



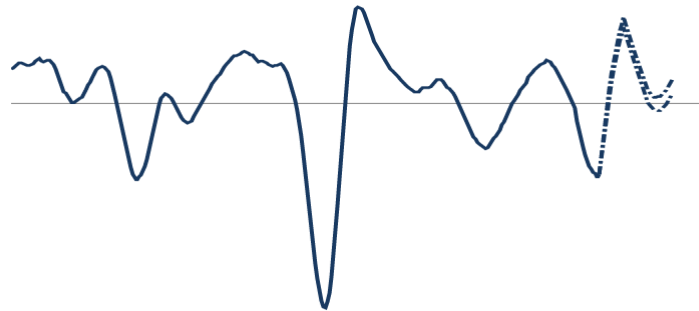
ITR ECONOMICS

First In Forecasts Worldwide

Acquisition Assessment Toolkit™

===== July 2021 =====

Sample Company



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www.itrondemand.com

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
<i>Lower Forecast Range</i>	-2.5	2.4	6.2	8.6	6.2	4.2	2.1	0.1	-0.7	-0.8	-0.1	1.1
Annual Growth Rate (%)	-2.0	2.9	6.7	9.2	6.8	4.8	2.7	0.8	0.0	0.0	0.7	1.9
<i>Upper Forecast Range</i>	-1.5	3.4	7.2	9.8	7.4	5.4	3.3	1.5	0.7	0.8	1.5	2.7
<i>Lower Forecast Range</i>	582.3	596.3	608.3	616.8	621.6	624.4	624.0	620.9	620.7	623.0	627.0	632.1
Annual Sales (Thousands of \$)	585.3	599.2	611.2	620.3	625.1	628.0	627.7	625.2	625.1	628.0	632.1	637.1
<i>Upper Forecast Range</i>	588.3	602.1	614.0	623.7	628.6	631.6	631.3	629.6	629.5	633.0	637.1	642.1
Quarterly Sales (Thousands of \$)	152.8	154.2	157.1	156.1	157.6	157.1	156.8	153.6	157.5	160.1	160.8	158.7

Outlook

- The company Sales 12MMT will likely rise into 2H22.
- Sample Company should be prepared for the highest level of activity in over a decade during the latter half of 2022.
- Expect the Sales 12MMT to then decline mildly into mid-2023.

Supporting Evidence

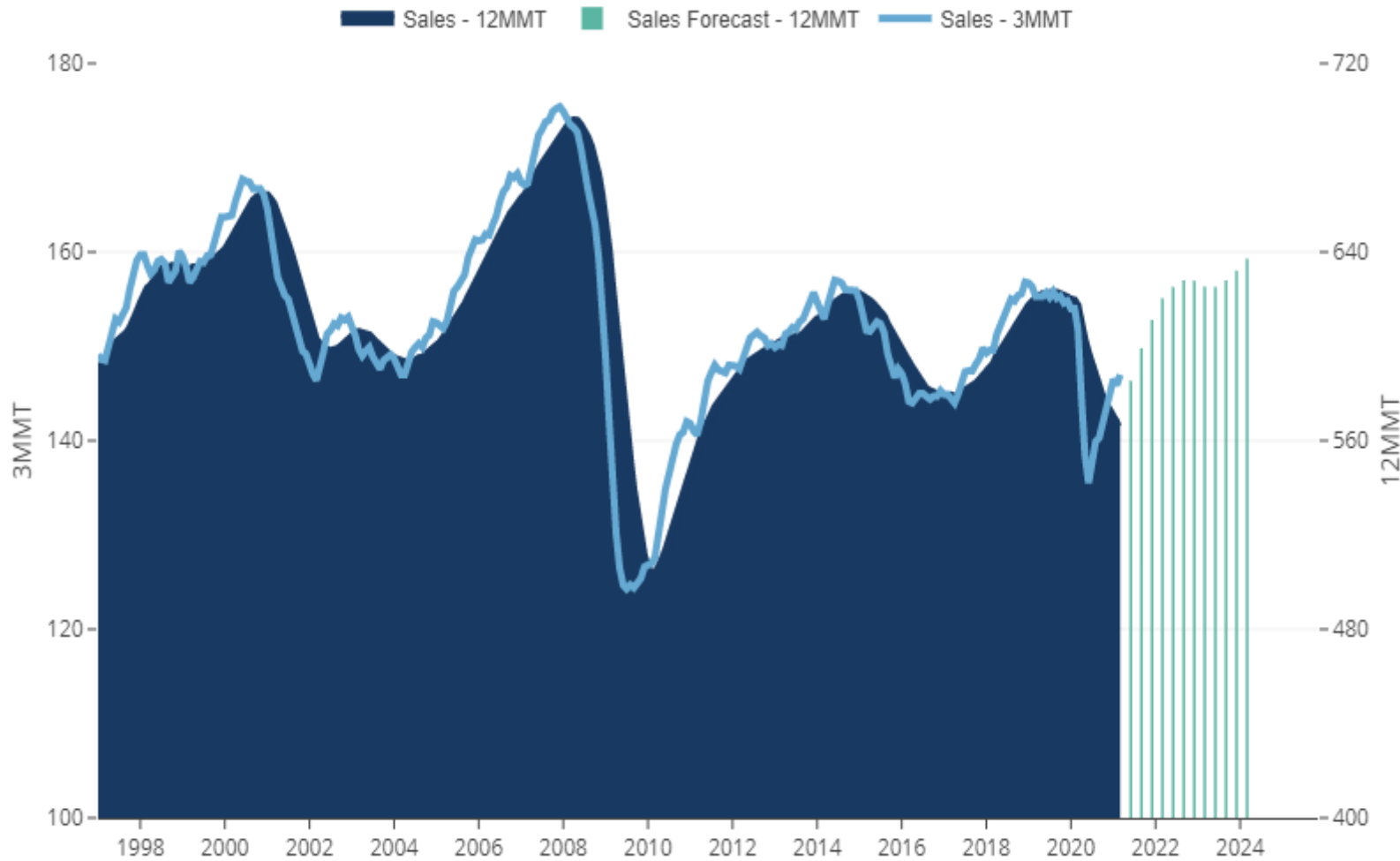
- Expected business cycle rise in Sales during 2021 is in alignment with several key indicators, including the ITR Leading Indicator™.
- The long-term trajectory of the Sales forecast is informed by our forecast for US Total Retail Sales and our expectations for the US industrial economy at large.

