



*Channeling the
Power of Industry*

PTDA Quarterly Business Index

4th Quarter 2013

Highlights / Summary Thoughts

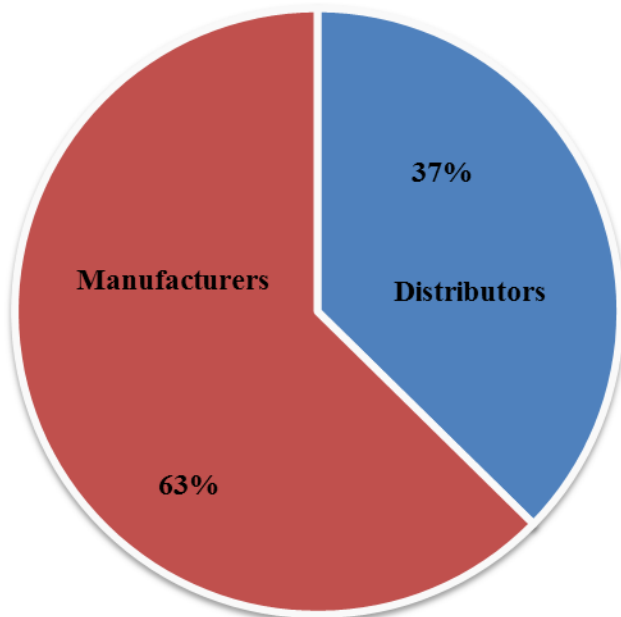
Highlights:

- **Continued Participation Strength** – The 4Q13 PTDA business index survey, conducted by Cleveland Research, had 91 respondents comprised of 34 distributors and 57 manufacturing firms.
- **PTDA Index better-than-expected** – The overall index reading came in better-than-expected at 60, which compares to a 52 reading in 3Q. The consolidated data set appears to be in-line with the quarterly PMI index after lagging over the previous 3-4 months.
- **Outlook** - The 2014 plan is up considerably since October. The consensus forecast for the entire group is 6-7%, which compares to the previous 3-4% outlook. The sentiment appears to be improving considerably with both manufacturers and distributors.
- **Prices** – The pricing power momentum still appears to be somewhat negative. The index reading improved to 66 versus 62 in last quarter, but the 12-month moving average is down sequentially. The weakness is more apparent for the manufacturer side.
- **Employment** - The employment index reading is back above 50 after falling below the line in 3Q.

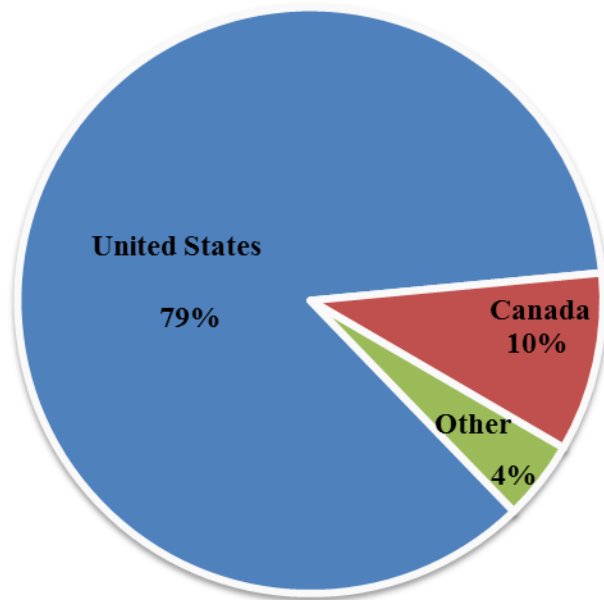
Background

4Q13 Participation – The 4Q13 PTDA Business Index survey had a 35% response rate with 91 companies participating. The split between manufacturers and distributors was 38% / 62%, meaning both groups were well represented. Regionally, respondents were heavily weighted to U.S. based firms which accounted for 86% of participants followed by 10% from Canada and the remaining 4% from other regions.

Respondents by Type



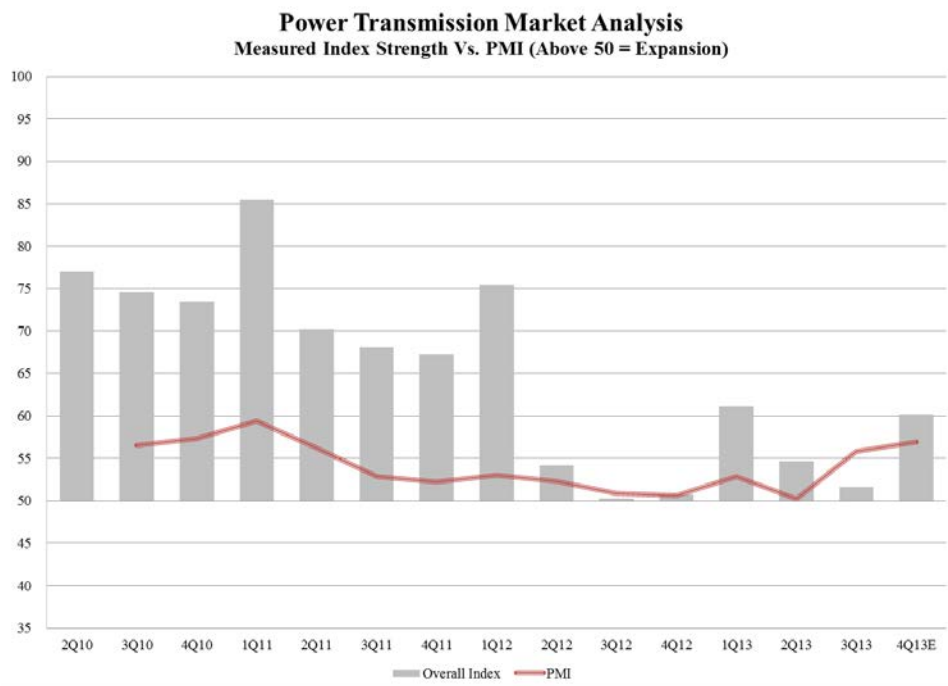
Respondents by Region



PTDA Index

PTDA Index Indicates Growth Slowing – The overall index reading came in better-than-expected at 60, which compares to a 52 reading in 3Q. The consolidated data set appears to be in-line with the quarterly PMI index after lagging over the previous 3-4 months.

