State of the United States Rubber Products Industry

June 12, 2017
Presentation Agenda

- ARPM Stats
  - Reason for Existence
  - Vision
  - Structure
- State of the Industry
  - Sales Trend
  - Market Conditions
  - State of the Workforce
  - Production Tooling
  - Raw Materials Pricing
- Q&A
ARPM Stats

For the industry driven by the industry!
What is ARPM?

An association created by rubber products executives that opened for official business in October 2010 to:

- Function as the voice for rubber products manufacturers;
- Develop, monitor and provide oversight on industry standards and technical publications;
- Create business benchmarks and provide information;
- Enable executive level networking;
- Educate on best practices and business trends;
- Provide advantages from business partners.
ARPM’s Purpose

Provide high quality, professional, and valued services that strengthen the effectiveness of rubber industry leaders and positively impact the success of their companies.
<table>
<thead>
<tr>
<th>Company</th>
<th>Director</th>
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<tbody>
<tr>
<td>Blair Rubber</td>
<td>Dave Jentzsch</td>
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<td>Chemspec Polymer Additives</td>
<td>Chris Wagner</td>
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<td>Continental ContiTech</td>
<td>Tim Jarvis</td>
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<td>Custom Rubber Corp.</td>
<td>Charlie Braun</td>
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<td>Freudenberg-NOK Sealing Technologies</td>
<td>Joe Walker</td>
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<td>Gates Corporation</td>
<td>Tom Pitstick</td>
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<td>Ice Miller LLP</td>
<td>Joe Keglewitsch</td>
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<td>Lauren Manufacturing</td>
<td>Lisa Huntsman</td>
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<td>MarshBellofram</td>
<td>Joe Colletti</td>
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<td>Rubber &amp; Plastics, Inc</td>
<td>Laura Hoggan</td>
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<td>Southern Michigan Rubber</td>
<td>Marel Riley-Ryman</td>
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<td>Sperry &amp; Rics, LLC.</td>
<td>Randy Dobbs</td>
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<td>The Timken Company</td>
<td>Kirk Bowman</td>
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<td>Trostel Limited</td>
<td>Greg Vassmer</td>
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<td>Wabtec Rubber Products</td>
<td>Darren Beatty</td>
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<td>AGC Chemicals Americas</td>
<td>Chardon Custom Polymers, LLC</td>
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<td>Akron Rubber Development Lab.</td>
<td>Chemspec Polymer Additives</td>
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<td>Applied Industrial Technologies</td>
<td>Columbia Engineered Rubber</td>
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<td>Archer Advanced Rubber Components</td>
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<td>Ashtabula Rubber Company</td>
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<td>Austin Rubber</td>
<td>Delta Flex</td>
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<td>Bando (U.S.A.), Inc.</td>
<td>Delta Rubber Company</td>
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<td>Basic Rubber &amp; Plastics</td>
<td>Desma USA</td>
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<td>Bestorq</td>
<td>Dow Corning Corporation</td>
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<td>Blachford RP Corporation</td>
<td>Eagle Elastomer, Inc.</td>
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<td>Blair Rubber</td>
<td>Eaton-Hydraulics Fluid Conveyance</td>
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<td>Bridgestone APM Company</td>
<td>Ebco, Inc.</td>
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<td>BRP Manufacturing</td>
<td>Eutsler Rubber Products, Inc</td>
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<td>Fenner Dunlop Americas, Inc.</td>
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Your Peers and Colleagues

Molded Dimensions
NaviGate Prepared
Newman Sanitary Gasket
Parker Hannifin
Poly Seal Industries
Power Corporation
Preferred Compounding Corp.
R&R Rubber Molding, Inc.
Rahco Rubber, Inc.
REP Corporation
Rubber & Plastics, Inc.
Rubber Group (The)
Salem-Republic Rubber Co.
Sealing Devices
Seals Unlimited, Inc.