Risks

- Supply chain disruptions could result in capacity constraints; this is a downside risk to the forecast in 2021.

Sample Company Sales

Data Trends, Thousands of \$



Quarterly Sales (3MMT)

\$147.0 thousand

Annual Sales (12MMT)

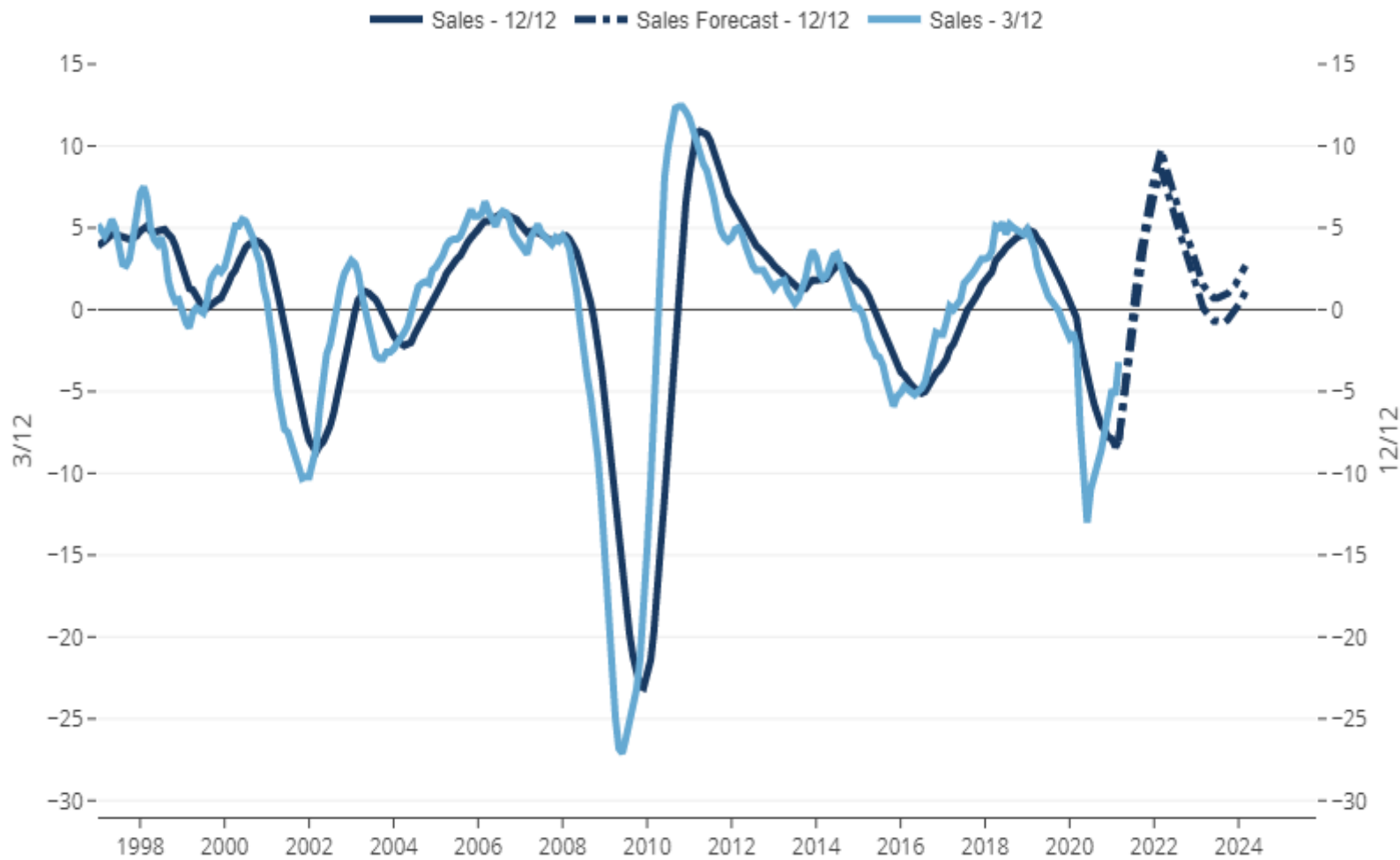
\$568.0 thousand

OUTLOOK

Annual Sales will rise into the second half of 2022. Expect annual Sales to then decline mildly into mid-2023. Annual Sales rise will resume in the latter half of 2023.

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
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Annual Sales (Thousands of \$)	585.3	599.2	611.2	620.3	625.1	628.0	627.7	625.2	625.1	628.0	632.1	637.1
Upper Forecast Range	588.3	602.1	614.0	623.7	628.6	631.6	631.3	629.6	629.5	633.0	637.1	642.1

Sample Company Sales Rates-of-Change



Current Phase



**Phase A
Recovery**

Quarterly Growth (3/12)

-3.2%

Annual Growth (12/12)