PTDA Index Background – A reading below 50 is considered a negative revenue growth environment. The overall index typically correlates with the overall TKR sales performance. Interestingly, the manufacturer base appears to be showing relative strength versus the distribution channel for the first time since 1Q12 (65 versus 53).



PTDA Index

PTDA Index - Total Membership

Index	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Growing	Rate of Change	Trend (quarters)
Business Activity	82.1	82.2	75.8	91.9	74.3	72.3	68.6	83.7	50.1	48.2	50.1	67.2	56.8	51.1	59.8	Growing	Faster	5
New Orders	81.8	80.4	80.4	92.6	68.2	72.6	72.8	80.8	49.2	45.0	45.7	66.4	54.8	52.3	62.8	Growing	Faster	4
Employment	67.8	61.8	68.3	78.8	69.3	66.7	65.9	74.4	64.2	59.5	56.3	60.6	53.5	51.1	60.6	Growing	Faster	14
Supplier Deliveries	76.3	73.8	69.2	78.8	69.0	60.9	61.9	62.5	53.2	48.6	50.9	50.0	53.6	51.9	57.8	Growing	Faster	3
Inventories	54.4	55.0	59.7	63.2	68.7	70.7	64.7	69.8	66.9	65.9	59.4	55.8	55.7	56.7	53.3	Growing	Slower	14
Prices	72.9	81.3	91.3	94.5	87.1	89.7	83.7	87.2	65.7	71.2	76.8	73.1	63.1	62.4	65.8	Increasing	Faster	14
Backlog	79.2	67.0	69.5	78.7	71.1	64.7	55.8	66.3	54.8	41.8	40.0	54.9	51.4	45.4	56.6	Growing	From Slowing	1
Overall PTDA Index	77.0	74.6	73.4	85.5	70.2	68.1	67.3	75.4	54.2	50.3	50.7	61.1	54.7	51.6	60.2	Growing	Faster	14
ISMPM Index	57.9	56.5	57.4	59.8	56.6	52.1	52.4	53.3	49.7	51.5	50.7	55.4	49.7	56.2	57.0	Growing	Faster	5

PTDA Index - Distributors

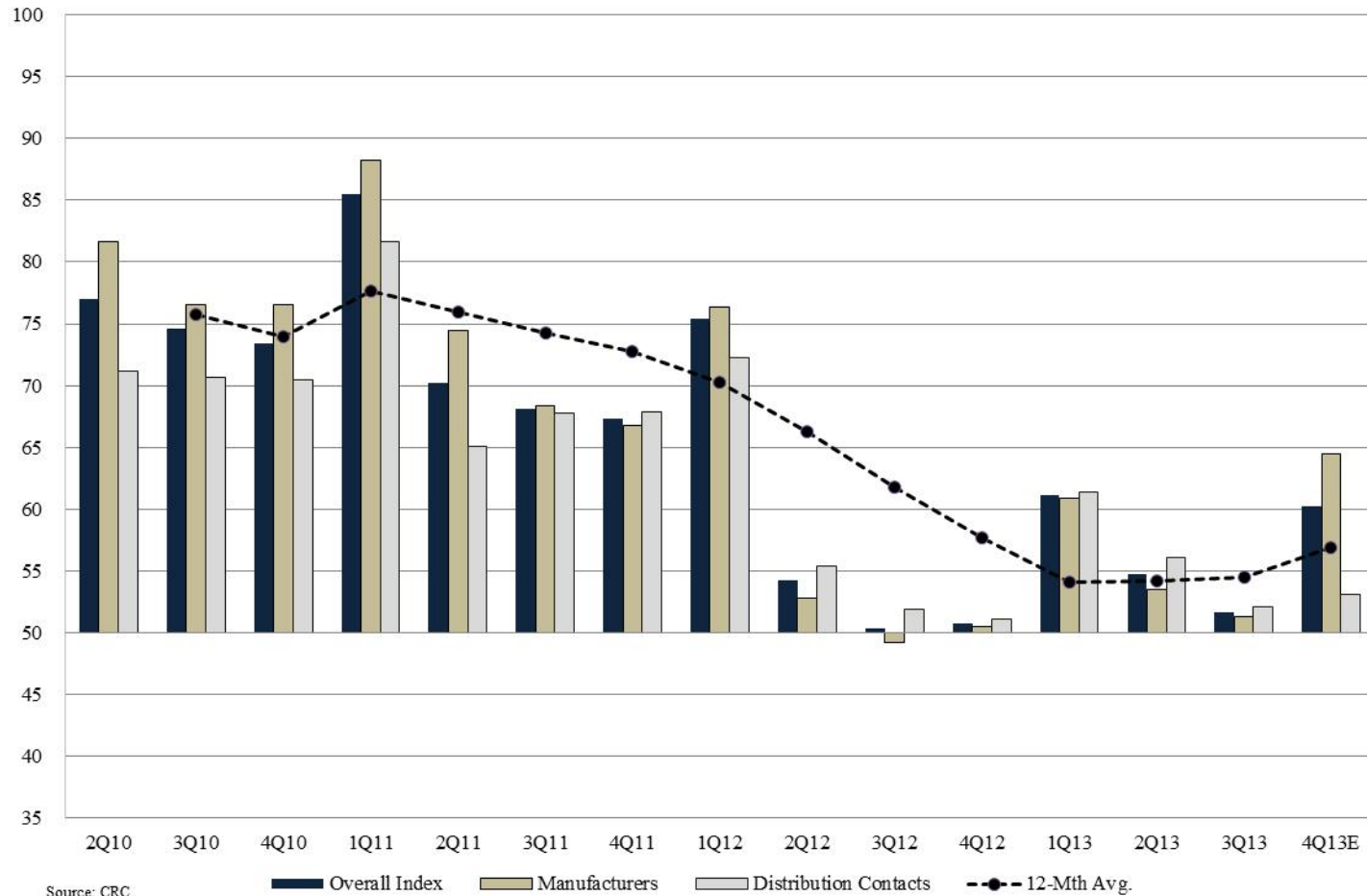
Index	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Growing	Rate of Change	Trend (quarters)
Business Activity	73.1	85.2	73.3	90.4	67.5	71.9	73.6	79.2	49.1	55.4	47.4	79.2	57.3	51.9	41.2	Slowing	From Growing	1
New Orders	75.4	86.4	77.2	91.9	60.9	74.5	72.4	80.6	54.0	48.9	37.6	80.6	54.2	48.6	49.1	Slowing	Slower	2
Employment	59.6	49.4	65.9	67.7	62.9	67.8	63.7	75.0	62.5	57.6	59.8	75.0	55.0	54.0	61.8	Growing	Faster	12
Supplier Deliveries	76.5	64.0	65.6	76.6	69.0	57.0	61.7	61.1	56.0	45.9	59.5	61.1	57.7	53.8	60.4	Growing	Faster	4
Inventories	51.3	55.4	60.3	68.3	70.0	72.8	65.5	77.8	65.2	62.5	54.7	77.8	60.6	63.0	50.0	Flat	From Growing	1
Prices	77.2	83.5	89.7	93.8	89.2	91.8	87.9	91.7	73.5	80.0	84.2	91.7	67.5	66.7	69.3	Growing	Faster	14
Backlog	67.0	63.2	64.4	76.3	68.1	61.8	50.0	61.1	59.1	48.6	37.5	61.1	55.2	46.7	48.5	Slowing	Slower	2
Distributor PTDA Index	71.1	71.2	70.5	81.6	65.1	67.8	67.9	74.0	55.4	51.9	51.1	74.0	56.1	52.1	53.1	Growing	Faster	14

