

BUTCHER JOSEPH & Co.
INVESTMENT BANKERS

POSITIONING FOR PROSPERITY: BUSINESS ENVIRONMENT IN A RECESSION

SEPTEMBER 2023

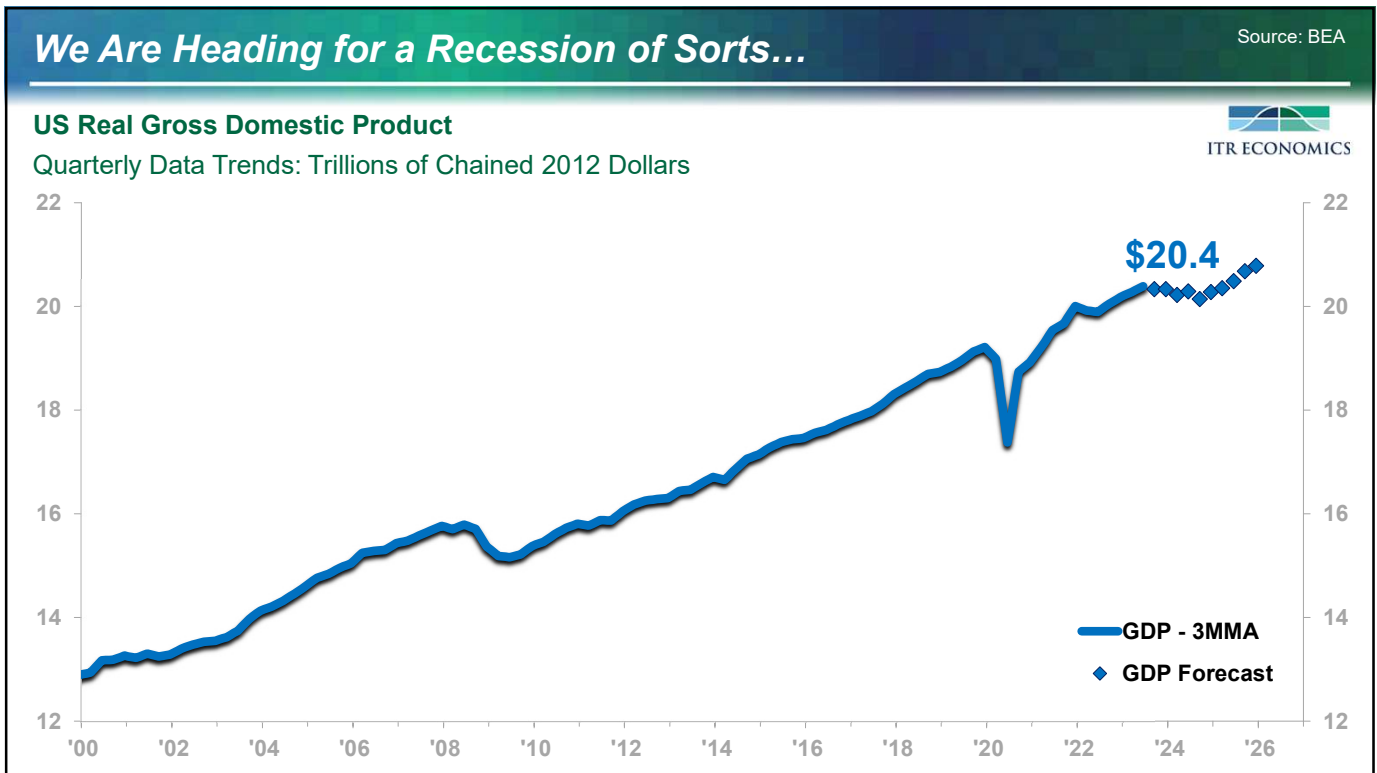


Brian Beaulieu
ITR Economics CEO and
Chief Economist



Keith Butcher
Butcher Joseph & Co.
Managing Partner

Butcher Joseph & Co. | 6 Cardinal Way | Suite 801 | St. Louis, MO 63102

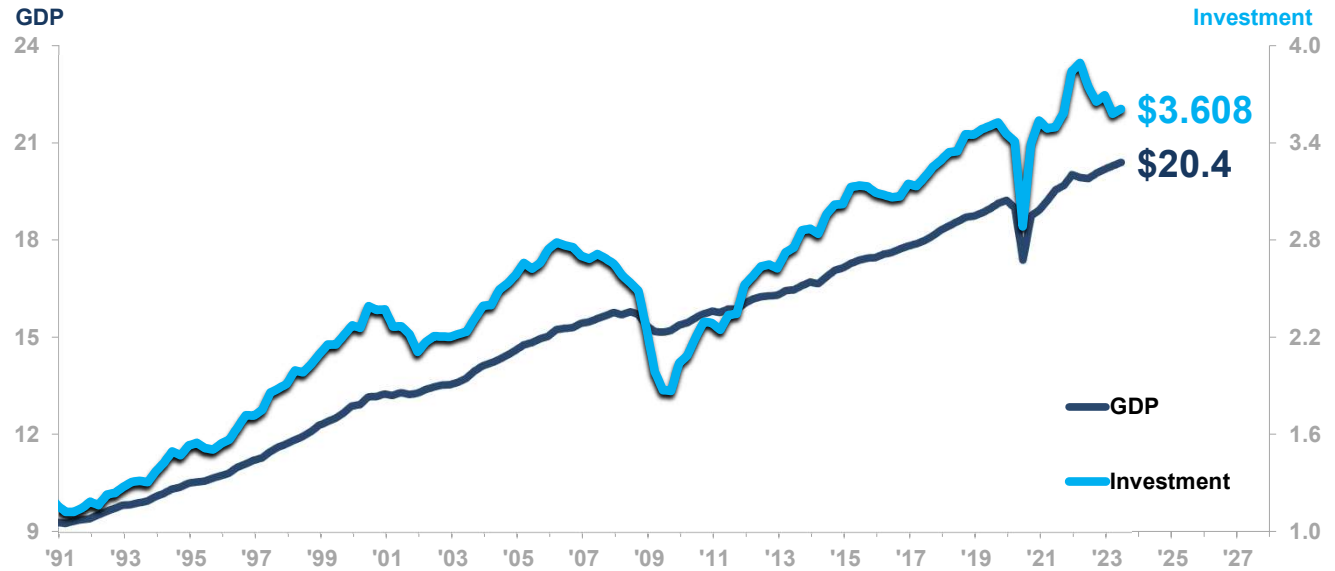


The Lack of Gross Private Investment is a Harbinger of Decline

Source: BEA

US Real Gross Domestic Product to US Gross Private Domestic Investment Real GDP

Quarterly Data Trends: Trillions of Chained 2012 Dollars

