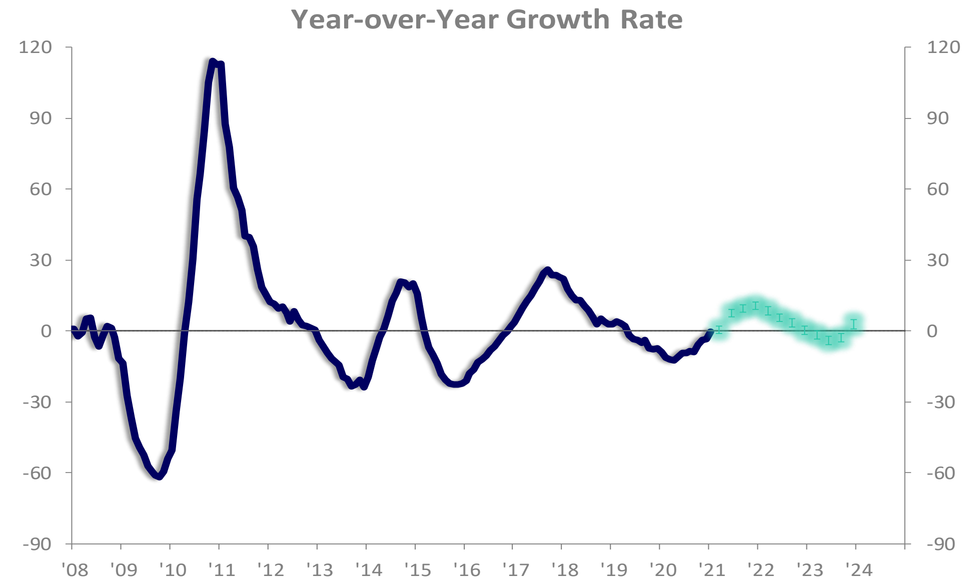
February 2021 Annual Growth Rate (12/12): 2.9%

February 2021 Annual Total (12MMT): $818.8 billion

US Construction Machinery New Orders

Residential Demand to Boost New Orders; Rise Expected Into the Middle of 2022





Industry Outlook

2021: 10.6%

2022: 0.2%

2023: 2.8%

Outlook & Supporting Evidence

- Annual US Construction Machinery New Orders will transition to Phase B, Accelerating Growth, imminently.
- The forecast is unchanged. Annual New Orders will rise into the middle of 2022 before declining into mid-2023. Rise will then resume and persists through at least year-end 2023.
- A combination of low vacancy rates (approximately 1% of US houses) and low mortgage rates (below 3%), along with de-urbanization trends resulting from both health concerns and transitions to remote-work, will bolster activity in the single-family residential sector and demand for construction machinery for at least the remainder of 2021.
- Put-in-place US Nonresidential Construction is expected to decline this year, which may partly mitigate upward pressure this year.