PTDA Index - Manufacturers

Index	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	Growing	Rate of Change	Trend (quarters)
Business Activity	89.2	80.4	78.5	92.9	80.2	72.7	64.4	87.0	51.1	43.0	51.9	68.8	56.4	50.6	70.8	Growing	Faster	4
New Orders	86.9	76.8	83.8	93.1	74.2	70.7	73.1	81.0	43.7	42.2	51.2	65.4	55.3	54.7	71.1	Growing	Faster	4
Employment	74.4	69.2	71.0	86.3	74.9	65.5	67.6	74.0	66.2	60.9	53.9	61.9	52.1	49.3	59.9	Growing	From Slowing	1
Supplier Deliveries	76.1	79.8	73.2	80.3	68.6	64.9	62.1	63.5	50.1	50.6	45.0	47.4	50.3	50.8	56.3	Growing	Faster	3
Inventories	56.8	54.7	59.1	59.7	67.2	68.5	64.1	64.0	69.0	68.4	62.5	55.1	51.7	52.7	55.3	Growing	Faster	14
Prices	69.5	79.9	93.0	95.0	85.3	87.4	80.2	84.0	56.8	64.9	71.8	62.5	59.4	59.7	63.6	Increasing	Faster	14
Backlog	88.8	69.2	75.0	80.4	73.5	67.6	60.5	70.0	50.0	36.7	41.7	50.7	48.3	44.6	61.4	Growing	From Slowing	1
Manufacturer PTDA Index	81.6	76.6	76.6	88.2	74.5	68.4	66.8	76.4	52.8	49.2	50.5	60.9	53.5	51.3	64.5	Growing	Faster	4

PTDA Index

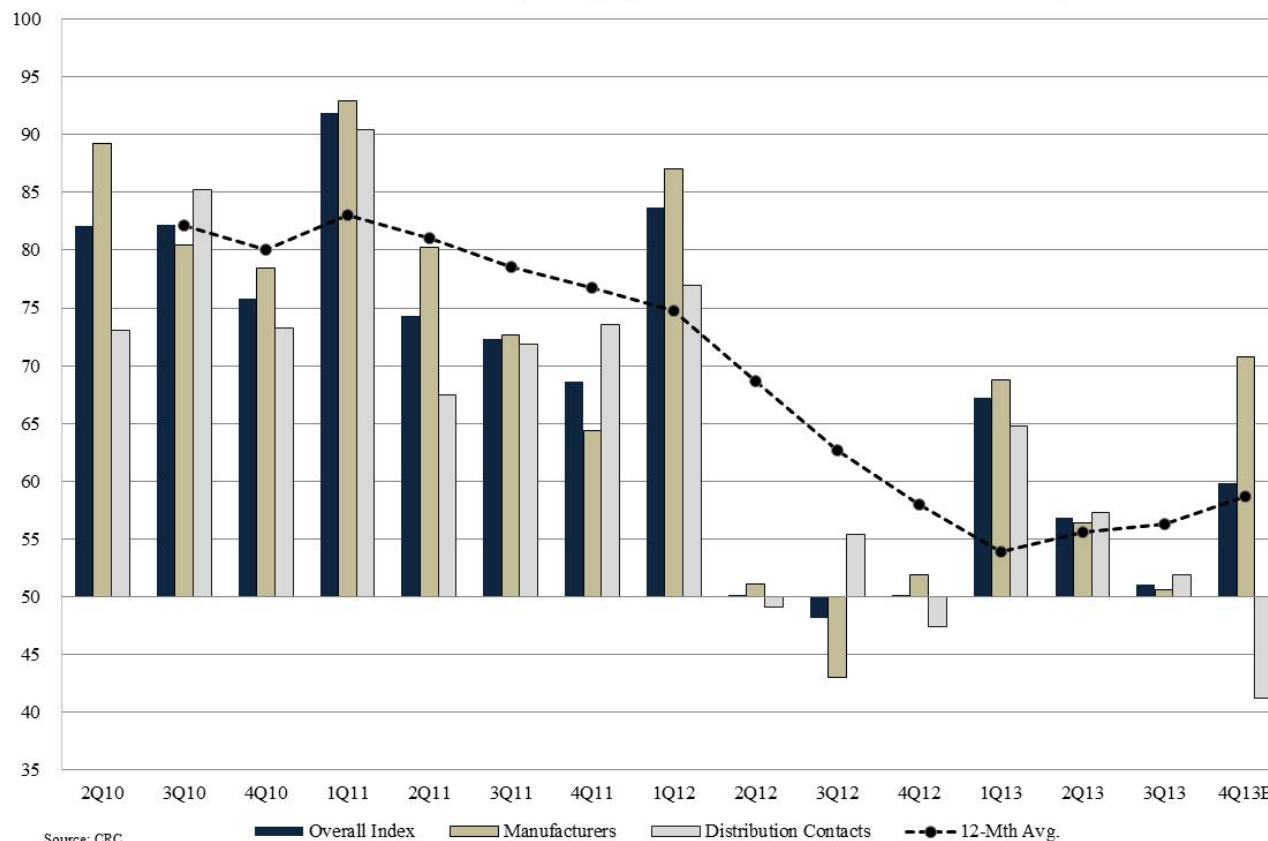
Power Transmission Market Index
Total Index Versus Manufacturer & Distribution Readings (Above 50 = Expansion)