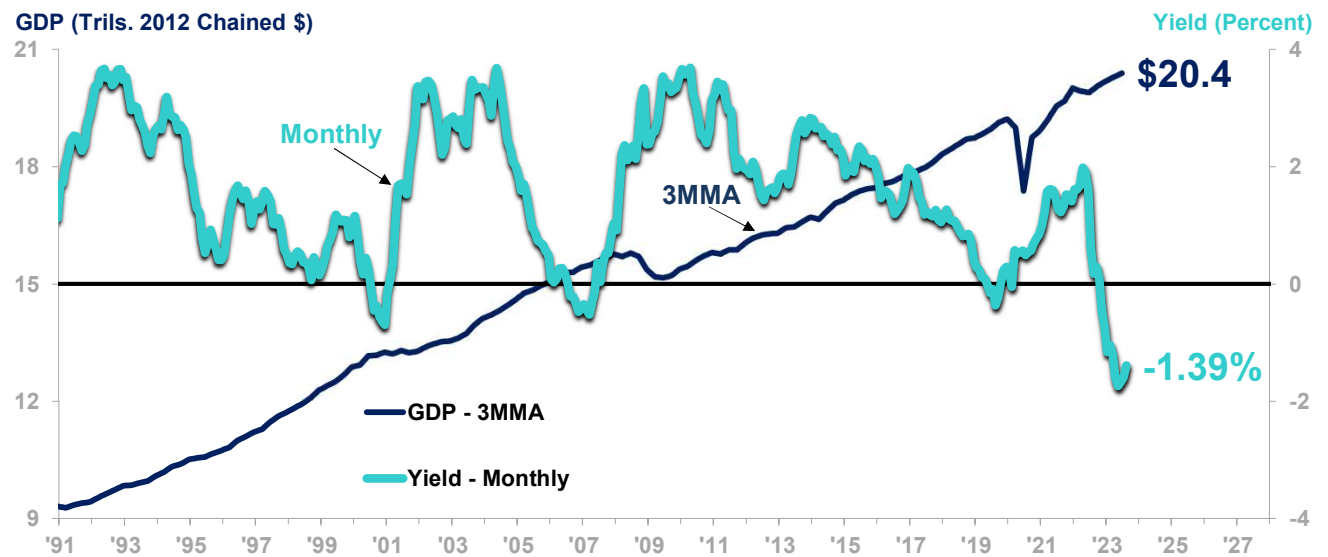


Inverse Yield Curves Indirectly Harms the Economy

Sources: BEA, FRB

US Real Gross Domestic Product to US 10-Year Treasury Minus 3-Month Treasury, Constant Maturity

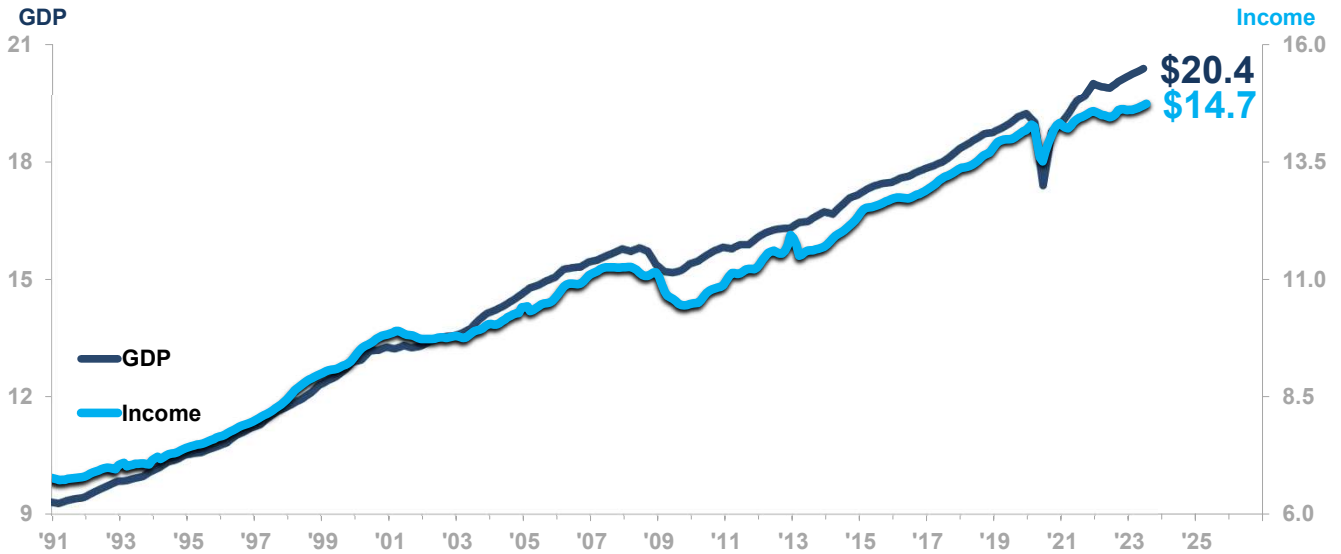
Quarterly Data Trend to Monthly Raw Data



GDP-Sized Question: Will Real Incomes Continue to Rise

Source: BEA

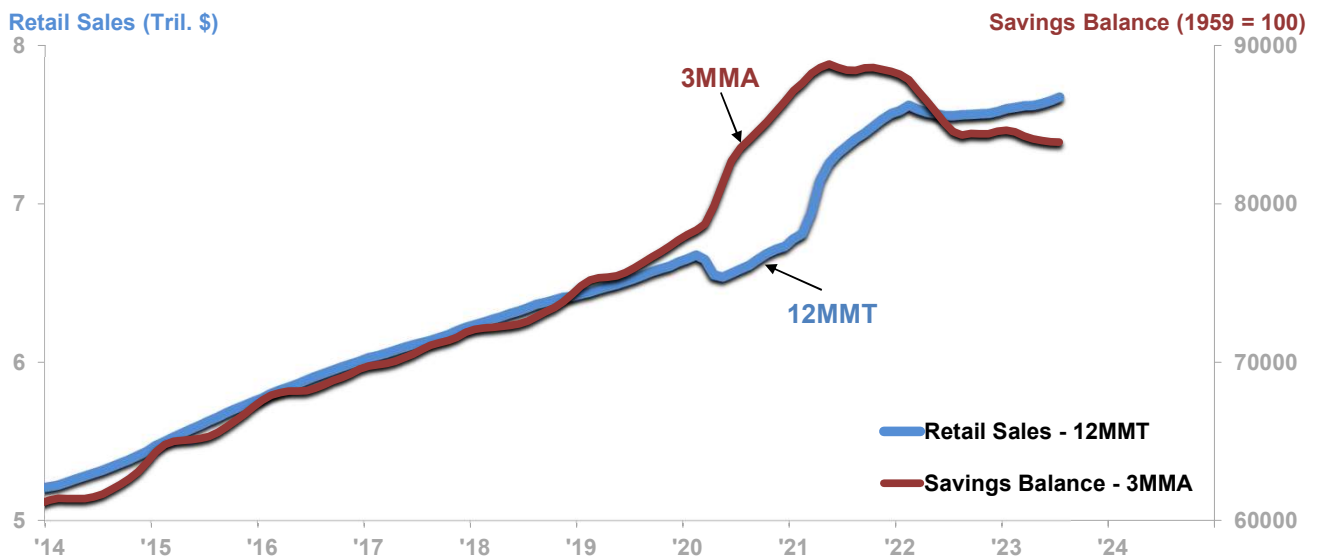
**US Real Gross Domestic Product to
US Real Personal Income (excluding current transfer receipts)**
Quarterly Data Trends: Trillions of 2012 Chained Dollars