-8.0%

NEXT 12/12 HIGH

1Q22

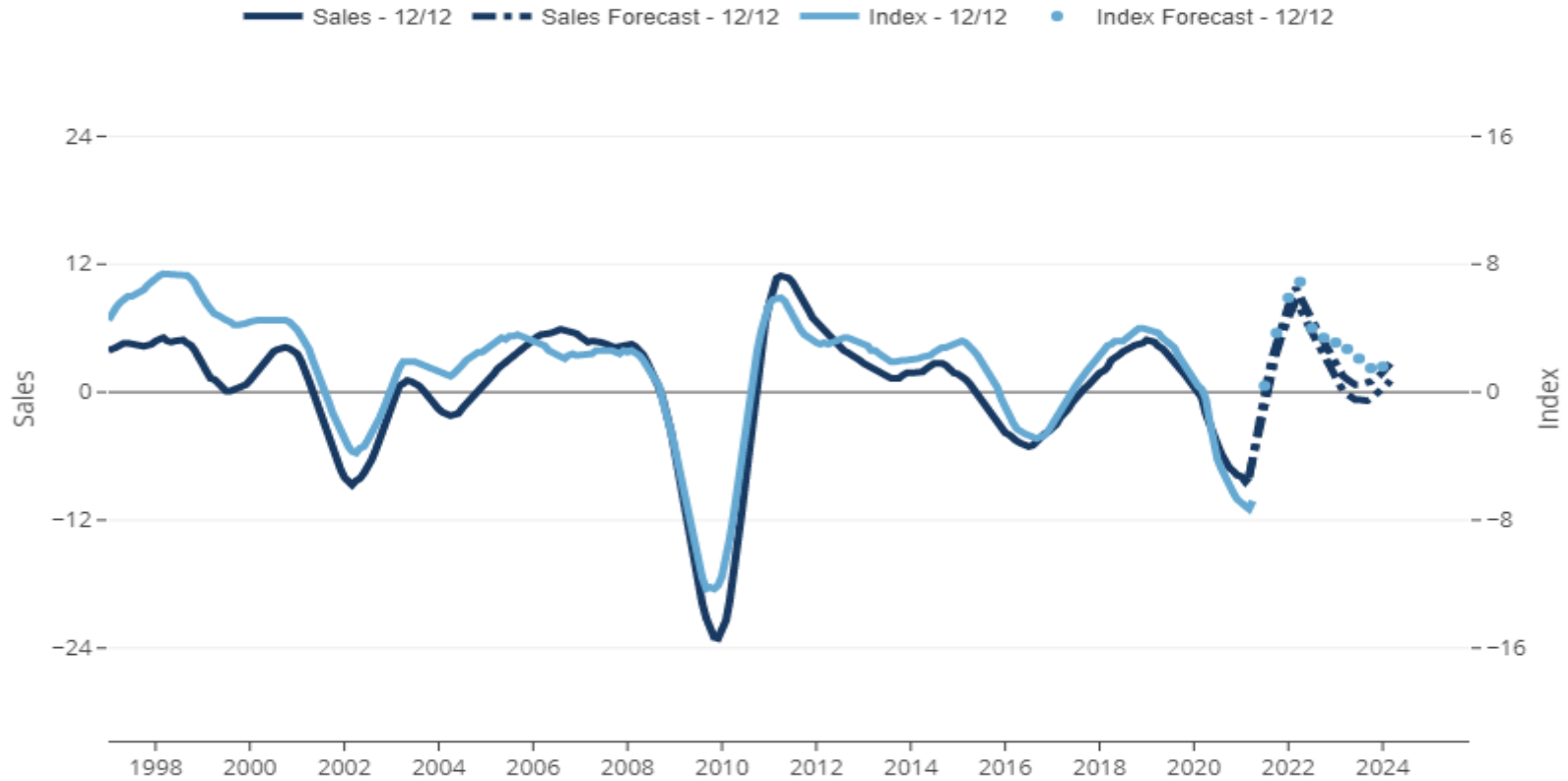
NEXT 12/12 LOW

3Q23

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
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Annual Growth Rate (%)	-2.0	2.9	6.7	9.2	6.8	4.8	2.7	0.8	0.0	0.0	0.7	1.9
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Index Entered Phase A; Bodes Well for Expected Sales Cyclical Rise Into 1H22

Sample Company to US Industrial Production Index



Note: The indicator is shifted along the horizontal axis to reflect its cyclical relationship to Sales.

Note: The indicator is shifted along the horizontal axis to reflect its cyclical relationship to Sample Company Sales

Complete Indicator Analysis: [ITR onDemand](#)

Current Phase



**Phase A
Recovery**

1-Month Lead Time to Sales 12/12

Turning Point Analysis

- The projected 1Q22 high in the Index 12/12 suggests a 2Q22 high in the Sales 12/12.
- The projected 3Q23 low in the Index 12/12 suggests a 4Q23 low in the Sales 12/12.