Business Activity

Business Activity - The business activity index reading is now 59.8 versus 51.1 last quarter. This shows that business activity is still growing, and it is growing at a faster rate. 4Q is likely to be the toughest quarter for the group in 2013 (seasonally-adjusted).

Power Transmission Market Index
Current Business Activity Gauge (Above 50 = Positive Revenue Growth)



Sales Growth

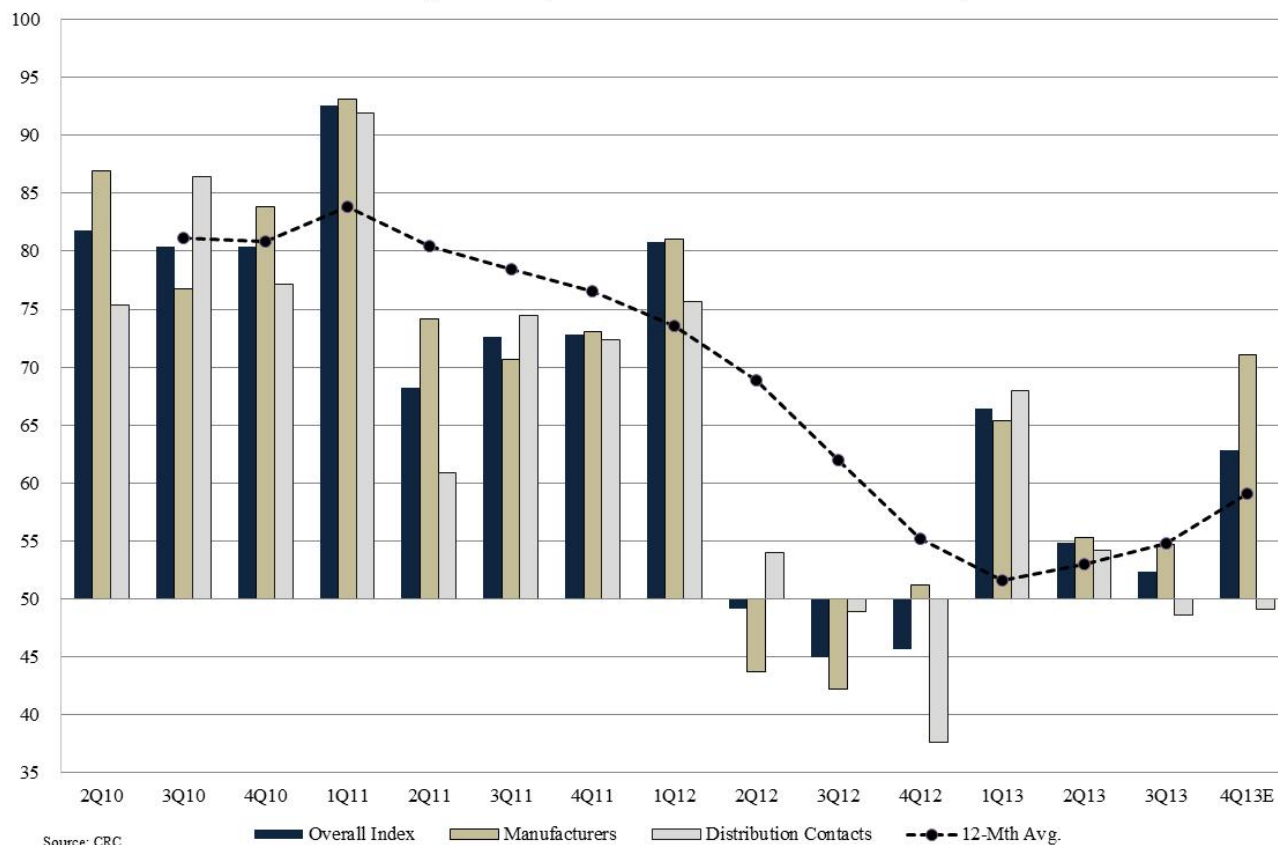
Sales Growth – The 4Q revenue growth improved sequentially to 4% from 2%. Better trends within the U.S. and abroad offset the weakness in the Canadian market. The manufacturer growth rate improved to 5% from a weak 1% last quarter while the distribution channel has been holding 4% for the past 6 months.

Quarterly Sales Growth														
<u>Sales Growth (y/y)</u>	<u>3Q10</u>	<u>4Q10</u>	<u>1Q11</u>	<u>2Q11</u>	<u>3Q11</u>	<u>4Q11</u>	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>	<u>4Q12</u>	<u>1Q13</u>	<u>2Q13</u>	<u>3Q13</u>	<u>4Q13</u>
Distributors	11%	10%	15%	6%	8%	4%	9%	6%	5%	6%	3%	3%	4%	4%
Manufacturers	16%	17%	15%	10%	7%	5%	10%	8%	6%	6%	4%	3%	1%	5%
Sales Growth	14%	14%	15%	8%	8%	5%	9%	7%	5%	6%	4%	3%	2%	4%

New Orders

New Orders – The new order index reading for 4Q13 is 63 overall with the most strength coming from the manufacturer contact base. The distributor reading showed a decline for the 2nd straight period.