The Decline in the Savings Balance Will Limit Growth

Sources: BEA, BLS, ITR Economics

**US Personal Savings Balance Index (deflated with US Consumer Price Index) to
US Total Retail Sales (deflated)**
Data Trends



Weakness in Retail Sales Means Decline in GDP

Source: BEA

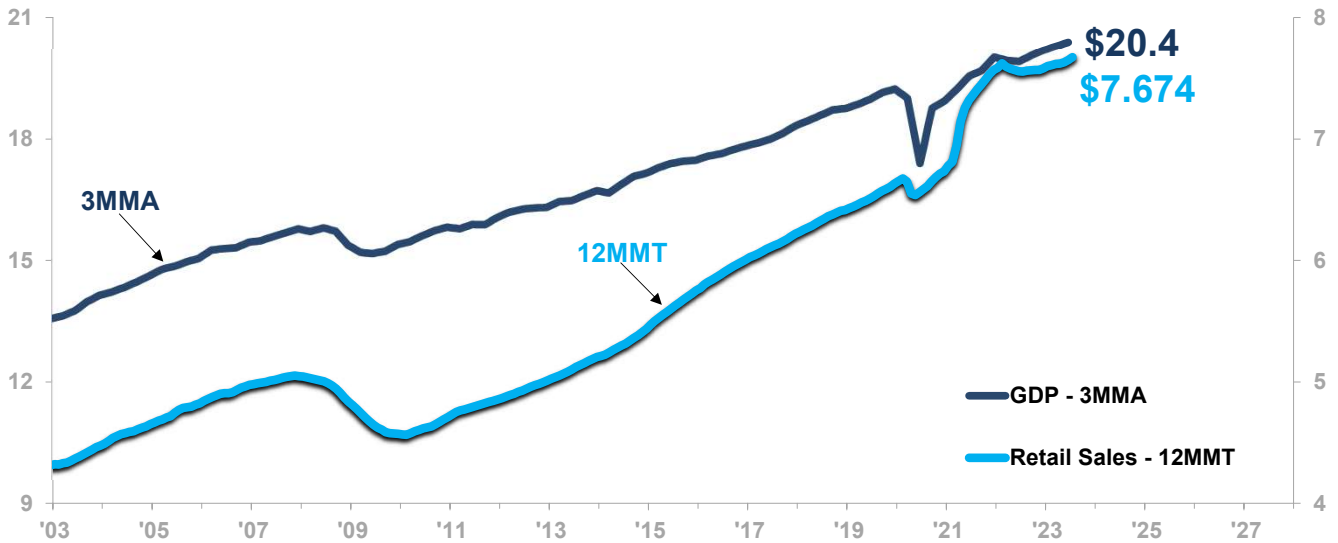
US Real Gross Domestic Product to US Total Retail Sales (deflated by BEA)

ITR ECONOMICS

Data Trends

GDP (Tril. Chained 2012 \$)

Retail Sales (Tril. \$)