Phase & Amplitudes

Phase A

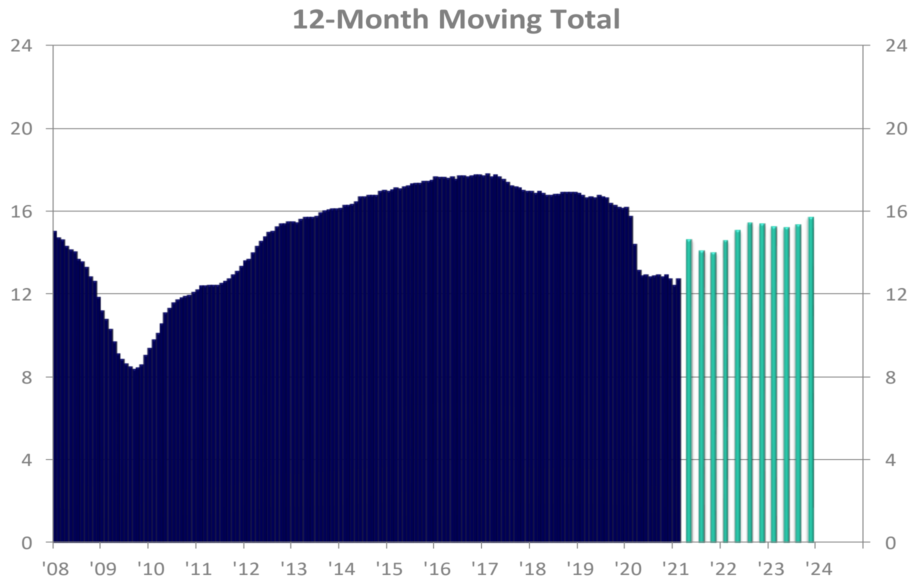
Recovery

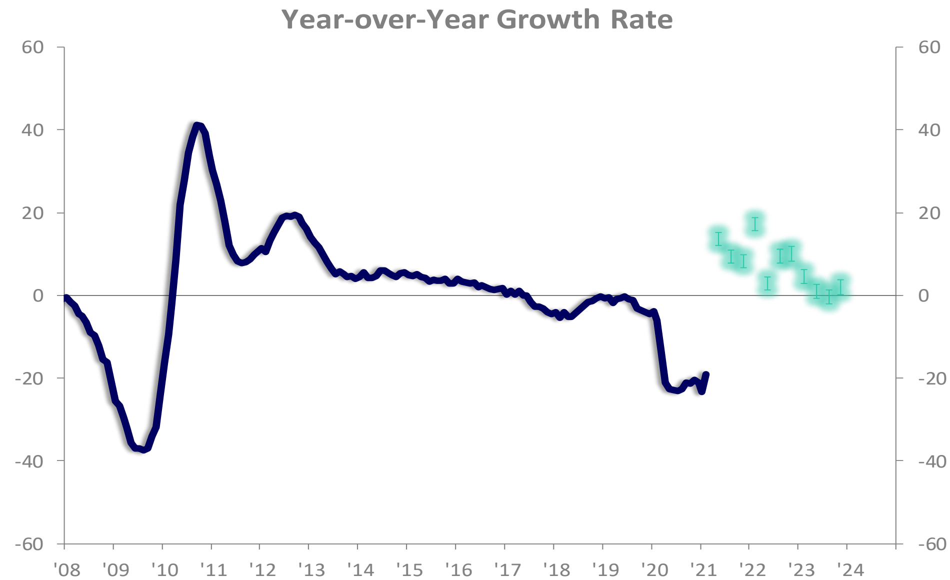
February 2021 Annual Growth Rate (12/12): -0.2%

February 2021 Annual Total (12MMT): $32.9 billion

North America Light Vehicle Production

Forecast Revised Downward as Upstream Supply Shortages Disrupt Production Activity





Industry

Outlook

2021: 8.3%

2022: 10.1%

2023: 2.0%

Outlook & Supporting Evidence

- The Production annual rate-of-change declined to a new low of -23.4% in February due to supply shortages for a number of inputs, which have halted production lines for a number of manufacturers.
- We lowered our Production outlook for 2021 by 6.5% as a result. Our outlook for 2022 and 2023 is virtually unchanged. Expect annual Production to generally rise through 2023. Production will not reach pre-pandemic levels during that time.
- A strong consumer and historically low interest rates will buoy demand for vehicles this year, which will support rising Production. The semiconductor chip shortage poses a downside risk; Production may not be able to keep pace with demand.