Jun-21	Sep-21	Dec-21	Mar-22	Year-End 2022	Year-End 2023
A	B	B	B	C	B

Current Indicator Amplitude

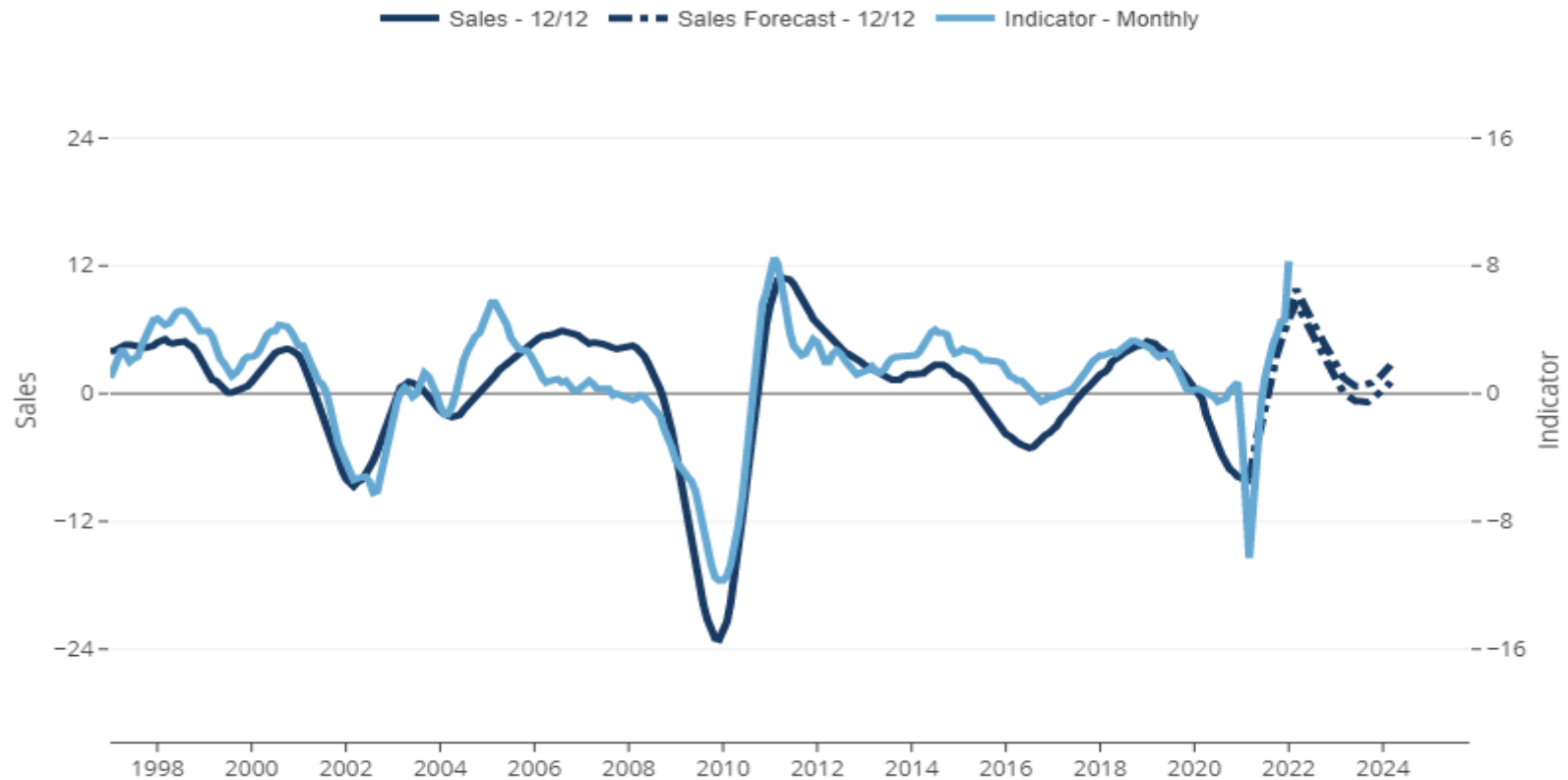
March 2021 Index 12/12: -6.8%

Indicator Relevance

US Industrial Production is a benchmark indicator for the US economy.

Indicator Supports Tentative March 2021 Cyclical Low for US Macroeconomy

Sample Company to ITR Leading Indicator™



Note: The indicator is shifted along the horizontal axis to reflect its cyclical relationship to Sales.

Note: The indicator is shifted along the horizontal axis to reflect its cyclical relationship to Sample Company Sales

Complete Indicator Analysis: [ITR onDemand](#)

Current Phase



Phase B
Accelerating Growth

9-Month Lead Time to Sales 12/12

Turning Point Analysis

- The 2Q20 low in the Indicator monthly suggests a 1Q21 low in the Sales 12/12.
- Rise in the Indicator monthly into at least 2Q21 suggests subsequent rise in the Sales 12/12 into at least 1Q22.