The 2025 Recovery Should Not Be Left to Chance

Sources: BEA, FRB

US Real Gross Domestic Product to US Industrial Production Index

ITR ECONOMICS

3/12 Rates-of-Change

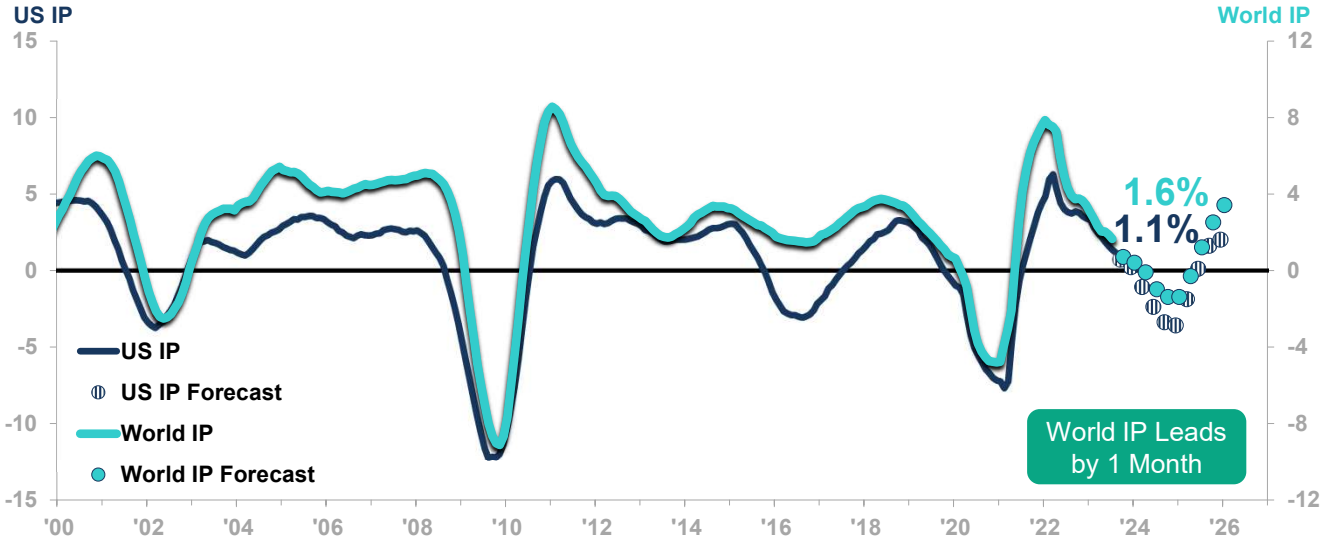


Globally Synchronized Industrial Weakness in 2024

Sources: FRB, CPB
Netherlands Bureau For
Economic Policy Analysis

US Industrial Production Index to World Industrial Production Index

12/12 Rates-of-Change

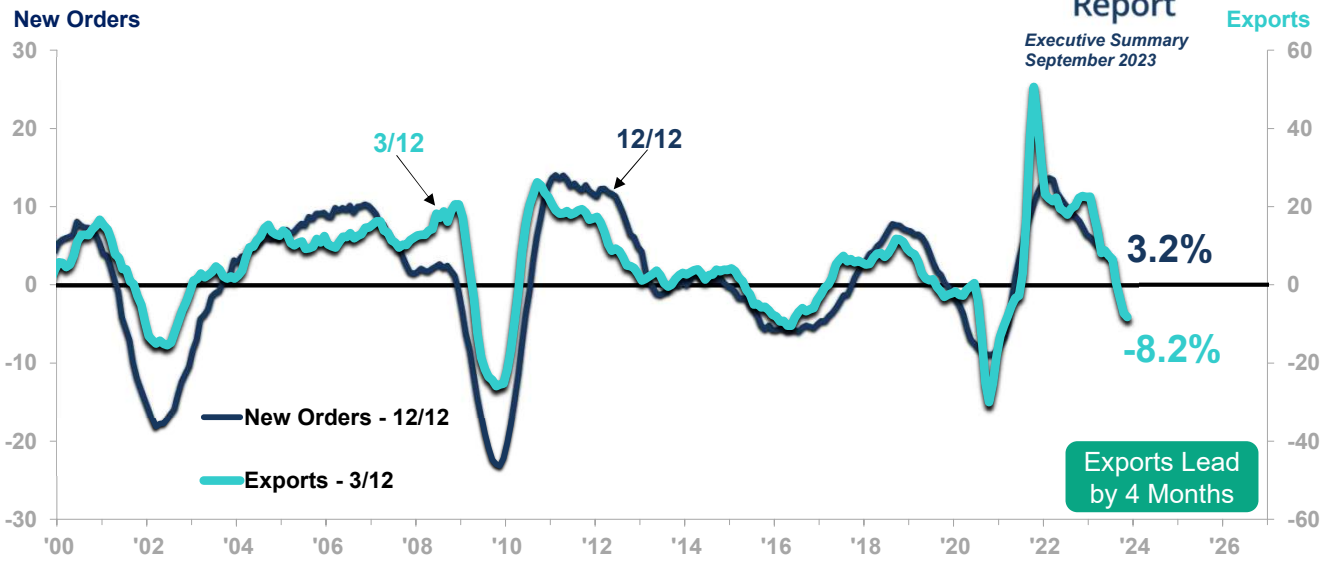


Decline in Exports Signals Decline in New Orders in 2024

Source: US Census Bureau

US Nondefense Capital Goods New Orders (excluding aircraft) to US Exports of Goods to the World

Rates-of-Change



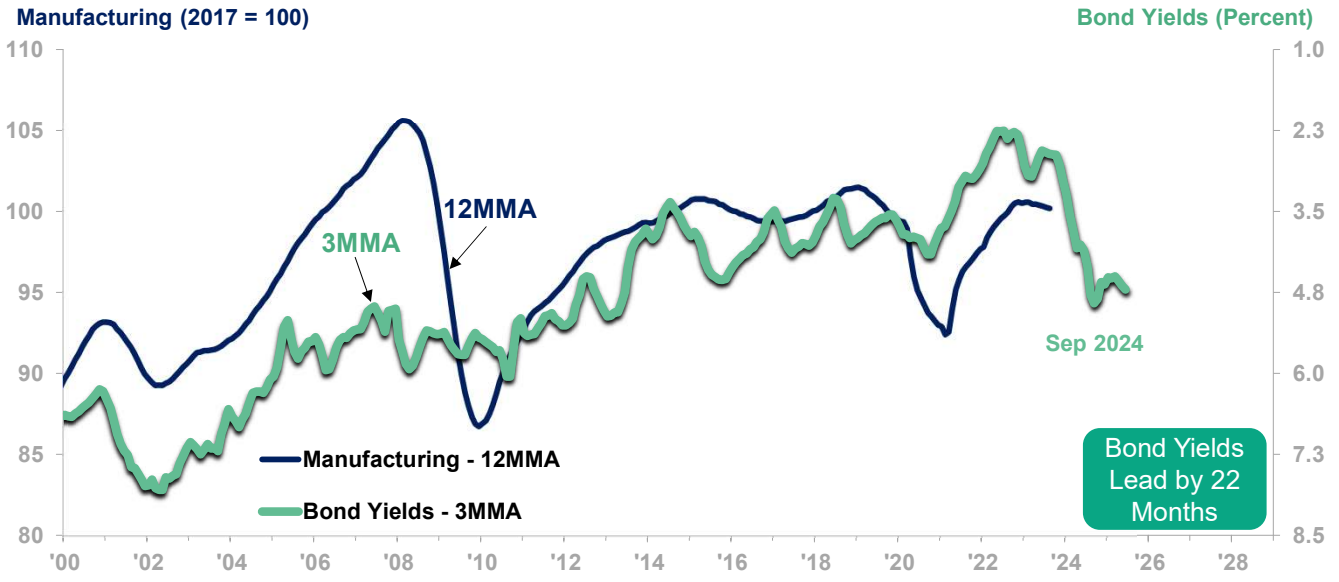
Noteworthy Signal of Manufacturing Recession in 2024

Source: FRB

US Total Manufacturing Production Index to US Corporate AAA Bond Yields

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Data Trends



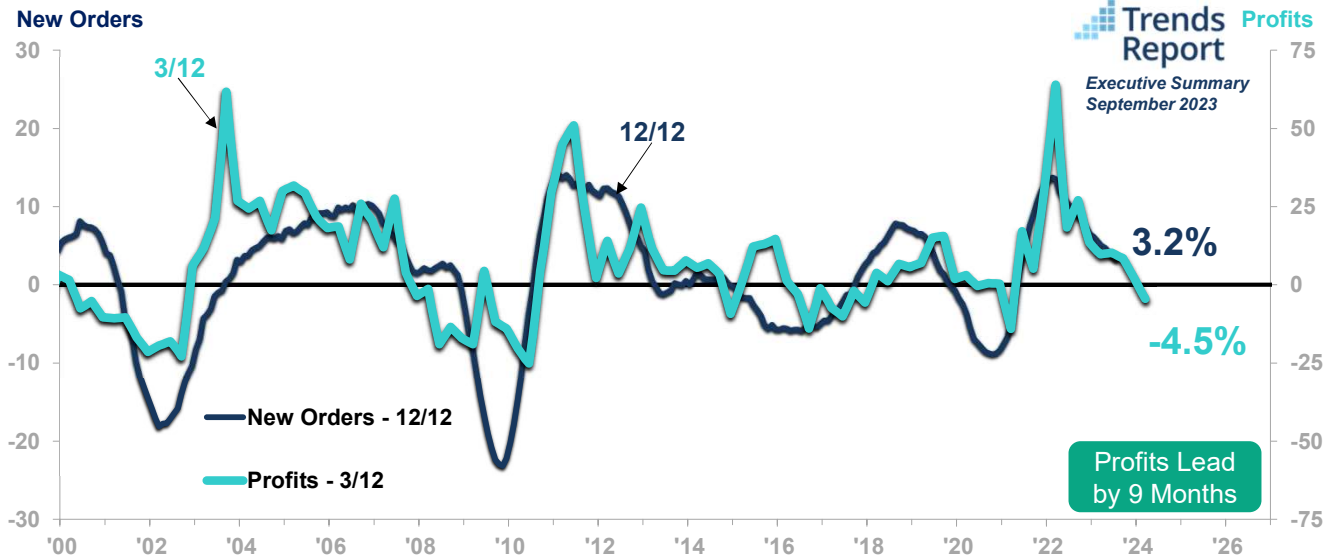
PROFITS Are Signaling Trouble for Capital Expenditures in 2024