SKF Sealing Solutions
Smithers Rapra, Inc.
Southern Michigan Rubber
Sperry & Rice, LLC
Stockwell Elastomerics, Inc.
Superior Tire & Rubber Corporation
Tahoma Rubber and Plastics
TBMC, Inc. (Jason Industrial)
TechnoBiz USA, Inc
The Chemours Company LLC
The Timken Company
Transco Ind.
Trelleborg Sealing Solutions Americas
Trostel Limited
Uni-Grip, Inc

VIP Rubber Company, Inc.
Wabtec Rubber Products
Woco Tech USA Inc.
Woodlawn Rubber Company
Yokohama - SAS Rubber Company
Zeon Chemicals L.P.
Corporate Sponsors
Technical Standards and Business Committees

- Hose Committee
- Power Transmission Belt Committee
- Conveyor Belt Committee
- Publications
- Health & Safety Committee
Information & Benchmarking

- Health & Ancillary Insurance Cost & Trends
- Wage and Salary Data
- Information Technology Benchmarks
- Manufacturing Benchmarks
- Employee Policies
- Sales Management Strategies
- Micro-surveys
- Economic & State of the Industry Reports
State of the Rubber Products Industry

Today and Tomorrow’s Outlook
Survey Questions:
- Developed by manufacturing industry leaders of the rubber and plastics sector.

Leaders Always Gathering Knowledge:
- When company executives meet, one of the most common questions asked is “how is your business?”

Objective:
- Provide company executives with a general overview of conditions in the industry. Meant to reinforce or contradict a “leader’s gut feel” for how their company is performing relative to the industry.
Basis for the Presentation

- 2017 Pulse Survey: End Q1 ‘17
Sales Trends and Market Conditions
TREND: Current Sales vs. 1 Year Ago

Beginning Q1 2016

- Increased: 33%
- Decreased: 27%
- Remained the Same: 41%
TREND: Current Sales vs. 1 Year Ago

Beginning Q1 2016:
- Increased: 33%
- Decreased: 27%
- Remained the Same: 41%

Beginning Q1 2017:
- Increased: 58%
- Decreased: 17%
- Remained the Same: 25%
TREND: Current Sales vs. 1 Year Ago

- **Beginning Q1 2016**: 33% Increased, 27% Decreased, 41% Remained the Same
- **Beginning Q1 2017**: 58% Increased, 17% Decreased, 25% Remained the Same
- **Beginning Q2 2017**: 61% Increased, 12% Decreased, 27% Remained the Same
TREND: Current Sales vs. 1 Year Ago

Mid-to-large size companies, those with greater than $15M in annual sales were most likely to experience increased sales between January and May.
Quarter to Quarter Sales Trend
Q4 Vs Q3 2016

Increased: 42%
Decreased: 26%
Remained About the Same: 32%
Quarter to Quarter Sales Trend

- Increased: 66% (Q4 vs Q3)
- Increased: 42% (Q1 vs Q4)
- Decreased: 26% (Q4 vs Q3)
- Decreased: 12% (Q1 vs Q4)
- Remained About the Same: 32% (Q4 vs Q3)
- Remained About the Same: 22% (Q1 vs Q4)
Q1 Sales Trends Anticipated vs Realized

- Increased: 64% Anticipated, 66% Realized
- Decreased: 8% Anticipated, 12% Realized
- Remained About the Same: 29% Anticipated, 22% Realized
How predicted optimistic markets are performing?

- Better than anticipated
- About the same

- Automotive: 50% (Better than anticipated), 50% (About the same)
- Construction: 50% (Better than anticipated), 40% (About the same)
- Consumer Goods: 50% (Better than anticipated), 50% (About the same)
- Defense: 75% (Better than anticipated), 25% (About the same)
- Energy: 67% (Better than anticipated), 33% (About the same)
- Mining: 67% (Better than anticipated), 33% (About the same)
Market’s Up:
- Q4 mining demand for heavy conveyor rapidly increases.
- Mining on the upswing.
- Gold and copper mining trending up.
- Oil and gas starting to creep up or are already up.
- Auto OEMS strong.
- Automotive aftermarket strong.
- Auto and building construction strong.
- Case and closure markets strong.
- Rail industry is beginning to turn.
- RV industry is up.
- Construction up by 50%.
- Industrial Applications are up.
Market’s Struggling:

- Agriculture still slow.
- Auto OEMS not strong in China.
- Heavy equipment is down.
- Truck and bus segments are down.
Anticipated Sales Performance Q1 vs Q2

- Increased: 64% (Q1), 49% (Q2)
- Decreased: 8% (Q1), 12% (Q2)
- Remain the Same: 29% (Q1), 39% (Q2)
Anticipated Sales Performance for 2017: Today vs. January

- Increased: 77% (January), 61% (Today)
- Decreased: 19% (January), 5% (Today)
- Remain the Same: 4% (January), 34% (Today)
KPIs
Quoting
Backlog
Shipping
Quoting 1st Qtr. Vs. Prior Qtr.

