

Avondale Perspective:
Avondale’s view on driving shareholder value through advantaged business models

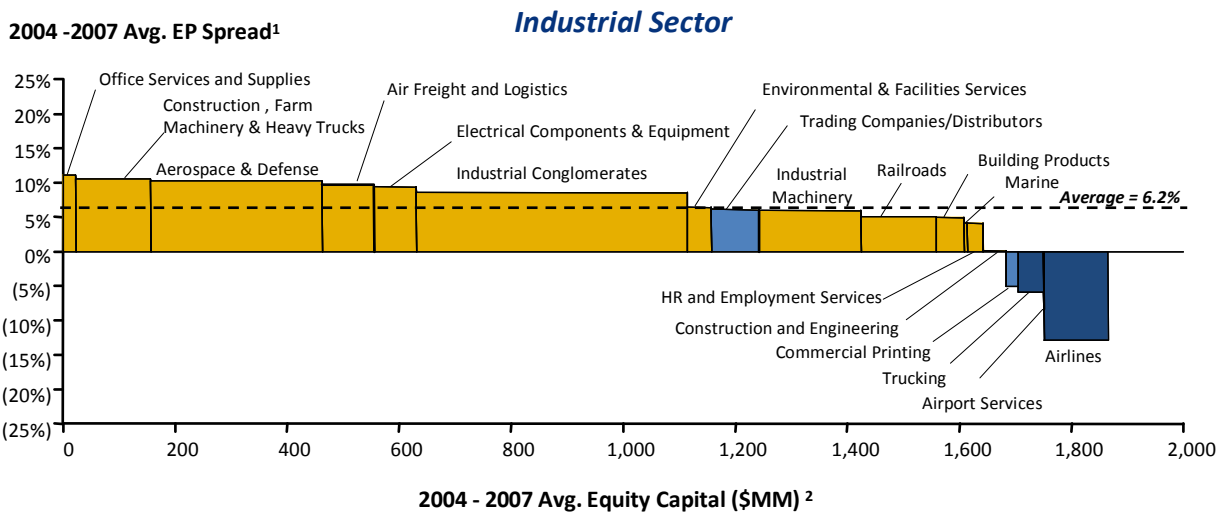
Avondale Rankings:
Competitive advantage leaders and laggards across industries

Avondale Connections:
Recent news and more on Avondale’s practice

Avondale Perspective: Gaining Advantage (and Taking Profits) in a Down Market

As quarterly losses mount and economic production declines, the near-term outlook for businesses in most sectors remains grim. How tempting it must be for you to throw your hands up and exclaim, “What can I do? I can’t control performance because we’re in a bad market.” But even in unprofitable markets, there’s still room for individual companies to shine.

That’s because profitable growth is driven, at its core, by business models that enable competitive advantage. Our research shows that the advantages or disadvantages a company holds in a market affect its profitability significantly more than the average profitability of the underlying market. An analysis of the Industrial sector, comprising 267 public companies, reveals significant variation in profitability across industries:

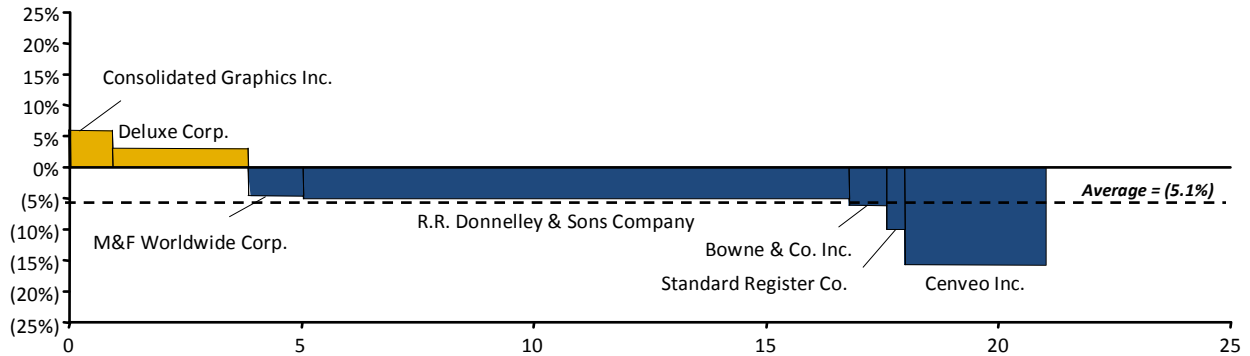


There is also significant deviation within industries. High-profit businesses can be found in virtually all markets – even distressed sectors such as commercial printing, where Consolidated Graphics has bucked the trend and generated above-average returns (see chart on top of page 2):