Phase & Amplitudes

Phase A

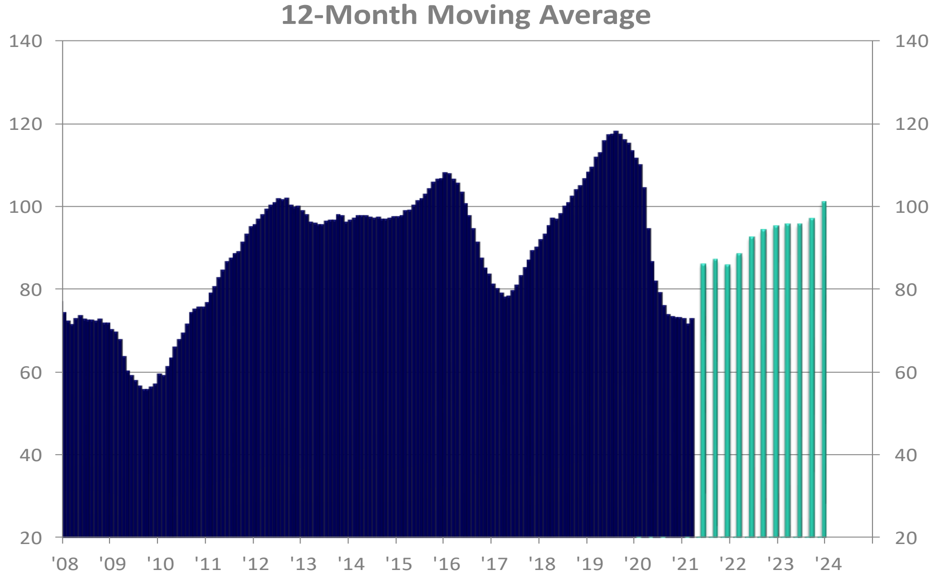
Recovery

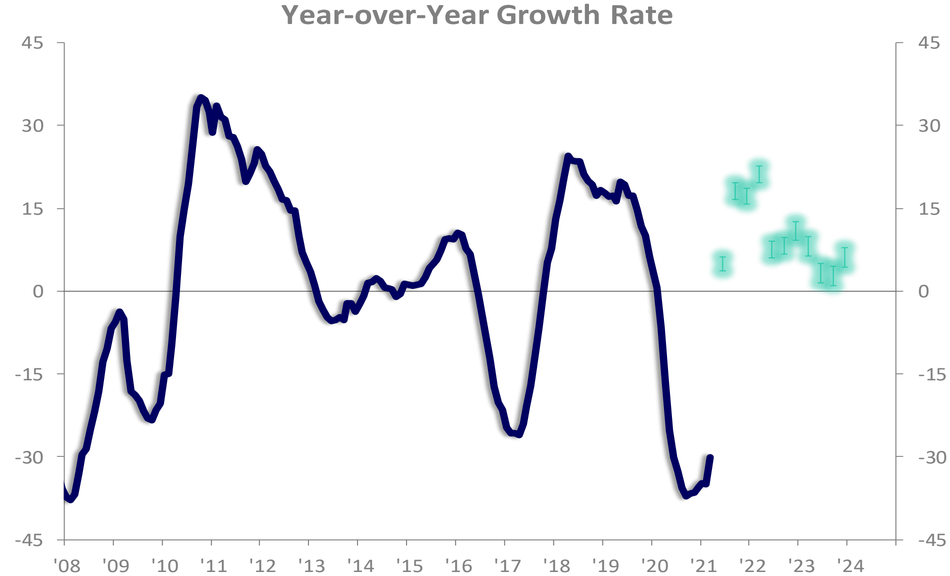
March 2021 Annual Growth Rate (12/12): -19.1%

March 2021 Annual Total (12MMT): 12.7 million units

US Heavy Duty Truck Production Index

Forecast Revised; Supply Chain Disruptions to Hinder Production in the Near Term





Industry Outlook

2021: 17.2%

2022: 10.9%

2023: 6.1%

Outlook & Supporting Evidence

- Ongoing semiconductor shortages and supply chain disruptions necessitated a revision to the forecast. We lowered the outlook by 6.3% for 2021 but lifted our expectations by 1.7% for 2022. Our expectations for 2023 are virtually unchanged.
- Annual Production will generally rise through at least 2023. However, we expect Production to stay below 2019 peak levels during this time.
- Recovery and rise in both the industrial and consumer sectors will push Production higher in 2021. However, chip shortages and other supply chain issues will hamper activity in the near term.
- Scrupulously evaluate your supply chain. Be aware of any potential upstream bottlenecks and longer delivery times, which may hinder Production and consequently demand for MTI member services.