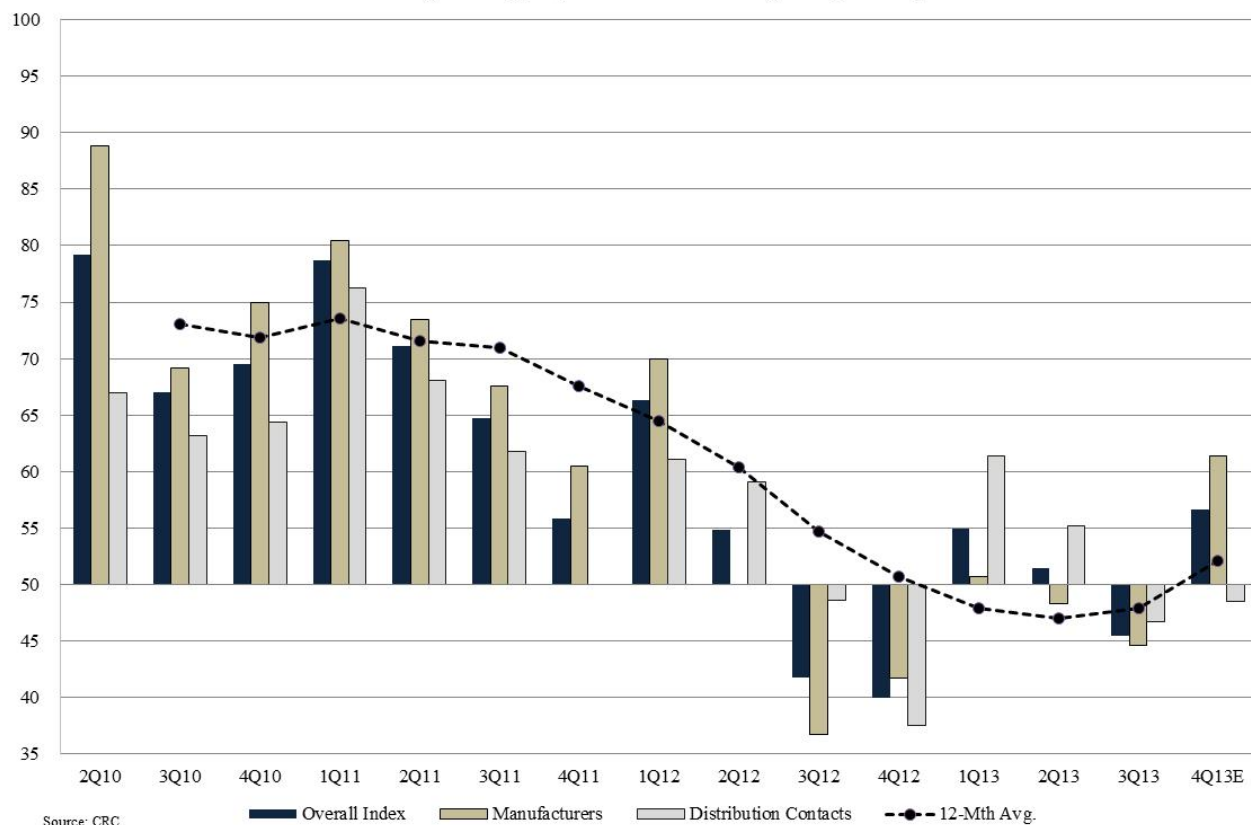
Power Transmission Market Index
Incoming Orders (Above 50 = Positive Volume Growth)



Backlogs

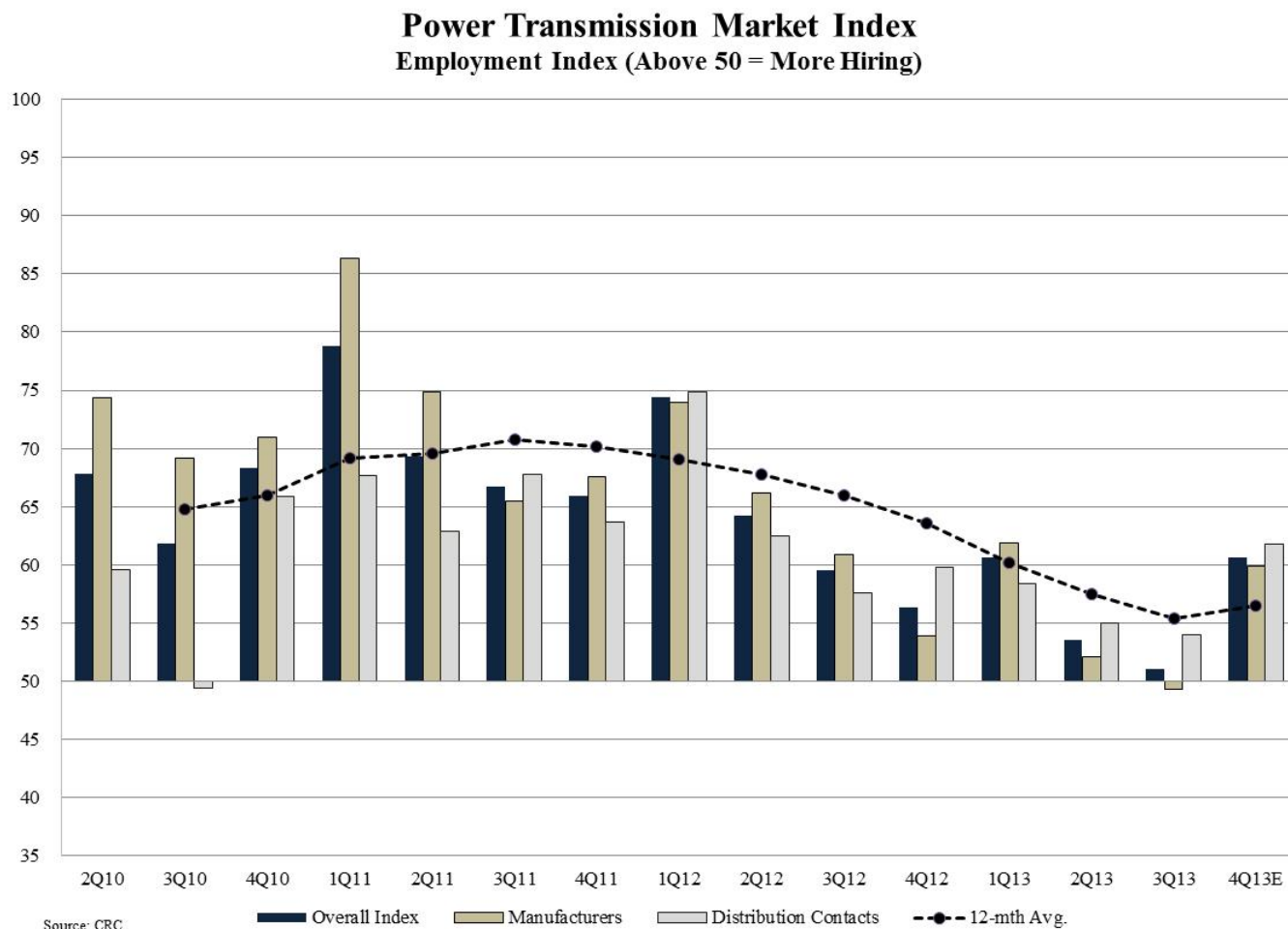
Backlog – The backlogs are moving out for the manufacturer base following two negative quarters. Conversely, the distribution channel is still in contraction. We believe the incremental strength could be related to stabilization within the Caterpillar and Deere channels following 3 quarters of relative inactivity.