¹ EP Spread: Return on Equity (“ROE”) less Cost of Equity (“K_e”), ² Sources: Capital IQ, company 10-ks, and Avondale analysis

Commercial Printing

2004 - 2007 Avg. EP Spread¹

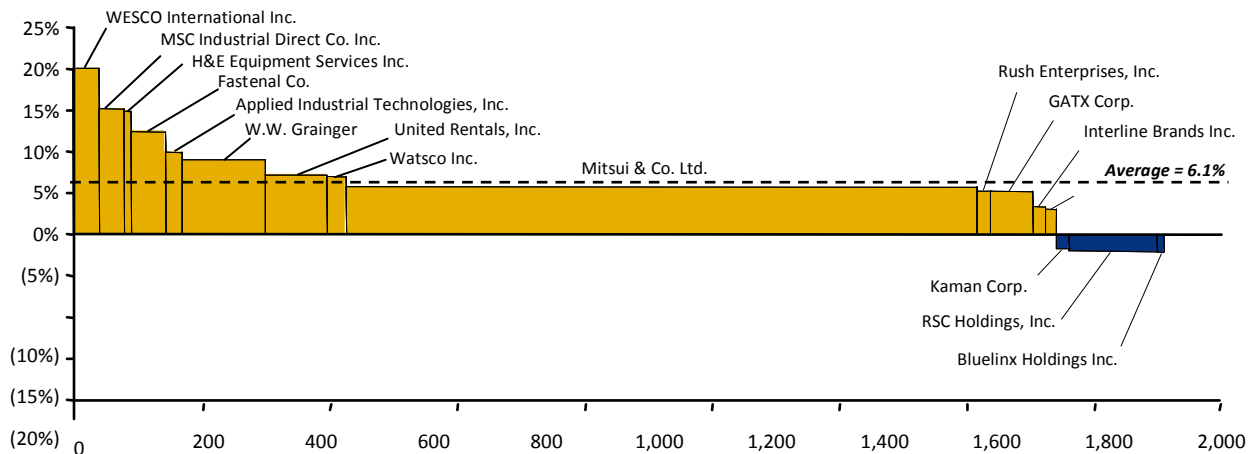


2004 - 2007 Avg. Equity Capital (\$MM) ²

Our research shows that the highest-profit businesses combine a sustainable competitive advantage with participation in profitable markets. WESCO and Fastenal are two clear examples of businesses that have created extraordinary profits by creating competitive advantages in highly attractive markets (in this case, trading/distribution):

Trading Companies/Distributors

2004 - 2007 Avg. EP Spread¹



2004 - 2007 Avg. Equity Capital (\$MM) ²

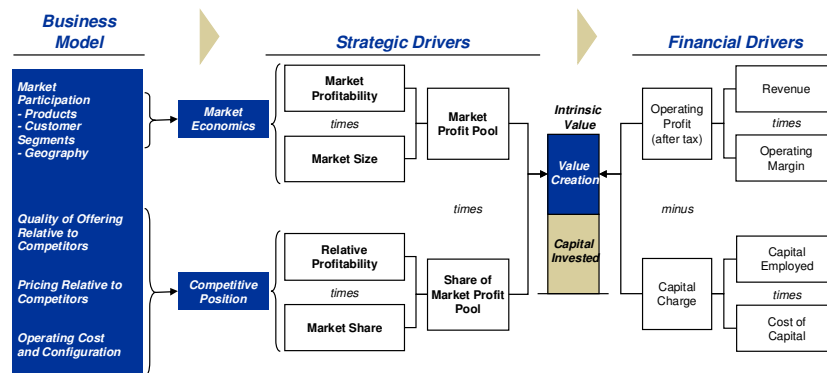
Note, however, that participation in attractive markets does not guarantee success; it is more essential to maintain competitive strength. In the Trading Companies example, RSC and Bluelinx are in a profitable market but perform only about as well as the average company in Commercial Printing, an industry with poor economics.