- Increased: 58%
- Decreased: 5%
- Remained the Same: 38%
4th to 3rd Qtr. / 1st to 4th Qtr. Quoting

Increased: 42% (2016 Q4) 58% (2017 Q1)
Decreased: 20% (2016 Q4) 5% (2017 Q1)
Remained the Same: 38% (2016 Q4) 38% (2017 Q1)
Backlog 1st Quarter

- Increased: 68%
- Decreased: 7%
- Remained the Same: 24%
Backlog 1\textsuperscript{st} Qtr. Compared to 4\textsuperscript{th} Qtr.

- **Increased**: 40\% (2016 Q4) vs. 68\% (2017 Q1)
- **Decreased**: 26\% (2016 Q4) vs. 7\% (2017 Q1)
- **Remained the Same**: 34\% (2016 Q4) vs. 24\% (2017 Q1)
Shipments 1\textsuperscript{st} Quarter

- Increased: 63%
- Decreased: 12%
- Remained the Same: 24%
Shipments 1st Qtr. Compared to 4th Qtr.

- Increased: 63% (2016 Q4) and 38% (2017 Q1)
- Decreased: 27% (2016 Q4) and 12% (2017 Q1)
- Remained the Same: 35% (2016 Q4) and 24% (2017 Q1)
Labor
Workweek Hours
State of the Workforce
Production Employment Levels: Average Employee Workweek

- Increased: 54%
- Decreased: 2%
- Remained the Same: 44%
Production Employment Levels: Average Employee Workweek

- Increased: 54% (2016 Q4), 54% (2017 Q1)
- Decreased: 19% (2016 Q4), 2% (2017 Q1)
- Remained the Same: 27% (2016 Q4), 44% (2017 Q1)
Production Employment Levels: # of Production Employees

- Increased: 59%
- Decreased: 10%
- Remained the Same: 32%
Production Employment Levels: # of Production Employees

- Increased: 27% in 2016 Q4, 59% in 2017 Q1
- Decreased: 20% in 2016 Q4, 10% in 2017 Q1
- Remained the Same: 53% in 2016 Q4, 32% in 2017 Q1

ARPM - Association for Rubber Products Manufacturers
Anticipated Production Employment Levels: Number of Production Employees

- **Increased**: 59% in 2017 Q1, 41% in 2017 Q2
- **Decreased**: 2% in 2017 Q1, 10% in 2017 Q2
- **Remained the Same**: 32% in 2017 Q1, 56% in 2017 Q2
Production Tooling
Is your company purchasing tooling from off-shore suppliers?

- **Yes**: 35%
- **No**: 62%
- **We are currently investigating the tactic**: 3%
Most Common Sourcing Locations

- China: 29%
- Europe: 10%
- Not Applicable: 62%
Raw Material
Cost of Raw Material: 2016 Q4 vs Q3

- Increased: 22%
- Decreased: 9%
- Remained the Same: 68%
Cost of Raw Material during Q1 vs Q4

- Increased: 2016 Q4 22%, 2017 Q1 61%
- Decreased: 2016 Q4 9%, 2017 Q1 2%
- Remained the Same: 2016 Q4 68%, 2017 Q1 37%
Price Changes Passed Along to Customers

- Increase
- Decrease

0% 1 - 4% 5 - 10% 20 - 29% 30 - 39% 40 - 49% 50 - 59% 70 - 79% 80 - 89% 90 - 99% 100%
Challenges Facing the Rubber Products Industry
Top Challenges

- Workforce Development: 73%
- Government/Regulations: 40%
- Competition (Foreign & Domestic): 23%
- Continuous Improvement Initiatives: 19%
- Health Insurance: 18%
Rubber Products Executives
Focus Group Meeting on Market Conditions

Business Challenges:

- Raw material shortages are hurting
- Raw material pricing volatility
- Strong growth negatively impacting operations
- Can’t find enough people
Questions?
Gain/Lost Business to Off-Shore Suppliers

- Gained: 18%
- Lost: 14%
- Lost Customers Relocating Outside US: 3%
- Neither: 65%