Jun-21	Sep-21	Dec-21	Mar-22	Year-End 2022	Year-End 2023
A	B	B	N/A	N/A	N/A

Current Indicator Amplitude

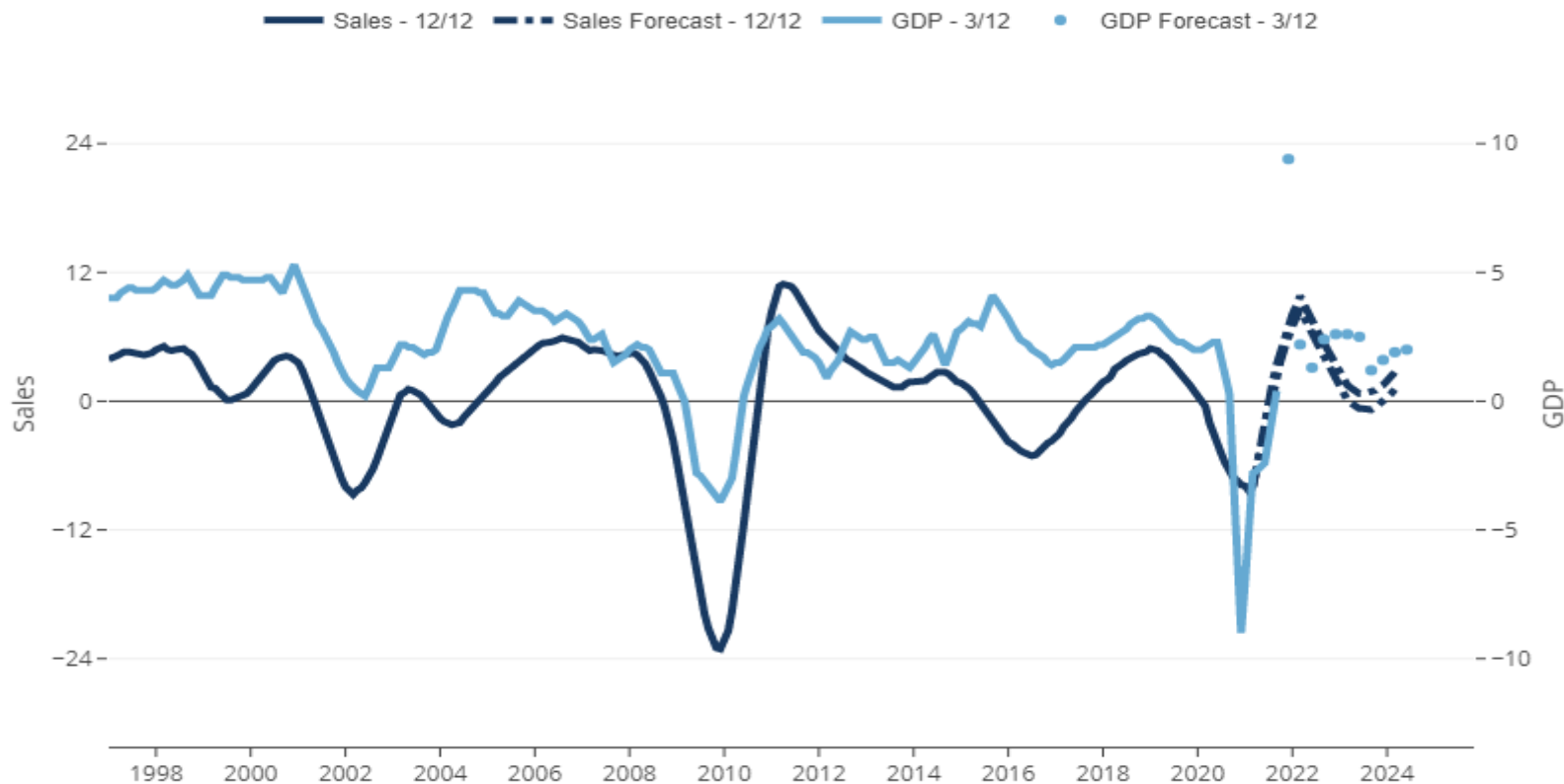
April 2021 Indicator Monthly: 8.3

Indicator Relevance

The ITR Leading Indicator is a directional leading indicator for US Industrial Production and Sales.

Quarterly Average GDP Expected to Reach Record High-Levels in Mid-2022

Sample Company to US Real Gross Domestic Product



Note: The indicator is shifted along the horizontal axis to reflect its cyclical relationship to Sales.

Note: The indicator is shifted along the horizontal axis to reflect its cyclical relationship to Sample Company Sales

Complete Indicator Analysis: [ITR onDemand](#)

Current Phase



Phase B
Accelerating Growth

6-Month Lead Time to Sales 12/12

Turning Point Analysis

- The projected 2Q21 high in the GDP 3/12 suggests a 4Q21 high in the Sales 12/12.
- The projected 1Q23 low in the GDP 3/12 suggests a 3Q23 low in the Sales 12/12.