¹ EP Spread: Return on Equity ("ROE") less Cost of Equity ("K_e") ² Sources: Capital IQ, company 10-ks, and Avondale analysis

The challenge for management teams, then, is to find new ways to improve competitive position. Opportunities to create competitive advantages stem from a robust understanding of where and why profits are concentrated, along with the underlying strategic factors that drive differences in business performance. Financial results (e.g., revenues, operating profit, return on capital) are created by strategic drivers (e.g., offering position, cost position, market profitability); analyzing these drivers can help management teams identify growth and improvement opportunities, such as realigning investment resources to enter a new market or enhance their competitive position within an existing one.

Insights to Action

Consider our work with a leading supplier of specialty polymer parts, whose business had experienced virtually flat growth for five years. A new management team had been brought on board with an audacious goal: Triple the size of the business over the next five years. If the management team could not develop a credible plan to grow while maintaining high profit margins, the business would be put up for sale. It was a tall order, considering the previous management team had concluded that the business' customer markets were saturated. Competitors had been gaining market share by offering lower-quality products at cheaper prices; the management team reacted by lowering prices, which put the company at an immediate disadvantage, because its rivals had already established effective business models around low-priced polymers.



Working with Avondale, the new management team developed an analytical fact-based view of the business, which detailed the profit contribution by customer and product segment and provided insight into the drivers of profitability. The management team quickly saw what the past regime had not; a segment of its customer base was more than willing to pay premium prices for higher-quality products. Furthermore, it was apparent that there were new, untapped customer segments that were also likely to be willing to pay a premium.

By redefining its market around customers instead of materials, the supplier was able to refocus its R&D and sales resources around the premium segment. Not only did the company increase sales to its existing high-end customers, it was also able to identify adjacent product types and new markets for which high-quality polymers were in demand. Two years following the engagement, revenues have grown by more than 60%, while returns on capital have remained high.

As this example shows, management teams that can develop a granular understanding of the economics of their market – or markets in which they aspire to compete – can position their company to create value and grow profits, even in seemingly saturated and unprofitable markets. As the economy continues to batter businesses across all industries, management teams would be wise to investigate new ways to get more out of their existing markets.

Avondale Rankings

Competitive Position Rankings

Avondale continually analyzes more than 1,500 public companies to understand drivers of value creation. The following rankings are an excerpt of our analysis of companies in 142 industries based on competitive position, one of the most important drivers of value according to our analysis. It is often helpful to understand whether value creation results from being in attractive markets or maintaining a competitive advantage. Note that the companies with the most value creation do not always have the best competitive position, although improving competitive position is a critical lever for managers to affect long-term value creation. Ultimately, value creation is derived from a combination of return on invested capital and growth and is the best single measure to align the success of the business and shareholder returns.

The rankings on the following page are a snapshot of the Industrial sector. We have listed companies that represent the top and bottom tiers of their respective industries. You can see the full results of our analysis of 10 sectors and 142 industries on our website (www.avondaleconsulting.com/rankings).

If you would like more information on your company's competitive position, or other industries' market economics, please contact one of our Principals, Karl Stark, at 312-953-7372.

Industrial Sector Competitive Position Rankings

(For the full list of 1,500 companies go to www.avondaleconsulting.com/rankings)