Phase & Amplitudes

Phase A

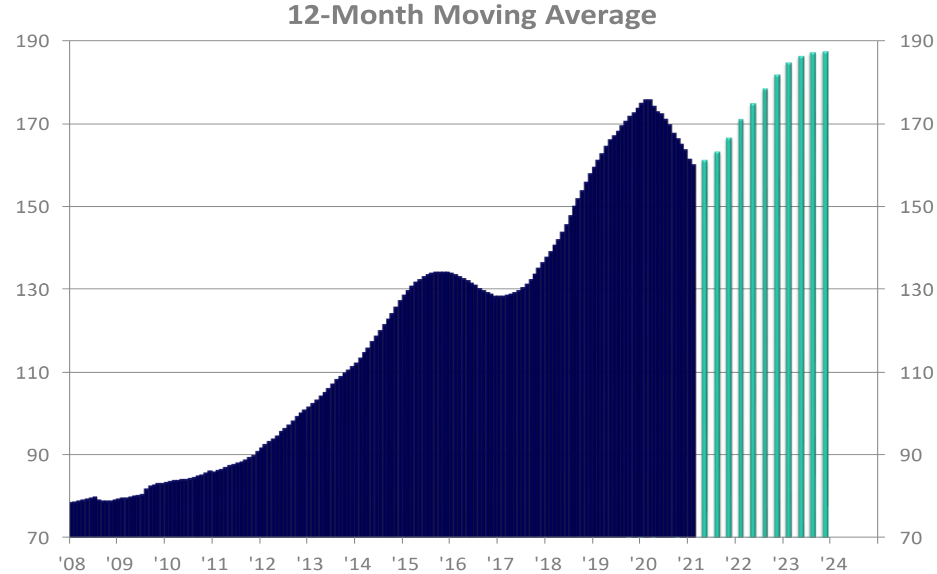
Recovery

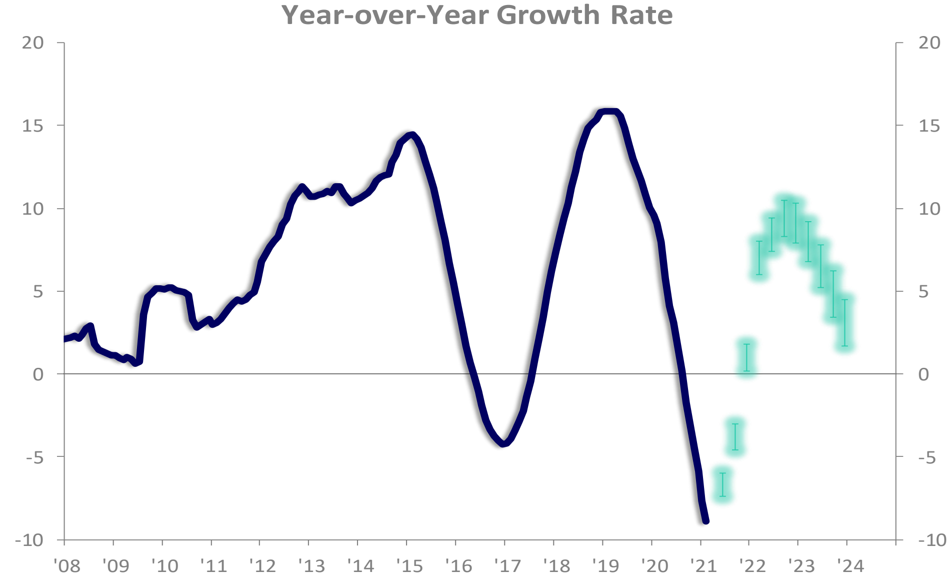
March 2021 Annual Growth Rate (12/12): -30.1%

March 2021 Annual Average (12MMA): 73.0

US Oil and Gas Extraction Production Index

Forecast Revised Upward; Rising Oil and Natural Gas Prices Incentivizing Investment





Industry Outlook

2021: 1.0%

2022: 9.1%

2023: 3.1%

Outlook & Supporting Evidence

- Upgrades to our outlooks for natural gas and oil prices and the US industrial sector necessitated a revision to the Production forecast. We lifted the forecast by about 5.3% each for 2021, 2022, and 2023.
- Expect annual Production to begin rising imminently. Rise will extend through at least year-end 2023; Production will reach record levels during that time.
- Industry utilization rates are generally rising, and oil prices have surpassed the breakeven point. These factors will incentivize industry investment.

Phase & Amplitudes

Phase D

Recession

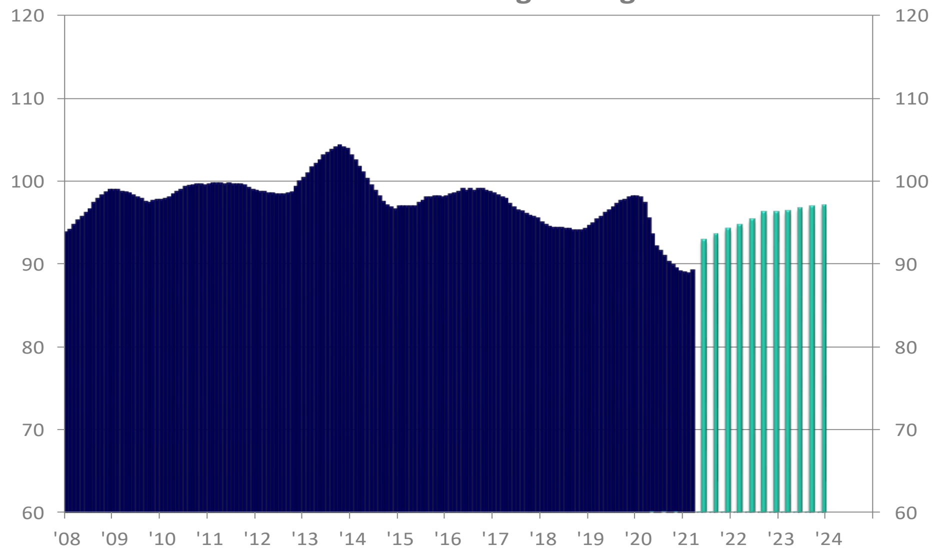
March 2021 Annual Growth Rate (12/12): -8.9%

March 2021 Annual Average (12MMA): 160.1

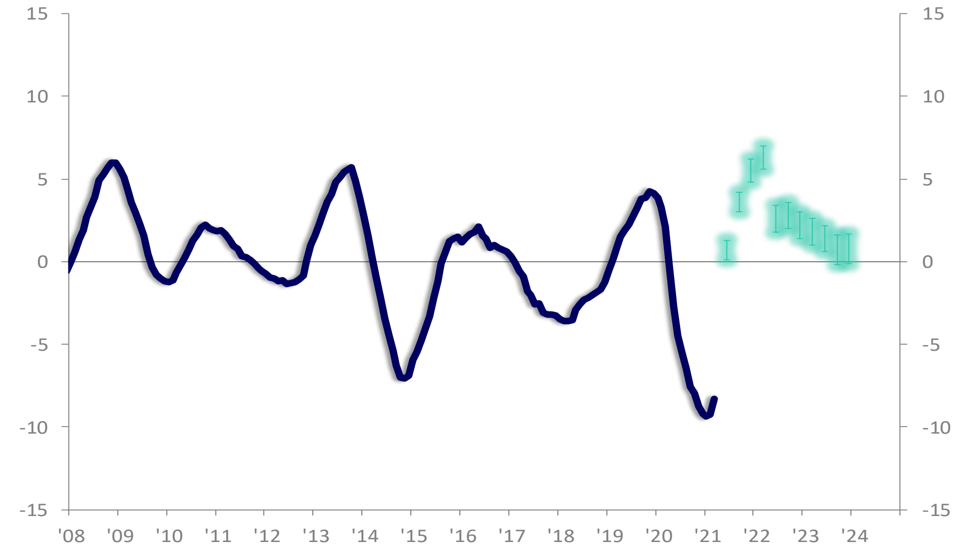
US Medical Equipment and Supplies Production Index