Sources: US Census Bureau, BEA

US Nondefense Capital Goods New Orders (excluding aircraft) to US Domestic Nonfinancial Industries Corporate Profits (with capital consumption adjustments)

ITR ECONOMICS

Rates-of-Change



Profit Margin Pressures: Battle Back With Competitive Advantages

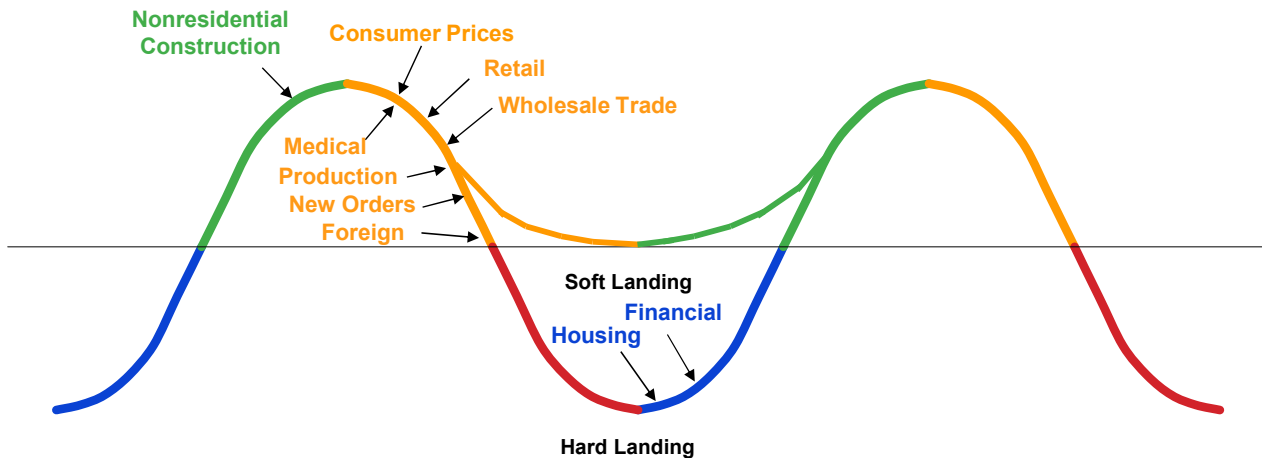
Sources: LME, BLS, EIA, Investing.com

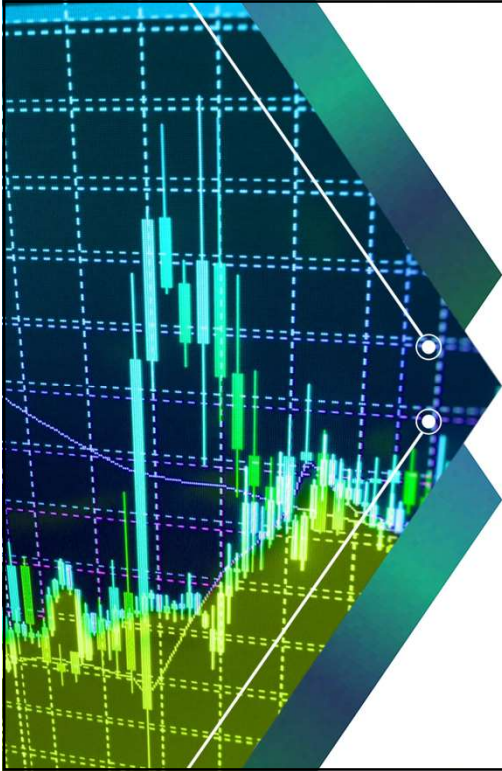
Indicator	12/12	Phase	3/12	Phase
Aluminum Prices	-19.8%	A	-10.5%	A
Iron & Steel	-17.4%	D	-13.7%	A
Crude Oil	-15.3%	D	-26.6%	A
Diesel on Highway	-1.3%	D	-25.8%	A
Electric Power	10.0%	C	6.3%	C
Trucker Wages	6.4%	C	5.8%	B
Manufacturing Wages	4.3%	B	5.3%	B
Lithium Carbonate Prices	5.6%	C	-41.9%	A