Industrial Sector: Leaders					Industrial Sector: Laggards						
2004 - 2007 Fiscal Year End					2004 - 2007 Fiscal Year End						
Rank ¹	Company Name	Avg Value Creation ²	Avg EP Spread ³	ME ⁴	CP ⁵	Rank ¹	Company Name	Avg Value Creation ²	Avg EP Spread ³	ME ⁴	CP ⁵
Industry: Construction and Farm Machinery and Heavy Trucks					Industry: Construction and Farm Machinery and Heavy Trucks						
1	Caterpillar Inc. (NYSE:CAT)	2,569	31.9%	10.6%	21.3%	24	Titan International Inc. (NYSE:TWI)	-18	-8.4%	10.6%	-19.0%
2	Joy Global, Inc. (NasdaqGS:JOYG)	211	29.6%	10.6%	19.1%	25	Force Protection Inc. (NasdaqCM:FRPT)	-15	-9.9%	10.6%	-20.5%
3	Toro Co. (NYSE:TTC)	101	26.8%	10.6%	16.3%	26	Navistar International Corp. (NYSE:NAV)	-535	-12.4%	10.6%	-23.0%
Industry: Electrical Components and Equipment					Industry: Electrical Components and Equipment						
1	Rockwell Automation Inc. (NYSE:ROK)	374	20.9%	9.4%	11.5%	19	Coleman Cable, Inc. (NasdaqGM:CCIX)	-11	-4.0%	9.4%	-13.4%
2	Encore Wire Corp. (NasdaqGS:WIRE)	44	14.8%	9.4%	5.4%	20	GrafTech International Ltd. (NYSE:GTI)	-44	-8.3%	9.4%	-17.7%
3	Emerson Electric Co. (NYSE:EMR)	1,225	14.7%	9.4%	5.3%	21	SunPower Corporation	-55	-10.2%	9.4%	-19.6%
Industry: Aerospace and Defense					Industry: Aerospace and Defense						
1	Rockwell Collins Inc. (NYSE:COL)	404	31.7%	10.2%	21.4%	22	AAR Corp. (NYSE:AIR)	-2	-0.4%	10.2%	-10.6%
2	Boeing Co. (NYSE:BA)	2,227	26.9%	10.2%	16.7%	23	Triumph Group Inc. (NYSE:TGI)	-9	-1.5%	10.2%	-11.7%
3	Lockheed Martin Corporation	1,831	22.4%	10.2%	12.1%	24	Spirit AeroSystems Holdings Inc	-16	-2.3%	10.2%	-12.6%
Industry: Industrial Conglomerates					Industry: Industrial Conglomerates						
1	McDermott International Inc.	317	62.3%	8.5%	53.8%	9	Tredegar Corp. (NYSE:TG)	-21	-4.3%	8.5%	-12.8%
2	3M Co. (NYSE:MMM)	2,898	27.1%	8.5%	18.5%	10	Tyco International Ltd. (NYSE:TYC)	-1,852	-6.6%	8.5%	-15.1%
3	Tomkins plc (LSE:TOMK)	234	13.9%	8.5%	5.3%	11	Icahn Enterprises, L.P. (NYSE:IEP)	-380	-16.8%	8.5%	-25.4%
Industry: Trading Companies and Distributors					Industry: Trading Companies and Distributors						
1	WESCO International Inc. (NYSE:WCC)	125	20.1%	6.1%	14.0%	14	Kaman Corp. (NasdaqGS:KAMN)	-6	-1.7%	6.1%	-7.8%
2	MSC Industrial Direct Co. Inc.	99	15.2%	6.1%	9.1%	15	RSC Holdings, Inc. (NYSE:RRR)	-47	-2.0%	6.1%	-8.1%
3	H&E Equipment Services Inc. (HEES)	26	14.9%	6.1%	8.8%	16	Bluelinx Holdings Inc. (NYSE:BXC)	-4	-2.1%	6.1%	-8.2%
Industry: Industrial Machinery					Industry: Industrial Machinery						
1	Graco Inc. (NYSE:GGG)	119	41.5%	6.0%	35.5%	33	EnPro Industries, Inc. (NYSE:NPO)	-54	-11.4%	6.0%	-17.4%
2	Donaldson Company Inc. (NYSE:DCI)	89	15.2%	6.0%	9.2%	34	Tecumseh Products Co.	-100	-12.7%	6.0%	-18.7%
3	Actuant Corp. (NYSE:ATU)	58	14.6%	6.0%	8.6%	35	TriMas Corporation (NYSE:TRS)	-113	-42.7%	6.0%	-48.7%
Industry: Office Services and Supplies					Industry: Office Services and Supplies						
1	Herman Miller Inc. (NasdaqGS:MLHR)	99	61.1%	11.1%	50.0%	10	Steelcase Inc. (NYSE:SCS)	-18	-1.5%	11.1%	-12.6%
2	Pitney Bowes Inc. (NYSE:PBI)	392	43.5%	11.1%	32.4%	11	Kimball International, Inc.	-14	-3.3%	11.1%	-14.4%
3	HNI Corp. (NYSE:HNI)	83	16.2%	11.1%	5.0%	12	ACCO Brands Corporation (NYSE:ABD)	-17	-4.2%	11.1%	-15.3%