Power Transmission Market Index
Backlog Strength (Above 50 = Backlogs Expansion)



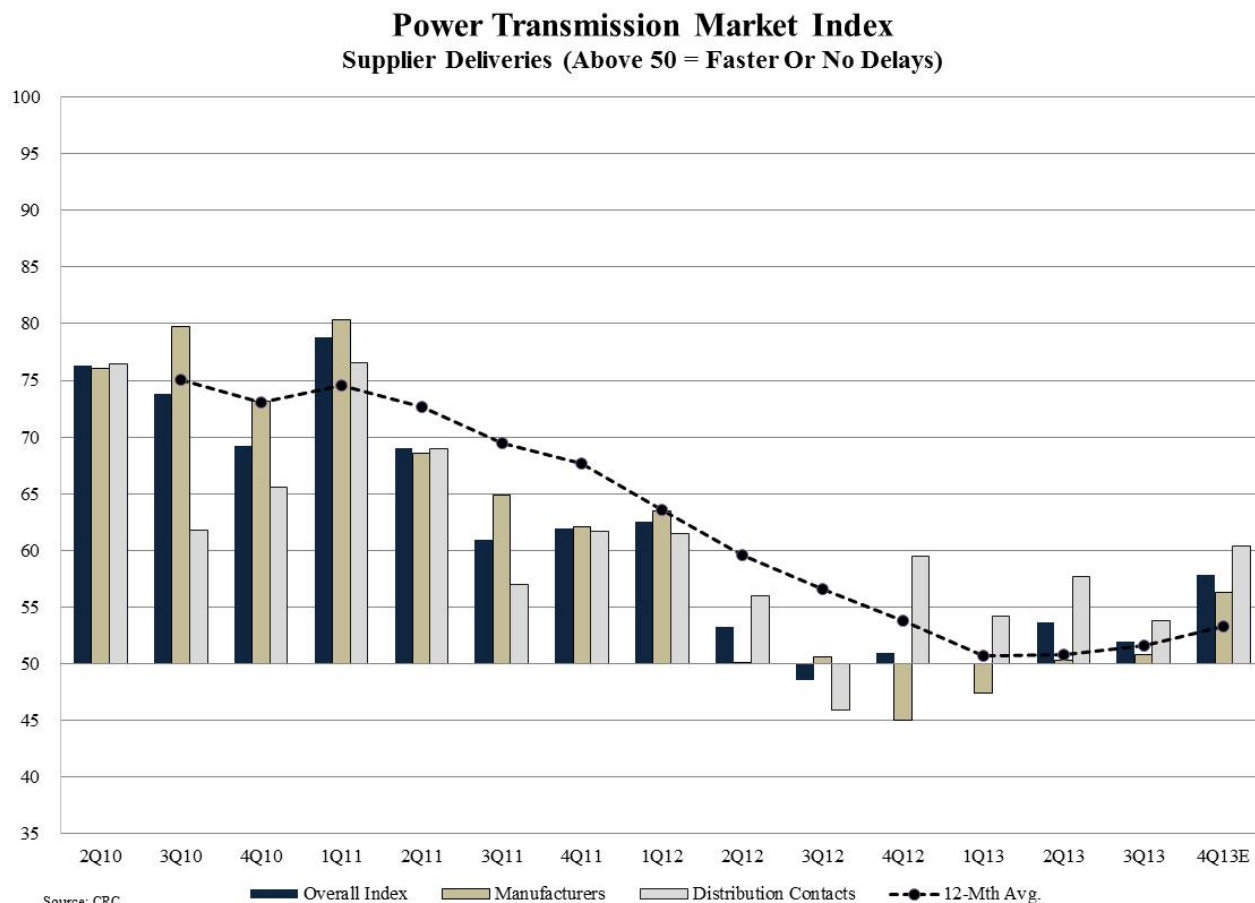
Employment

Employment: The employment index reading is back above 50 after falling below the line in 3Q.