Time May Be on Your Side ITR Trends 10™

From ITR Trends Report™

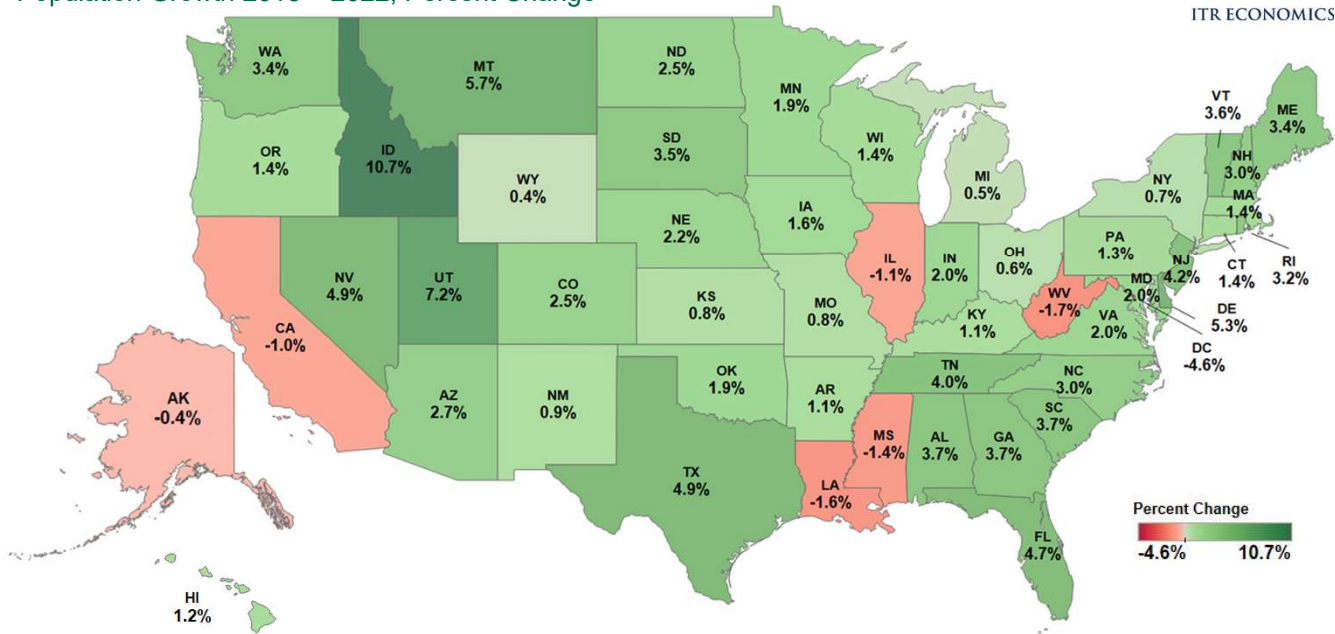




Do Not Go Quietly into 2024 - 2025

Be Geographically Specific: State Population Growth 2018 to 2022 Source: US Census Bureau

Population Growth 2018 – 2022, Percent Change



Take Advantage of Nationalism

Source: BEA

Foreign Direct Investment Into the US

Annual Data Trend



	Billions \$
Total	\$373.3
European Union	130.2
Canada	93.9
Netherlands	55.0
Ireland	36.3
United Kingdom	27.4
Germany	16.4
Switzerland	14.5
France	6.4
Mexico	5.9
Italy	4.4
Spain	2.5
Brazil	0.2



Reshoring & FDI, Top 10 by State



Source: Reshoring Initiative®

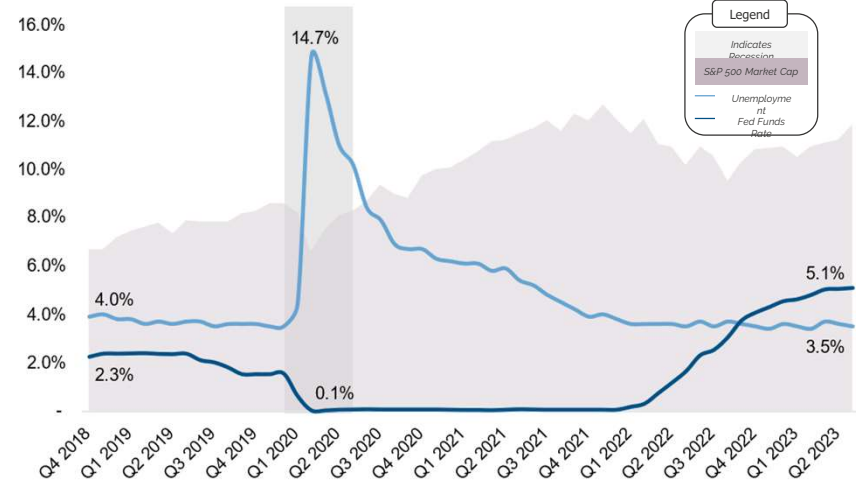
Rank	State	No. of Companies
1	California	175
2	Texas	121
3	Michigan	115
4	Ohio	103
5	North Carolina	93
6	South Carolina	81
7	New York	75
8	Arizona	73
9	Tennessee	69
10	Indiana	58

Sorted by number of companies

STATE OF THE ECONOMY

Despite facing macroeconomic headwinds, the U.S. economy has sustained its growth, marked by a resilient stock market and a consistent labor market

Unemployment Rate and S&P Performance (Q4 2018 – Q2 2023)



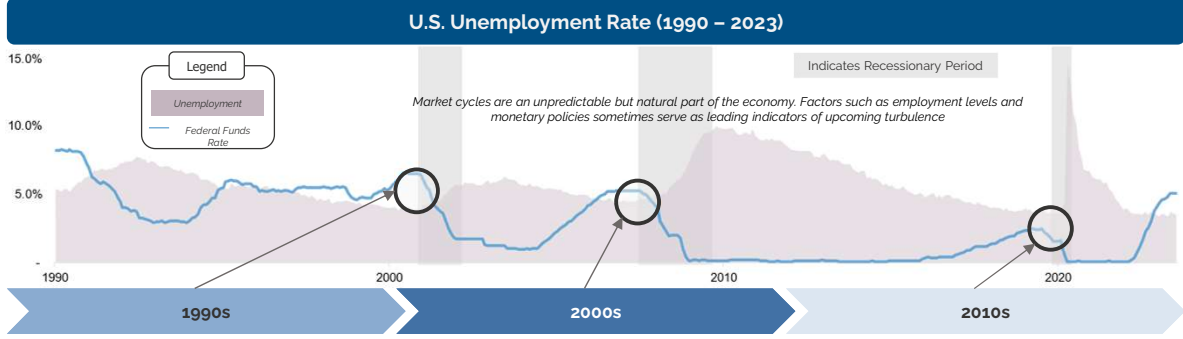
Source: CapitalIQ; Saint Louis Federal Reserve

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- Following the COVID-19 pandemic, the U.S. economy quickly kicked back to life and posted record returns
- Since, there has been continued strength in both employment figures and stock performance
- The jolty recovery of the economy has led to sticky inflationary pressures, prompting the Federal Reserve to hike interest rates to cool growth & spending and lower employment
- While the Fed's measures have tempered consumer sentiment, employment levels remain at all-time highs and stock market performance remains strong

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BOOMS AND BUSTS: PREVIOUS U.S. ECONOMIC CYCLES



The "Dot-com Bubble"
Boom: Referred to as the "long boom", the 90s was characterized by stable worldwide economic growth. The U.S. enjoyed low unemployment, low inflation, and rapid technological advancements. The rise of the internet led to the dot-com boom, where internet-based startups attracted massive investments
Bust: The dot-com bubble burst in the early 2000s. A lot of tech startups, which were grossly overvalued and didn't generate profits, began to collapse. This led to the stock market crash of 2000-2002, wiping out trillions in market value