Jun-21	Sep-21	Dec-21	Mar-22	Year-End 2022	Year-End 2023
A	B	B	C	C	B

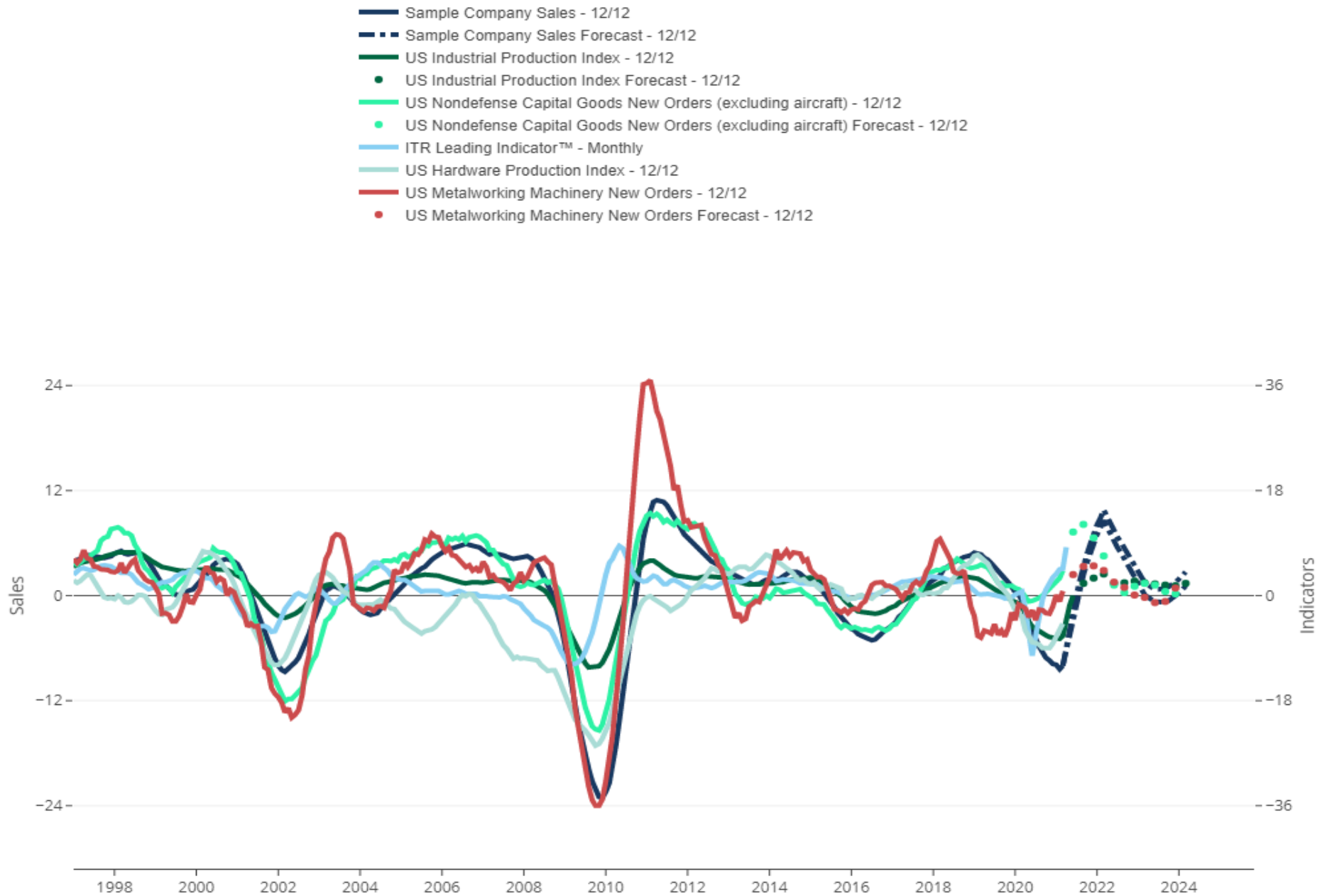
Current Indicator Amplitude

March 2021 GDP 3/12: 0.4%

Indicator Relevance

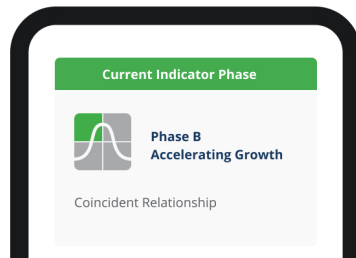
This indicator is a measure of the overall economic output of the US.

Sample Company Sales to Indicators



Acquisition Assessment Toolkit™ Guide

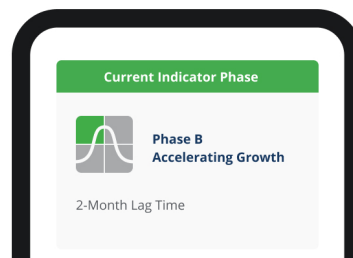
The data points below are hypothetical and are provided here only to give guidance regarding how to read this report.



Current Phase

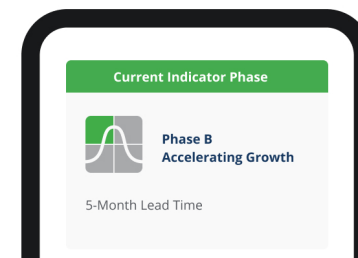
The Current Phase section tells you which phase of the business cycle the indicator is in.

It will also tell you whether the indicator leads, lags, or moves in real time with the company.



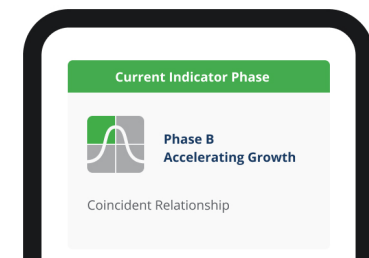
2-Month Lag Time

This indicator lags the company by two months.



5-Month Lead Time

This indicator leads the company by five months.



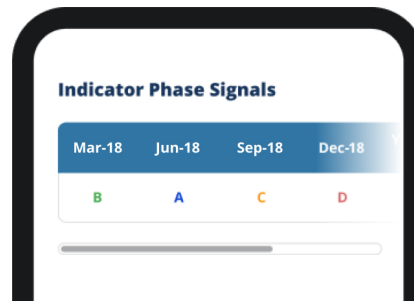
Coincident Relationship

This indicator moves in real time with the company (no lead or lag time).



Headline

Simple! This headline tells you what your Economist wants you to know about this indicator, such as what it means for the company.

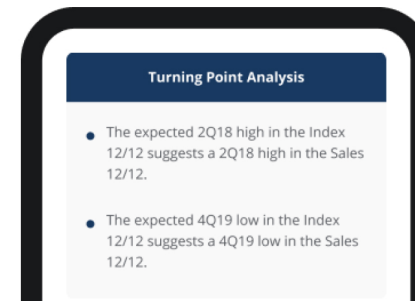


Indicator Phase Signals

When lead/lag time is taken into account, the indicator's trajectory suggests a course of future business cycle phases for the company, shown here.

Example: ITR expects that an indicator will be in Phase B through December 2021 and transition to Phase C in March 2022. If the indicator leads the company by six months, this would be shown as Phase B through June 2022 and Phase C in September 2022.

When an indicator signals a certain phase for the company at a given time, it does not mean that the company will be in that phase at that time. For example, the company may enter recession even if the trajectory of US Industrial Production suggests otherwise.



Turning Point Analysis

This tells you when the indicator is reaching a cyclical high or low and what this suggests for the timing of the company's upcoming cyclical high or low, based on the leading, lagging, or coincident relationship.



Economic Landscape Overview

Indicators selected to represent the company's end-use markets are shown in comparison to the company data and forecast. This chart will allow you to assess the current and expected position of various end-use markets. The user can decide to hide or show indicators by clicking on the legend entry for each.