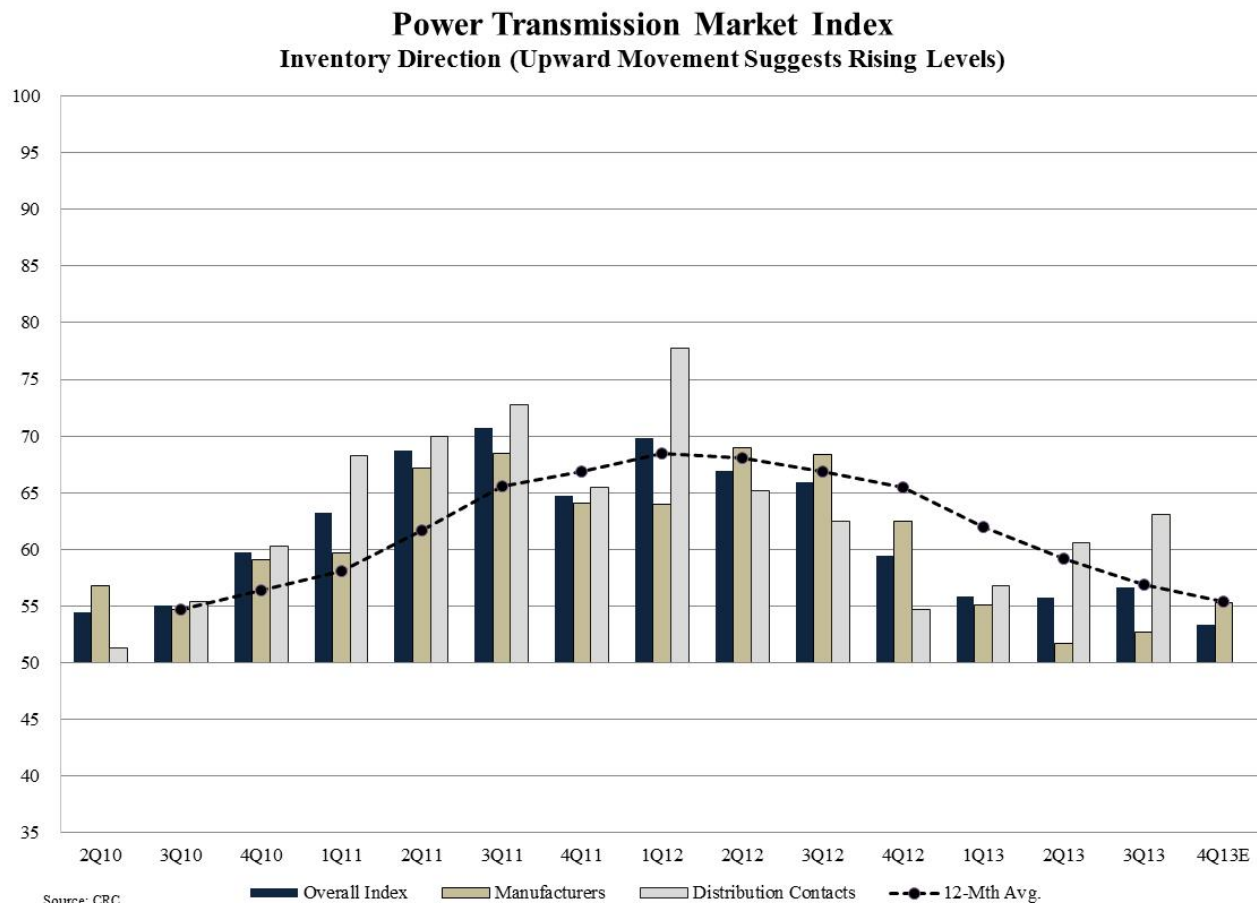
Supplier Deliveries

Supplier Deliveries – Supplier deliveries have also shown growth at a slightly slower rate compared to the previous quarter. This suggests that the manufacturer and distributor contact base are seeing delays at a low and stable rate over the last few quarters.



Inventory

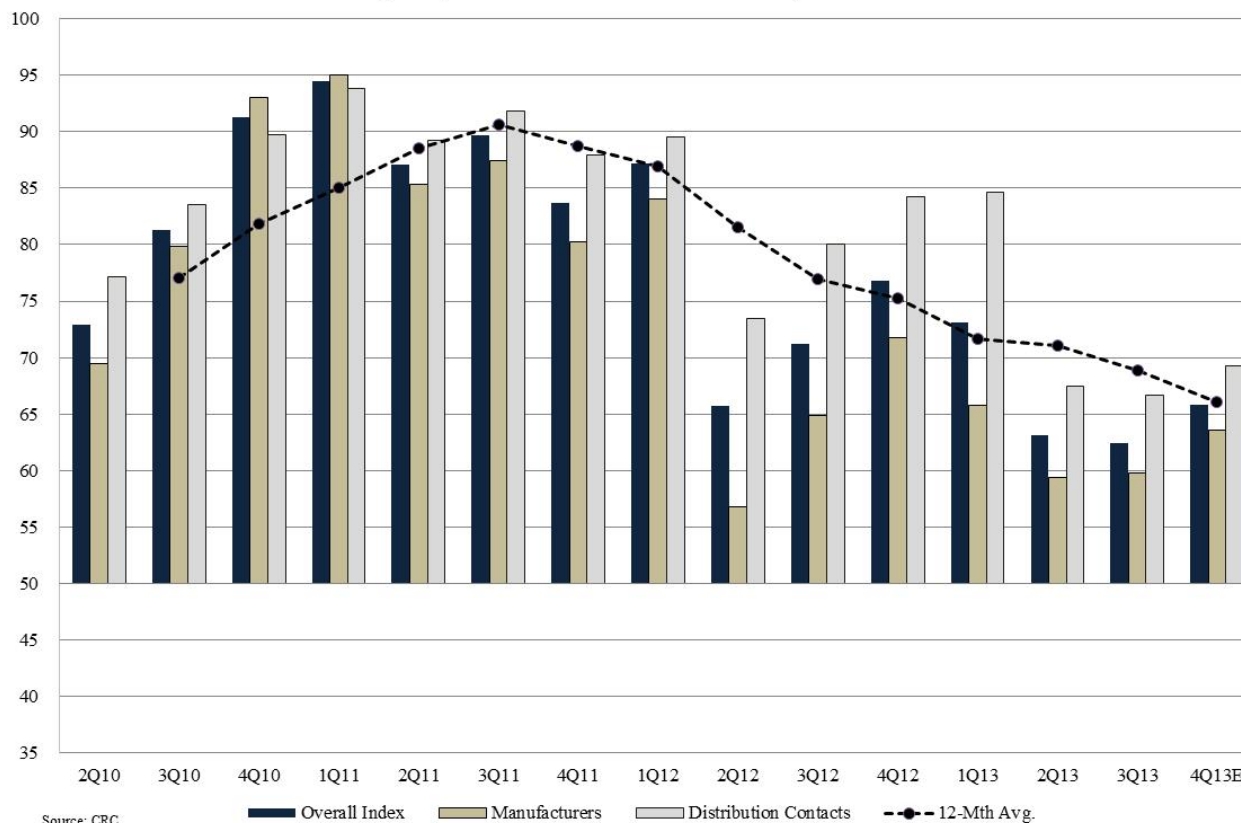
Inventory – The reported inventory index is at 53 this quarter compared with 57. This suggests that inventories are better balanced and less likely to be a headwind to demand.