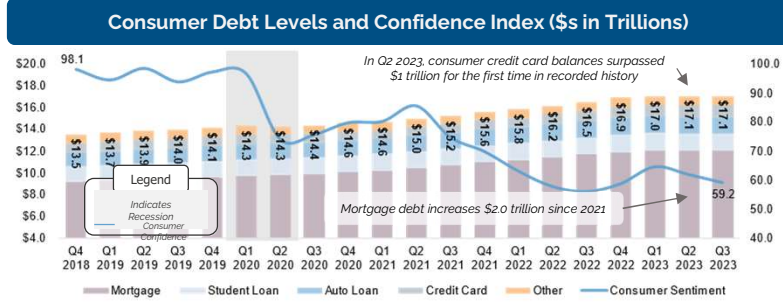
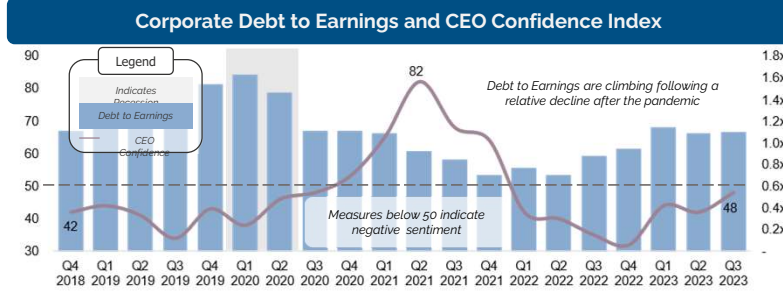
Housing Boom to the Great Recession
Boom: Post the dot-com bust, the economy was stabilized using monetary policy tools. The mid-2000s saw a housing boom driven by low interest rates, lax lending standards, and the perception that housing prices would always rise
Bust: The bubble burst in 2007. As housing prices fell, mortgage-backed securities, derivatives, and other financial instruments tied to the housing market's success began to default. This culminated in the 2008 financial crisis, leading to the Great Recession, the most severe economic downturn since the Great Depression nearly a century earlier

Economic Expansion to Pandemic Downturn
Boom: The 2010s began with recovery from the Great Recession. The decade saw the longest economic expansion in U.S. history, driven by technology innovations, rise of digital economies, and central banks' supportive policies worldwide
Bust: The boom was halted by the COVID-19 pandemic in early 2020. Economies worldwide faced severe disruptions due to lockdowns. Supply chains were interrupted, businesses shuttered, and global demand plummeted causing expansive effects on global economies and swift fiscal and monetary responses

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LOOKING FORWARD: ECONOMIC TURBULENCE OR PROSPERITY?



Source: Saint Louis Federal Reserve; University of Michigan; Conference Board

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- As indicated by the CEO confidence measurement, **U.S. CEOs were optimistic through the COVID recovery due to a favorable monetary policy and business environment**
- However, rising interest rates, inverted yield curves, and recent layoff notices point to near-term distress. As a result, many **CEOs are approaching near-term actions cautiously** with concerns of a potential recessionary period
- While business performance and GDP remain strong, record consumer spending has led to historic consumer debt balances and persistent inflation. The Fed's rising rates have **diminished discretionary purchasing, leading to low consumer confidence** and household spending
- Consumer sentiment is often strongly correlated to forward-looking business performance

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OPPORTUNITIES AMIDST DOWNTURNS

Recessionary environments should not necessarily signal a retreat. Companies' reactions to downturns tend to be defensive, delayed, and insufficient. But downturns also present opportunities—and to realize them, companies must act confidently and proactively

Economic Cycle Characteristics		Opportunity
<p>Growth Market</p> <ul style="list-style-type: none"> Lax monetary and physical policy, with attractive capital markets Low unemployment and high wages Growth across a majority of industries High Multiples and Valuations Sizeable investments from businesses in balance sheets and capital assets 	<p>Recessionary Market</p> <ul style="list-style-type: none"> Defensive monetary and physical policy, with tight capital markets High unemployment and low wages Stratified Growth Outcomes Suppressed Multiples and Valuations Limited investments from businesses in balance sheets and capital assets 	<p>Today's Market</p> <ul style="list-style-type: none"> Dynamic economic policy Strong and competitive labor markets Volatile earnings with suppressed projections Value premium for high-quality assets and discounted values otherwise Opportunities for attractive investments that may generate outsized returns

- As executives consider how to operate in a downturn, they should remind themselves that adversity is an **opportunity to gain a competitive advantage**
- In the current economic landscape, **investments in equipment, people, and technology are abundant and, in fact, more effective**
- Proactive actions create a durable and dynamic structure for when the economy normalizes

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WHEN IS IT PRUDENT TO BE PROACTIVE

- Often, businesses fall into one of the three situations below, and go-forward strategies must be tailored to operate within the boundaries set by current operations

	Non-Resilient Company	Mildly-Resilient Company	Highly-Resilient Company
Balance Sheet Capacity	Little-to-no capacity for additional leverage	Potential to add some incremental leverage	Flexibility to seek leverage as governed by market conditions
Financial Performance	Low growth with poor performance compared to industry peers	Sufficient growth with performance comparable to its industry peers	High growth with superior performance over industry peers
Company Liquidity	Any excess liquidity is often absorbed by debt service	Excess liquidity may be restrained but potential remains for select investments	Meaningful excess liquidity which can be reinvested into operations or other ventures
Industry Ecosystem	Highly cyclical industry with low growth prospects	Cyclical industry with opportunities for growth	Counter cyclical industry with strong tailwinds
Considerations	The risk associated with investments is often untenable as cash flows must be sustained in order to cover fixed costs and remain in covenant compliance	Investments in growth must be targeted. Careful consideration must be given to the cost of capital versus expected returns	Opportunity to make proactive investments and capture attractive opportunities to bolster future growth and market share

- Recessionary environments are challenging for most companies, especially midsize ones which may lack the financial muscle that allows large companies to make brave moves in these periods
- Ultimately, not all businesses will be positioned to act in a downturn. Prudent business operators, with the help of trusted advisors, must perform an honest review of current capital constraints and growth prospects to ensure financial and operational sustainability prior to executing their strategies

ASSESSING ORGANIZATIONAL RESILIENCE

- Organizations with low resilience will have less margin for error in a downturn and may be required to enter a defensive position, aiming for little more than survival
- Alternatively, more-resilient organization are able to go on the hunt for opportunities to improve their performance
- Prior to periods of economic turbulence, a holistic and honest assessment of organization resilience must be performed in order to help leaders navigate a recession
- With the help of trusted advisors and leadership, organizations would benefit from a "macro to micro" review of overall health. Focusing on business fundamental, such as:
 - Liquidity
 - Marketplace
 - Creditor and Lender Relationship
 - Valuation and Transaction Targets
 - Industry Tailwinds / Headwinds



- Are companies entering or exiting the industry?
- Is the industry expected to benefit from near- or long-term industry headwinds? Or are there tailwinds likely to promote growth?
- Are customers diversified across multiple industries that demonstrate resiliency in downturns?
- Are business models flexible, offering ability scale up and down?