Forecast Revised Upward; Vaccine Rollout to Support Recovery and Rise This Year

12-Month Moving Average



Year-over-Year Growth Rate



Industry Outlook

2021: 5.5%

2022: 2.2%

2023: 0.8%

Outlook & Supporting Evidence

- We mildly adjusted the forecast to reflect the latest data, which came in slightly stronger than we expected. We lifted the forecast by 3.7% for 2021. The outlook for 2022 and 2023 is little changed.
- Annual Production will rise through at least year-end 2023, coming in about 1.3% below the prior peak.
- Trends in US Exports of Medical Instruments and Appliances suggest business cycle rise in Production will extend through at least the near term.
- Ongoing COVID-19 vaccinations will allow the global population to resume normal preventative healthcare patterns. This will support recovery and rise in Production this year.

Phase & Amplitudes

Phase A

Recovery

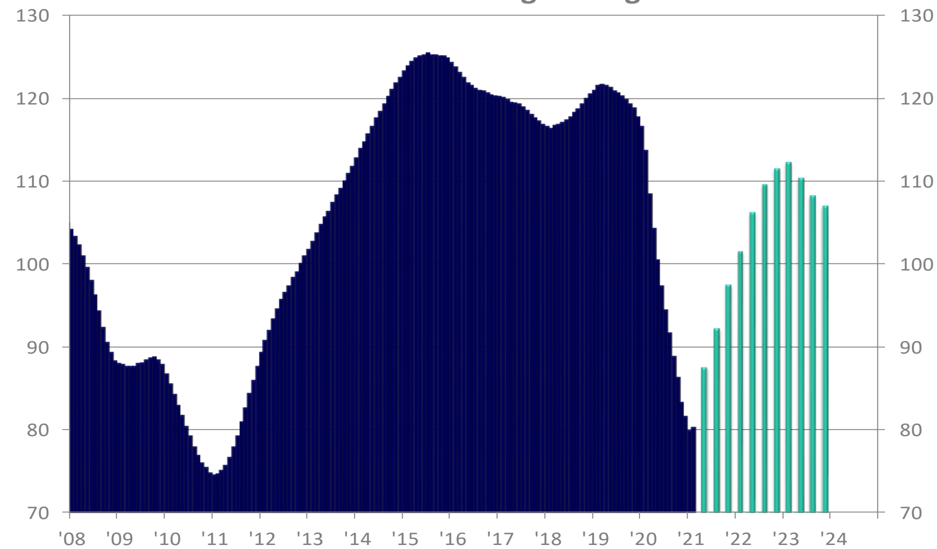
March 2021 Annual Growth Rate (12/12): -8.3%

March 2021 Annual Average (12MMA): 89.3

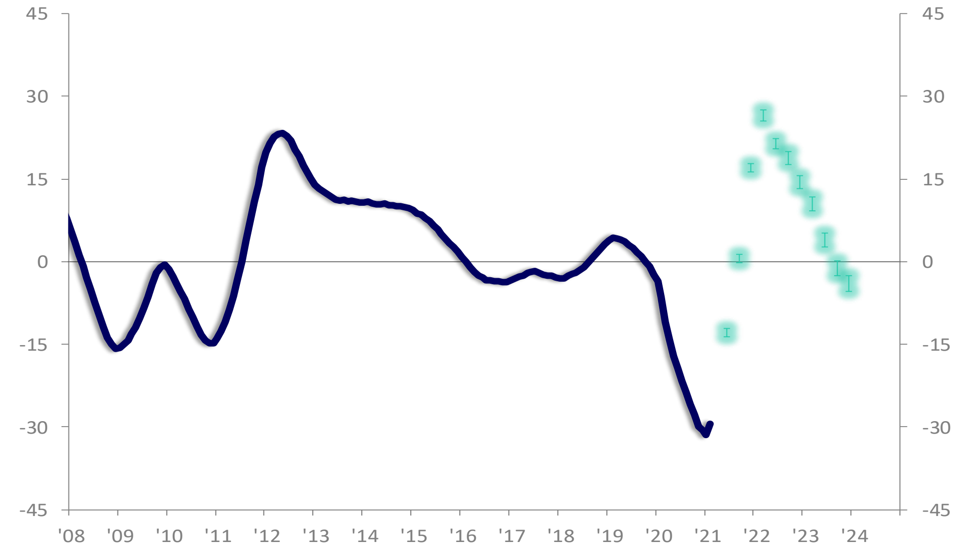
US Civilian Aircraft Equipment Production Index