Prices

Prices – The pricing power momentum still appears to be somewhat negative. The index reading improved to 66 versus 62 in last quarter, but the 12-month moving average is down sequentially. The weakness is more apparent for the manufacturer side.

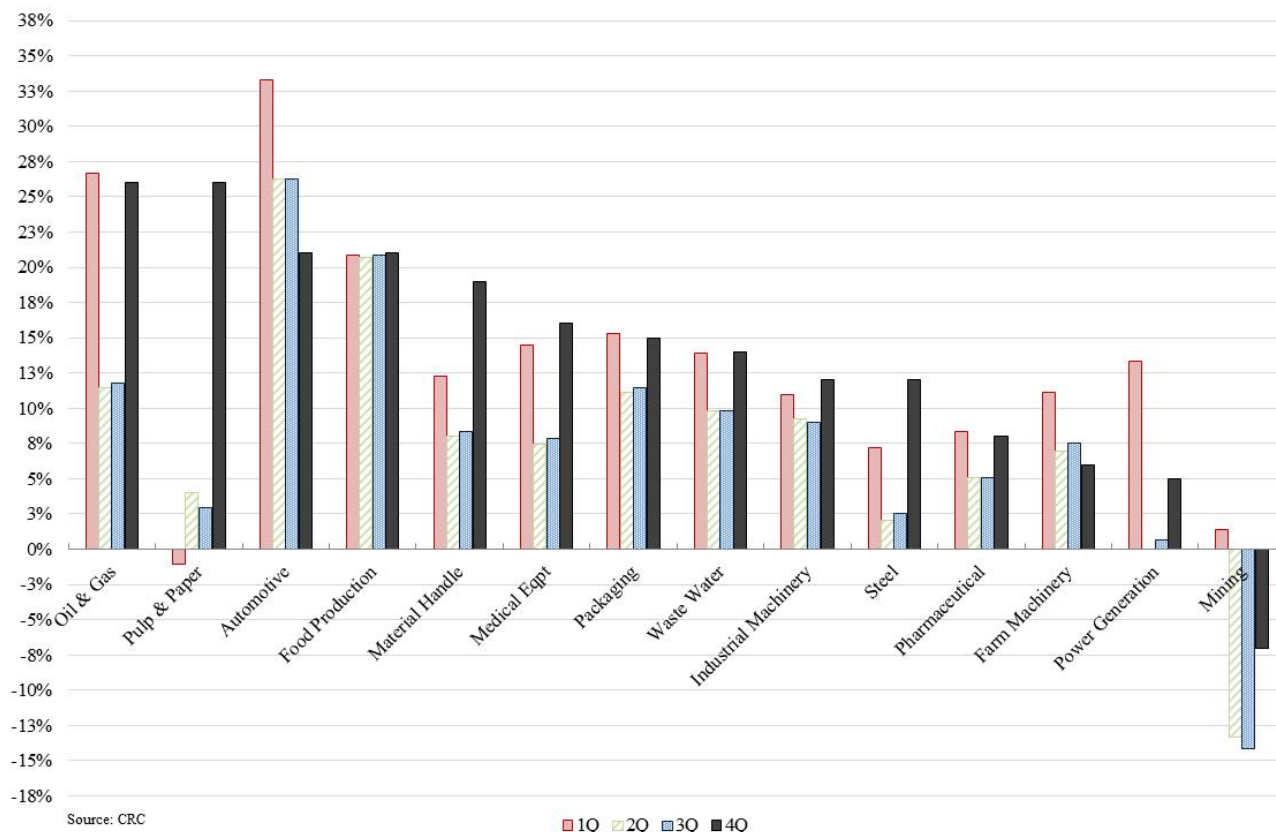
Power Transmission Market Index
Price Impact (Above 50 = Positive Realization)



End Market Trends

End Markets – The end-markets exhibiting relative strength have not changed much over the past 2-3 quarters – outside of the relative strength from pulp & paper. Automotive, food production, and energy represent the relative areas of order strength. Mining still represents the main industry struggle.

Power Transmission Market Analysis
Measure of Relative End-Market Strength & Demand Momentum



Source: CRC

2014 Outlook

Outlook - The 2014 plan is up considerably since October. The consensus forecast for the entire group is 6-7%, which compares to the previous 3-4% outlook. The sentiment appears to be improving considerably with both manufacturers and distributors. The optimism seems to relate to improving orders/backlogs for the companies levered to energy, pulp & paper, and metal industries.

Full Year Year-Over-Year Growth Expectations													
Outlook	Actual			2012 Outlook				2013 Outlook				2014	
	2010	2011	2012	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Distributors	10%	13%	8%	7%	8%	11%	7%	6%	5%	7%	5%	4%	7%
Manufacturers	17%	14%	8%	9%	10%	11%	9%	6%	8%	6%	5%	3%	7%
Total	14%	14%	8%	8%	9%	11%	8%	6%	7%	6%	5%	3%	7.1%