- What is your company's cash needs over the next 12-24 months?
- Which segments of your business generate excess liquidity? Can any optimizations unlock additional liquidity?
- How much liquidity is tied up in working capital requirements? Could optimizations be made to the operating model to promote liquidity?



- Are there any non-critical processes or assets within the business that could be curtailed in the event of a downturn?
- How might the company and its various segments perform in various conditions of economic stress, such as recession of low, medium, and high severity?

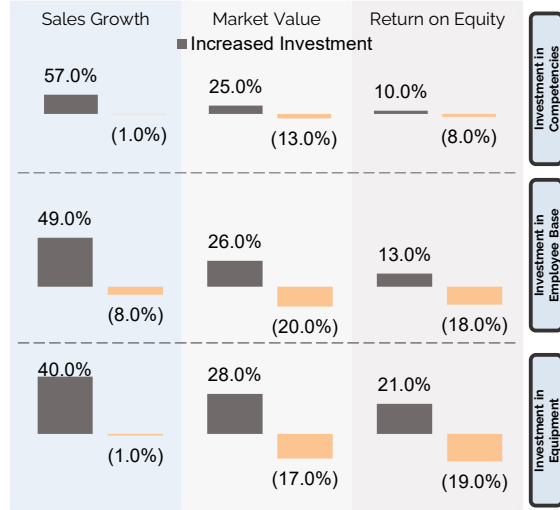


- Can payment terms or credit availability be negotiated with vendors to minimize costs of working capital?
- How might a downturn affect compliance with lender reporting and credit requirements?
- Which customers provide the best profitability, and can any contracts be re-negotiated to better pass-through inflationary cost increase?

MAINTAINING A PROACTIVE MINDSET IN TIMES OF UNCERTAINTY

- In a dynamic environment with uncertainty on the horizon, the natural response is to play defense: cut costs and preserve any remaining cash to last through the cycle
- While this may be prudent for some, downturns provide progressive management teams and resilient companies with numerous opportunities to develop one or more competitive advantages versus peers and capitalize on volatility. **In fact, the rate at which businesses jump into or fall out of the Fortune 100 rises by 50% in recessionary eras**
- During downturns, investments can become more attractive and offer additional market share through the economic rebound. Supported by the exhibits to the right, investments to consider include but are certainly not limited to:
 - Mergers and Acquisitions: undertaking inorganic initiatives to improve competencies and enhance efficiencies
 - Staffing growth and key employment acquisition: as competitors act defensively and delay investments, the opportunity exists to obtain key leaders seeking proactive, dynamic employers
 - Equipment investments: in certain situations, an investment in production equipment can increase revenue and drive margin expansion

As illustrated in the exhibits below, companies who invest in growth during downturns improve positioning versus peers

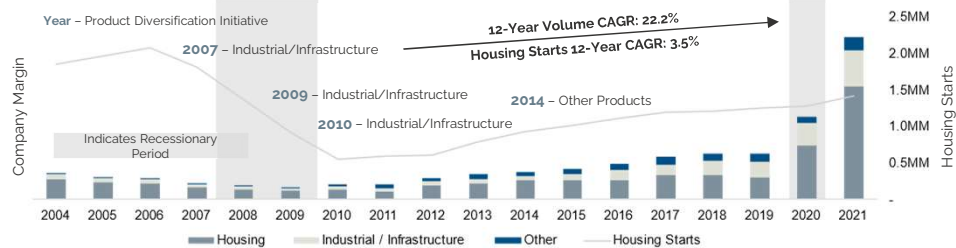


Source: Harvard Business Review *Should Midsize Companies Play Offense or Defense in a Downturn* (analysis of midsize company performance by investment strategy during and after the Great Recessions)

CASE STUDY: NATIONAL BUILDING PRODUCTS COMPANY

In our work with clients, companies that undertook progressive investments during the Great Recession increased performance and market share when the economy recovered

A long-time client of ButcherJoseph, the Company has grown to be a national leader in the lumber and diversified building product markets through proactive actions throughout several of the last economic cycles



Product Diversification Investments

- Since the early 2000s, the Company recognized its concentration in the housing market and invested in expanding into new product lines that offered higher margin profiles, less housing exposure, and utilized the Company's same value-add supply chain services
- During and after the Great Recession, the Company purposefully reduced end-market concentration by investing heavily in its balance sheet to expand into industrial/infrastructure markets. **From 2016-2019, an average of 40% of the margin came from diversified markets, up from <25% in 2015**
- In the supply-constrained markets witnessed in the early 2020s, the Company continued its diversification efforts. The result was record order volume across all segments, as customers became reliant on them as supply consultants and solution providers for a growing number of goods

Employee Investments and Organizational Structuring

- Investments in the size and quality of the trader base have been a core pillar of the Company
- The Company used the Great Recession as an opportunity to invest in attracting and training motivated employees. **The Company's investment pushed the average age of its traders from 56 in 2008 to 40 in 2022** and yielded significant increases in the Company's margin profile
- As the Company continued to expand, leadership adopted a decentralized operating model, forming individual operating companies with shared competencies and capital availability. However, they encouraged competition amongst the standalone entities by leveraging their local & regional knowledge. The structure provided agility and allowed each entity to serve its market best in downturns and capture customers

BUTCHERJOSEPH STRATEGIC ADVISORY PRACTICE

ButcherJoseph & Co. professionals have served closely held businesses for decades, offering strategic advisory solutions for clients across numerous industries and business cycles

- A strategic advisory partnership can provide business operators with real world market perspective, freeing up time for operators to focus on their businesses
- A trusted strategic advisor can help companies to:
 - Determine long-term growth prospects of the Company
 - Develop road map to increase competitiveness in marketplace
 - Inventory of present strengths, weaknesses, opportunities, and threats, making improvements to corporate strategy where most impactful
 - Review existing capital structure in light of strategic objectives

Assistance in Corporate Strategy

- Leverage ESOP advisory experience serving boards of directors, special committees, institutional trustees, and other fiduciaries
- Support the company in developing and executing on strategic growth plans
- Navigate the complexity capital structuring to create value where otherwise undiscovered

Operational and Financial Expertise

- Assess operational efficiencies, best practices, and industry & competitor activity
 - Assist in capital structure and acquisition accretion/dilution analysis
 - Create and maintain financial models of the company
 - Support Board processes

Optimization of Human Resources

- Assess employee retention and performance incentives to maximize organizational alignment
- Assist the company in acquisition integration methods and development of key performance indicators
- Assist in recruitment & onboarding processes for key leadership and board positions

Capital Markets Capabilities

- Identify optimal resources and strategic relationships for M&A and refinancing ambitions
 - Support management's screening and evaluation of potential acquisitions
 - Leverage contacts across the universe of capital providers to facilitate the availability of the most supportive capital for various financing needs

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