Forecast Revised; Vaccine Rollout Increasing Air Travel, Boosting Production Demand

12-Month Moving Average



Year-over-Year Growth Rate



Industry Outlook

2021: 17.0%

2022: 14.4%

2023: -4.0%

Outlook & Supporting Evidence

- The vaccine rollout is increasing consumers' willingness to travel and enabling the release of demand that was pent up during the pandemic; demand for aircraft is increasing as airlines become more optimistic. This necessitated an upward revision to the forecast .We lifted the forecast by 9.9% for 2021, 19.1% for 2022, and 15.4% for 2023. The timing of the expected peak is unchanged.
- Annual Production will rise into early 2023 and then decline through at least 2023.
- Trends in US Air Carrier System Available Seat Miles (domestic and international) and US Personal Consumption Expenditures for Pleasure Aircraft suggest that business cycle rise will persist in the coming quarters.

Phase & Amplitudes

Phase A

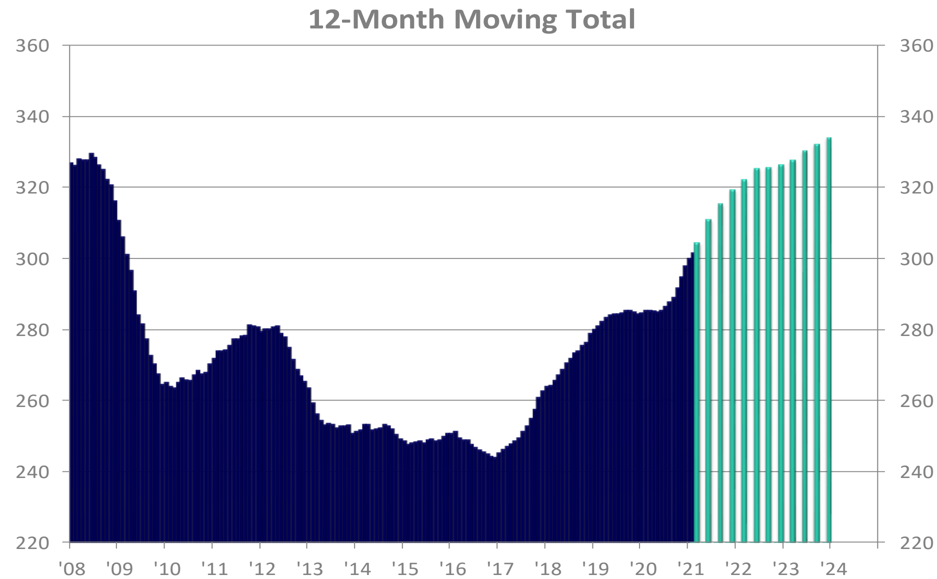
Recovery

March 2021 Annual Growth Rate (12/12): -29.4%

March 2021 Annual Average (12MMA): 80.3

US Computers and Electronics New Orders

Annual Production to Rise Through 2023; Semiconductor Shortages Pose Near-Term Risk



Industry Outlook

2021: 7.2%

2022: 2.2%

2023: 2.3%

Outlook & Supporting Evidence

- US Computers and Electronics New Orders during the 12 months through February totaled $301.5 billion, up 5.7% from one year ago. Decline in the quarterly rate-of-change signals a transition to Phase C, Slowing Growth, in the latter half of 2021, in line with our unchanged outlook.
- Annual New Orders will generally rise through at least year-end 2023, though the pace of rise will slow between the second half of 2021 and the first half of 2023.
- Semiconductor computer chip shortages are negatively impacting this industry. Microsoft, Sony, and Apple have stated that shortages are hindering production. Until semiconductor producers are able to increase capacity, these shortages will pose a downside risk to our outlook.

Phase & Amplitudes

Phase B

Accelerating Growth

February 2021 Annual Growth Rate (12/12): 5.7%

February 2021 Annual Total (12MMT): $301.5 billion

US Leading Indicators

Indicator	Direction		
	2Q21	3Q21	4Q21
ITR Leading Indicator™	🟢	🟢	N/A
ITR Retail Sales Leading Indicator™	🔴	🟢	🟢
The Conference Board's US Leading Indicator	🟢	🟢	N/A
US ISM PMI (Purchasing Managers Index)	🟢	🟢	🟢
US Total Capacity Utilization Rate	🟢	🟢	N/A

Green denotes that the indicator signals cyclical rise for the economy in the given quarter. Red denotes the opposite.

What it means for the US economy

• The ITR Retail Sales Leading Indicator™ suggests business cycle rise in Retail Sales will be sustainable by the third quarter of 2021. However, recent stimulus may result in sustainable Retail Sales rise occurring sooner.