Industry: Environmental and Facilities Services					Industry: Environmental and Facilities Services						
1	Rollins Inc. (NYSE:ROL)	42	20.3%	6.4%	13.9%	10	Metalco Inc. (AMEX:MEA)	0	0.2%	6.4%	-6.1%
2	EnergySolutions, Inc. (NYSE:ES)	30	16.3%	6.4%	10.0%	11	Allied Waste Industries Inc. (NYSE:AW)	-113	-3.8%	6.4%	-10.2%
3	Clean Harbors Inc. (NasdaqGS:CLHB)	27	16.2%	6.4%	9.9%	12	Tetra Tech Inc. (NasdaqGS:TTEK)	-41	-11.1%	6.4%	-17.4%
Industry: Human Resource and Employment Services					Industry: Human Resource and Employment Services						
1	Robert Half International Inc. (NYSE:RHI)	183	18.3%	4.1%	14.2%	12	CDI Corp. (NYSE:CDI)	-12	-4.1%	4.1%	-8.2%
2	TrueBlue, Inc. (NYSE:TBI)	36	10.9%	4.1%	6.8%	13	Spherion Corp. (NYSE:SFN)	-20	-4.3%	4.1%	-8.4%
3	Adminstaff Inc. (NYSE:ASF)	21	10.6%	4.1%	6.4%	14	Hudson Highland Group Inc.	-23	-13.7%	4.1%	-17.8%
Industry: Construction and Engineering					Industry: Construction and Engineering						
1	Foster Wheeler, Ltd. (NasdaqGS:FWLT)	127	28.1%	0.1%	27.9%	14	Quanta Services Inc. (NYSE:PWR)	-75	-6.2%	0.1%	-6.3%
2	AECOM Technology Corporation	31	12.3%	0.1%	12.3%	15	Shaw Group Inc. (NYSE:SGR)	-118	-9.5%	0.1%	-9.7%
3	Fluor Corporation (NYSE:FLR)	153	8.2%	0.1%	8.0%	16	Integrated Electrical Services Inc.	-34	-31.4%	0.1%	-31.5%
Industry: Air Freight and Logistics					Industry: Air Freight and Logistics						
1	Air Transport Services Group, Inc.	30	20.7%	9.7%	11.0%	8	FedEx Corporation (NYSE:FDX)	875	7.1%	9.7%	-2.6%
2	CH Robinson Worldwide Inc.	186	20.2%	9.7%	10.5%	9	Park-Ohio Holdings Corp.	9	6.6%	9.7%	-3.1%
3	Expeditors International of Washington	136	12.7%	9.7%	3.0%	10	UTI Worldwide, Inc. (NasdaqGS:UTIW)	24	3.9%	9.7%	-5.9%
Industry: Building Products					Industry: Building Products						
1	Owens Corning (NYSE:OC)	903	17.5%	4.9%	12.6%	11	Armstrong World Industries, Inc.	-8	-0.5%	4.9%	-5.5%
2	Lennox International Inc. (NYSE:LII)	101	12.6%	4.9%	7.7%	12	Gibraltar Industries, Inc.	-16	-3.0%	4.9%	-8.0%
3	Simpson Manufacturing Co., Inc.	41	6.4%	4.9%	1.4%	13	USG Corp. (NYSE:USG)	-432	-37.9%	4.9%	-42.8%
Industry: Commercial Printing					Industry: Commercial Printing						
1	Consolidated Graphics Inc. (NYSE:CGX)	19	6.0%	-5.1%	11.1%	5	Bowne & Co. Inc. (NYSE:BNE)	-16	-6.1%	-5.1%	-1.0%
2	Deluxe Corp. (NYSE:DLX)	30	3.0%	-5.1%	8.1%	6	Standard Register Co. (NYSE:SR)	-13	-10.0%	-5.1%	-5.0%
3	M&F Worldwide Corp. (NYSE:MFW)	-18	-4.5%	-5.1%	0.5%	7	Cenveo Inc. (NYSE:CVO)	-160	-15.8%	-5.1%	-10.7%
Industry: Trucking					Industry: Trucking						
1	Landstar System Inc. (NasdaqGS:LSTR)	95	42.9%	-5.9%	48.7%	14	Covenant Transportation Group, Inc.	-21	-11.4%	-5.9%	-5.5%
2	JB Hunt Transport Services Inc. (JBHT)	158	24.6%	-5.9%	30.5%	15	YRC Worldwide Inc. (NasdaqGS:YRCW)	-237	-12.4%	-5.9%	-6.5%
3	Con-Way, Inc. (NYSE:CNIW)	155	19.7%	-5.9%	25.5%	16	Avis Budget Group, Inc. (NYSE:CAR)	-1,200	-23.6%	-5.9%	-17.8%
Industry: Airlines					Industry: Airlines						
1	Continental Airlines, Inc. (NYSE:CAL)	166	23.5%	-12.9%	36.4%	13	Hawaiian Holdings Inc. (NasdaqGM:HA)	-47	-16.5%	-12.9%	-3.6%
2	Pinnacle Airlines Corp.	22	9.2%	-12.9%	22.1%	14	AMR Corporation (NYSE:AMR)	-64	-31.1%	-12.9%	-18.2%
3	Republic Airways Holdings Inc. (RJET)	40	8.8%	-12.9%	21.7%	15	Delta Air Lines Inc. (NYSE:DAL)	-4,016	-33.3%	-12.9%	-20.4%

