

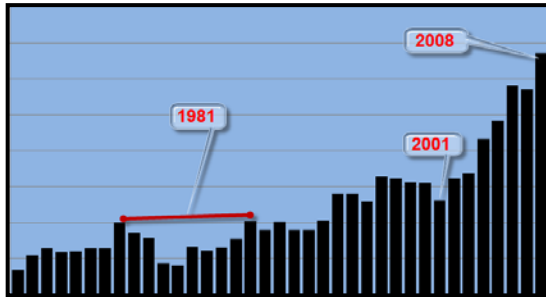
Dotson Dispatch



Dotson Employees on a McNeilus ready mix truck, a Toro Groundsmaster and a Mack Truck. Each unit has more than 10 Dotson castings

Recession Lessons

I am just starting my 38th year at Dotson Company and this will be my fifth official recession. The chart below shows our sales since 1972 and highlights the three recessions that are worthy of comment.



It took ten years for us to recover from the 1981 recession. At the beginning there were 1,600 iron foundries and we were a very average foundry. However, we were average in many areas. We had three foundry locations, poured iron, aluminum, steel, brass, had a machine shop and still produced our own products. Prior to 1981 we used debt to invest in expansion and justified those investments on the profits of new sales. Not a good decision when sales dropped by 60%.

By 1983 we had only one foundry and were only pouring iron. No reason to survive other than our stubbornness and the commitment from employees and owners to do whatever it took to survive

The 1990s were primarily a period where we worked to improve our balance sheet. By the start of the 2001 recession we had a strong balance sheet and could make long term not survival decisions.

In the 2001 recession we made what turned out to be one of the best decisions ever made by the company. We recognized that the past five years were good profit years and that it would not be the worst thing if we broke-even (we were not going to lose money). So, instead of laying off employees to keep profits up, we made the commitment that we were going to keep everyone. In the previous years we had been very busy and didn't have the time to do many of the good improvement projects. Now we had both the time and the urgency. As it turned out, once again our employee team exceeded our expectations and we actually had a 3% pre-tax profit in 2001.

More importantly, because we had our full experienced team in 2002, we were prepared for the return of the economy. Our rapid growth in 2002 to 2008 is a result of this decision.

Having learned from the 1981 recession that justifying capital expenditures on their future profits was a mistake, we turned to aggressively recapitalizing our plant making sure that every project was justified by reducing our current costs.

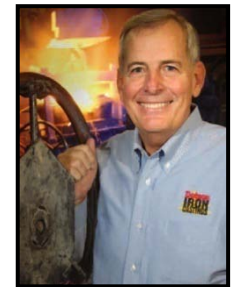
The seven-year results of this strategy are that as we enter the recession (depression?) of 2008-9, we have a very strong balance sheet. Our debt is 3% of our sales and the debt to equity ratio is 0.34 significantly better than the industry average of 1.70. We also are not the average company that we were in 1981. Today, there are 400 iron foundries and 90% of them are where we were in 1981...just average businesses. At Dotson, we have a completely automated, continuous flow iron foundry.

Our delivery times are two weeks or less and in the past 1,360 shipments (90 days) there were only 13 that were not on time (and those 13 were less than one week late). More than 100 foundries have visited in the past three years to see how we have moved from average to world class.

Our question now is where do we go from here? Once again, we have made the decision that we will not invest in capital equipment for 2009. Rather, we are going to invest in the 135 people on the front page with the "I love Castings" T-shirts. That investment will be a continuation of our Lean journey in classroom training, Gemba trips to customers, Kaizen events, and cross functional training.

During this recession we will also align our operation and processes to match our customer's needs and requirements. The goal of this 133 year old company is to have long term customer relationships and for that to continue in these economic times we need to strongly commit to our customers.

In 2007 we received the honor of being recognized as the American Foundry Society's Foundry of the Year. In large part because of the decisions we made during the 2001 recession. As our engaged employees are aligned to provide a superior customer experience, we expect that the 2009 recession will have the seeds of us being recognized by our customers as their Supplier of the Year.



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