• The US Total Industry Capacity Utilization Rate signals business cycle rise in US Industrial Production through at least the third quarter of 2021.

• Business-to-business spending is in an accelerating growth trend, signaling a confident industrial sector. The US ISM PMI corroborates the business-to-business trend and suggests further upward momentum in the manufacturing sector will extend through 2021.

The US residential construction, retail, and industrial sectors have transitioned to business cycle rise. Leading indicators suggest rise will be sustained in the coming quarters. Implement Phase A and B management objectives (pages 18 and 19) to help maximize success this year.

Appendix — Market Definitions

US Industrial Production Index — Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board. Index, 2012 = 100, not seasonally adjusted (NSA).

US Nondefense Capital Goods New Orders (excluding aircraft)— New orders for nondefense capital goods, excluding aircraft, in the United States. Includes farm machinery and equipment, construction machinery, mining machinery, nondefense small arms and ordnance, industrial machinery, commercial and service industry equipment, other general purpose machinery, photographic equipment, metalworking machinery, turbine and generator manufacturing, power transmission equipment, pumps and compressors, material handling equipment, electronic computers, computer storage devices and peripheral equipment, communications equipment, nondefense search and navigation equipment, electrometrical equipment, electrical equipment, heavy duty truck manufacturing, railroad rolling stock, nondefense ship and boat building, office and institutional furniture, and medical equipment and supplies. Source: US Census Bureau. Measured in billions of dollars, NSA.

US Construction Machinery New Orders — New Orders for construction machinery in the United States. This industry comprises establishments primarily engaged in manufacturing construction machinery, surface mining machinery, and logging equipment. Source: US Census Bureau. NAICS Code: 33312. Measured in billions of dollars, NSA.

North America Light Vehicle Production — Passenger car and light-duty truck production (classes 1-3) in the US, Canada, and Mexico combined, including transplants. A passenger car is a road motor vehicle, other than a motorcycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver). Source: WardsAuto. Measured in millions of units, NSA.

US Heavy Duty Truck Production Index — Production index for heavy duty trucks in the US. This industry comprises establishments primarily engaged in (1) manufacturing heavy duty truck chassis and assembling complete heavy duty trucks, buses, heavy duty motor homes, and other special purpose heavy duty motor vehicles for highway use or (2) manufacturing heavy duty truck chassis only. Includes trucks weighing 14,000 pounds or more. NAICS code: 33612. Source: Federal Reserve Board. Index, 2012 = 100, NSA.

Appendix — Market Definitions

US Oil and Gas Extraction Production Index — Includes exploration and extraction of crude petroleum and natural gas; drilling, completing, and equipping wells; operating separators, emulsion breakers, desilting equipment, and field gathering lines for crude petroleum and natural gas; and all other activities in the preparation of oil and gas up to the point of shipment from the producing property. Also includes the production of crude petroleum, the mining and extraction of oil from oil shale and oil sands, and the production of natural gas, sulfur recovery from natural gas, and recovery of hydrocarbon liquids. Source: Federal Reserve Board. NAICS Code: 211. Index, 2012 = 100, NSA.

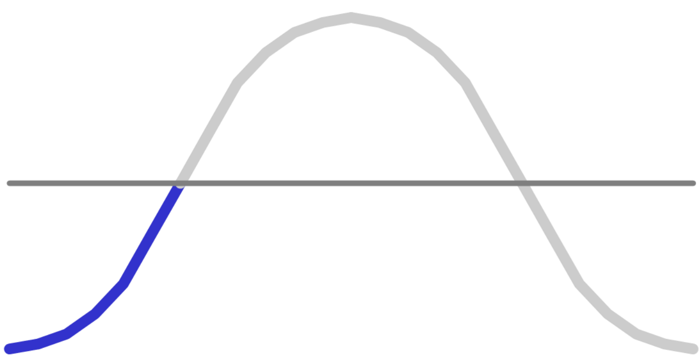
US Medical Equipment and Supplies Production Index — Medical equipment and supplies manufacturing index for the United States. Examples of products made by these establishments are surgical and medical instruments, surgical appliances and supplies, dental equipment and supplies, orthodontic goods, ophthalmic goods, dentures, and orthodontic appliances. Source: Federal Reserve Board. NAICS Code: 3391. Index, 2012 = 100, NSA.

US Civilian Aircraft Equipment Production Index — Index for US establishments primarily engaged in one or more of the following: (1) manufacturing aircraft engines and engine parts; (2) developing and making prototypes of aircraft engines and engine parts; (3) aircraft propulsion system conversion (i.e., major modifications to systems); (4) aircraft propulsion systems overhaul and rebuilding (i.e., periodic restoration of aircraft propulsion system to original design specifications). Source: Federal Reserve Board. NAICS Code: 336412,3. Index, 2012 = 100, NSA.