Indicator Definitions

US Industrial Production Index	Index of total industrial production in the United States; includes manufacturing, mining, and utilities. Source: Federal Reserve Board. 2012 = 100, not seasonally adjusted (NSA).
ITR Leading Indicator™	The ITR Leading Indicator is a proprietary index comprised of consumer, industrial, financial, and global components. Movements in the Leading Indicator suggest the possible course of business cycle movements in US Industrial Production, a measure of the overall economy's activity, approximately three quarters in advance. A reading of zero or lower is indicative of recession. Source: ITR Economics.
US Real Gross Domestic Product	Real (inflation-adjusted) gross domestic product (GDP) in the United States. GDP is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Put simply, GDP is a broad measurement of a nation's overall economic activity. Source: Bureau of Economic Analysis. Measured in trillions of 2012 chained dollars, seasonally adjusted annual rate (SAAR).
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 Hardware Production Index	Production index for hardware manufacturing. This industry comprises establishments primarily engaged in manufacturing metal hardware, such as metal hinges, metal handles, keys, and locks (except coin-operated, time locks). Includes hardware for doors, locks, luggage, cabinets, automobiles, aircraft, pianos, etc. Source: Federal Reserve Board. 2012 = 100, NSA.
US Metalworking Machinery New Orders	New orders for metal working machinery in the United States. This industry comprises establishments primarily engaged in manufacturing metalworking

	machinery, such as metal cutting and metal forming machine tools; cutting tools; and accessories for metalworking machinery; special dies, tools, jigs, and fixtures; industrial molds; rolling mill machinery; assembly machinery; coil handling, conversion, or straightening equipment; and wire drawing and fabricating machines. Source: US Census Bureau. NAICS Code: 33351. Measured in billions of dollars, NSA.
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Terminology and Methodology

Data Trends

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

Totals are used for data that can be added together, such as units sold or dollars spent. Averages are used for data that cannot be compounded, such as index readings, percentages, price levels, and interest rates.

3MMT/A and 12MMT/A

A 3-month or 12-month moving total/average is the total/average of the data for the most recent 3 or 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 prior. Rates-of-change are expressed in terms of the annual percentage change in a 12MMT or 12MMA, 3MMT/A, and actual monthly data.

Rates-of-change reveal whether activity levels are rising or falling compared to the previous 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 12/12, 3/12, and 1/12, which represent the year-over-year percentage change of a 12MMT/A, a 3MMT/A, or a single month of data, 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



Recovery (A)

The 12/12 is rising below 0, and the data trend is either heading toward a low or is in the early stages of recovery. This is the first positive phase of the business cycle.



Accelerating Growth (B)

The 12/12 is rising above 0, and 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.



Slowing Growth (C)

The 12/12 is declining but remains above 0; data trend ascent is slowing or has stopped, but the data trend is still above last year. This is the first negative phase of the business cycle.



Recession (D)

The 12/12 is below 0, 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.

Phase A



Recovery

- Scrupulously evaluate the supply chain
- Model positive leadership (culture turns to behavior)
- Start to phase out marginal opportunities (products, processes, people); repair margins
- Perform due diligence on customers and extend credit
- Be on good terms with a banker; you will need the cash more now than in any other phase
- Invest in customer market research; know what they value and market/price accordingly
- Hire key people and implement company-wide training programs ahead of Phase B
- Allocate additional resources to sales and marketing
- Invest in system/process efficiencies
- Make opportunistic capital and business acquisitions; use pessimism to your advantage

Phase B



Accelerating Growth

- Ensure quality control keeps pace with increasing volume
- Invest in workforce development: hiring, training, retention
- Ensure you have the right price escalator; space out price increases
- Maximize your profit margins through differentiation; stand out from the crowd and set yourself apart
- Use improved cash flow to strategically position the business to beat the business cycle
- Expand credit to customers
- Improve corporate governance (rent a CFO; establish a board of advisors or board of directors)
- Communicate competitive advantages; build the brand
- Query users for what they want and what is important to them
- Sell the business in a climate of maximum goodwill

Phase C



Slowing Growth

- Know if your markets are headed for a soft landing or a hard landing
- Cash is king; beware of unwarranted optimism
- Stay on top of aging receivables
- Revisit capital expenditure plans
- Lose the losers: if established business segments are not profitable during this phase, eliminate them
- Use competitive pricing to manage your backlog through the coming slowdown
- Avoid committing yourself to long-term expenses at the top of the price cycle, but lock in revenue
- Go entrepreneurial and/or counter-cyclical
- Evaluate your vendors for financial strength; if needed, look for additional vendors as a safety net
- If the cycle looks recessionary, cross-train key people to prepare for workforce attrition/reduction

Phase D



Recession

- Implement aggressive cost-cutting measures
- Offer alternative products with a lower cost basis
- Perform due diligence on acquisitions while valuations are falling
- Reduce advertising as consumers become more price conscious
- Enter or renegotiate long-term leases
- Negotiate labor contracts
- Consider capital equipment needs for the next cycle
- Tighten credit policies
- Develop programs for advertising, training, and marketing to implement in Phase A
- Lead with optimism, remembering that Phase D is temporary