¹ Rankings are based on competitive position within industry

² Value Creation (Economic Profit): After-tax operating profit less charge for equity capital; Value is created through a combination of return on invested capital and growth and is the best single measure to align the success of the business and share

³ EP Spread: Return on Equity ("ROE") less Cost of Equity ("k_e")

⁴ Market Economics: Total industry economic profit divided total industry equity capital

⁵ Competitive Position: EP Spread - Market Economics

Greg Stoklosa Joins Avondale

Avondale Consulting is pleased to announce that Greg Stoklosa has officially joined our firm as Principal. Greg has worked with Avondale for the past year as he was building his own strategy consulting practice. He brings more than 20 years of finance, strategy and executive leadership experience at Fortune 500 companies, adding practical client-side insights to Avondale's value-based consulting practice.

Greg was Chief Strategy Officer and Chief Financial Officer at R.R. Donnelley & Sons Company, a \$5 billion commercial print manufacturer and service provider, and Chief Financial Officer and co-head of operations at the Sun-Times Media Group. He led strategy development and execution at both companies, and has significant change leadership experience. At R.R. Donnelley, Greg led a comprehensive and successful implementation of value-based management. Leveraging his experiences, he has developed a value creation framework, *Objective Value Management*, which incorporates a value-based mindset, alignment of key constituents, and key supporting metrics.

Greg earned his MBA in Finance and Economics from the Kellogg Graduate School of Management, and his bachelor's degree from the University of Michigan. He currently serves on the Board of Directors of Communities in Schools of Chicago, and co-chairs its Strategic Planning Committee.

About Avondale

Avondale Consulting advises corporations on how to create **profitable growth** and increase the financial value of their business. Avondale works with senior financial officers and strategic management teams across a range of industries to develop practical and actionable solutions that sustain long-term value creation.

Contact Avondale

For more information on Avondale Consulting, contact one of the Principals or visit www.avondaleconsulting.com.

Karl Stark	karl.stark@avondaleconsulting.com	• Phone: (312) 953-7372
Greg Stoklosa	gregory.stoklosa@avondaleconsulting.com	• Phone: (847) 778-7102
Bill Stewart	bill.stewart@avondaleconsulting.com	• Phone: (858) 231-2353