US Computers and Electronics New Orders — New orders for computer and electronic products (excluding semiconductors) in the United States. Industries in the Computer and Electronic Product Manufacturing subsector aggregate establishments that manufacture computers, computer peripherals, communications equipment, and similar electronic products, and establishments that manufacture components for such products. Source: US Census Bureau. NAICS Code: 334. Measured in billions of dollars, NSA.

Management Objectives™

Phase



A

1 Scrupulously evaluate the supply chain

2 Model positive leadership (culture turns to behavior)

3 Start to phase out marginal opportunities (products, processes, people); repair margins

4 Perform due diligence on customers and extend credit

5 Be on good terms with a banker; you will need the cash more now than in any other phase

6 Invest in customer market research; know what they value and market/price accordingly

7 Hire key people and implement company-wide training programs ahead of Phase B

8 Allocate additional resources to sales and marketing

9 Invest in system/process efficiencies

10 Make opportunistic capital and business acquisitions; use pessimism to your advantage

Management Objectives™

1 Ensure quality control keeps pace with increasing volume

2 Invest in workforce development: hiring, training, retention

3 Ensure you have the right price escalator; space out price increases

4 Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart

5 Use improved cash flow to strategically position the business to beat the business cycle

6 Expand credit to customers

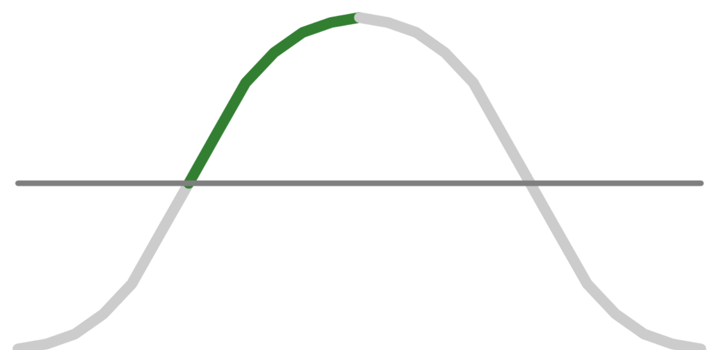
7 Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)

8 Communicate competitive advantages; build the brand

9 Query users for what they want and what is important to them

10 Sell the business in a climate of maximum goodwill

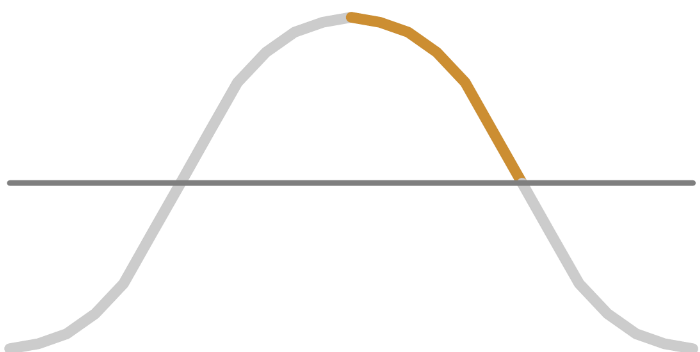
Phase



B

Management Objectives™

Phase



C

1 Know if your markets are headed for a soft landing or a hard landing

2 Cash is king; beware of unwarranted optimism

3 Stay on top of aging receivables

4 Revisit capital expenditure plans

5 Lose the losers: if established business segments are not profitable during this phase, eliminate them

6 Use competitive pricing to manage your backlog through the coming slowdown

7 Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue

8 Go entrepreneurial and/or counter-cyclical

9 Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net

10 If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Management Objectives™

1 Implement aggressive cost-cutting measures

2 Offer alternative products with a lower cost basis

3 Perform due diligence on acquisitions while valuations are falling

4 Reduce advertising as consumers become more price conscious

5 Enter or renegotiate long-term leases

6 Negotiate labor contracts

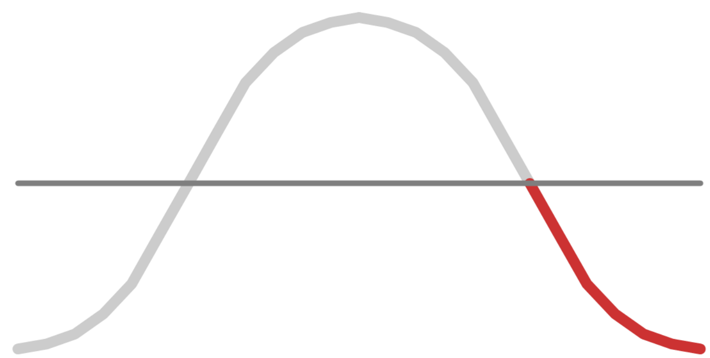
7 Consider capital equipment needs for the next cycle

8 Tighten credit policies

9 Develop programs for advertising, training, and marketing to implement in Phase A

10 Lead with optimism, remembering that Phase D is temporary

Phase



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