

## TENON & ITS US PEER GROUP - BENCHMARKING ANALYSIS

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## Introduction

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## Introduction

In September 2007, Cameron Partners Limited ("CPL") conducted a benchmarking analysis that measured the performance of Tenon Limited ("Tenon") against its peers in the United States ("US") market. The underlying hypothesis at the time was that the business model is strong and that the company was performing better than its peers in a difficult trading environment.

18 months on and Tenon is still experiencing a difficult economic and trading environment. This is substantially the result of the global credit crisis and an unprecedented housing sector downturn.

The purpose of this updated benchmarking analysis is to re-examine the operating and performance metrics of the peer group and make some observations regarding the underlying performance of Tenon against its peers in the US market.

This paper removes the impact on Tenon's performance of the New Zealand dollar effect (except for the gross margin effect from Fletcher Wood Solutions Taupo) and outlines:

- An analysis of the performance of Tenon versus this peer group.
- A summary of the implications of the above analysis for the hypothesis outlined above.

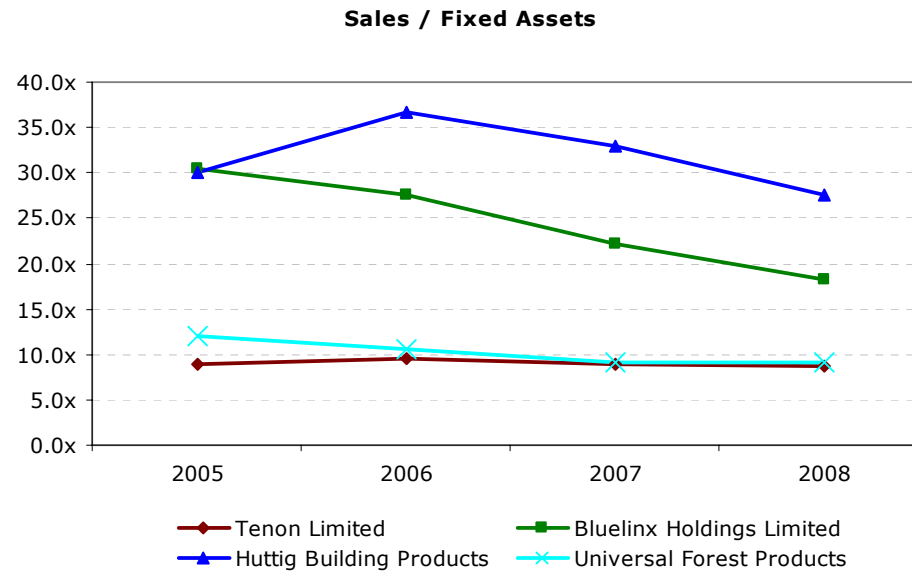
Please note that when reading through the proceeding sections, the comparability of operating and performance observations compared with our original analysis in September 2007 is slightly distorted as the current analysis uses a December year end for all comparable companies whereas we used a June year end in the original report.

On balance we believe this is preferable as it allows us to use the most recently available company information - using a June year end would result in comparing performance information which would be at least nine months old.

## Operating and Performance Observations

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## Asset Intensity



### Operating Observations

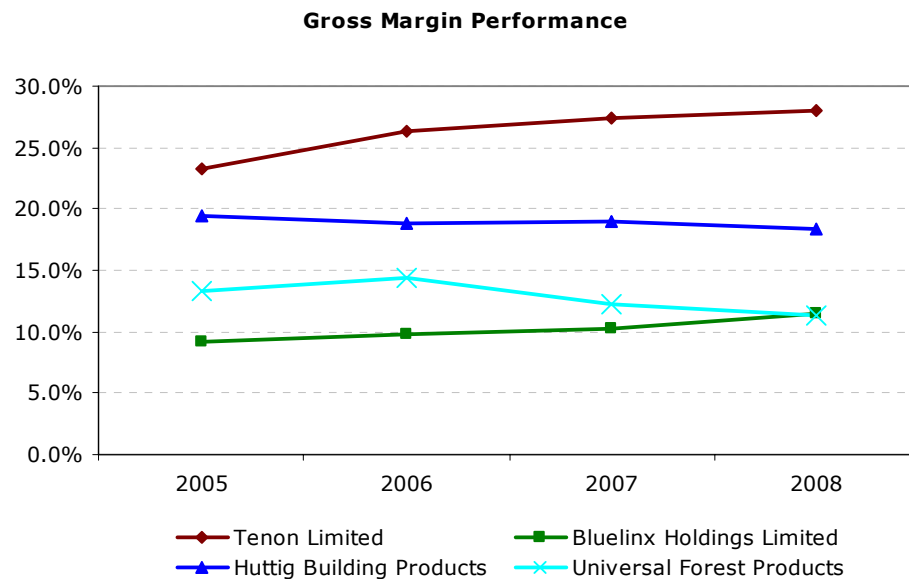
- As expected Tenon and UFP have lower sales to asset ratios reflecting their significant investment in processing assets compared with Huttig and Bluelinx' pure distribution models.
- In addition, Tenon's full service distribution model and long NZ supply chain push up its relative asset intensity.

### Performance Observations

- Tenon's sales to fixed assets have held up markedly better than its competitors, particularly the pure distributors - Huttig and Bluelinx.
- Tenon is the only company to have maintained its sales to fixed asset ratio over the forecast period with all others showing a discernible decline in performance.
- We believe this primarily reflects Tenon's superior revenue performance - given the inability to quickly alter a company's asset base. This is illustrated in the peer analysis (see appendix) which shows there have been only modest changes in asset ownership for all peer companies over the forecast period.



## Gross Margins



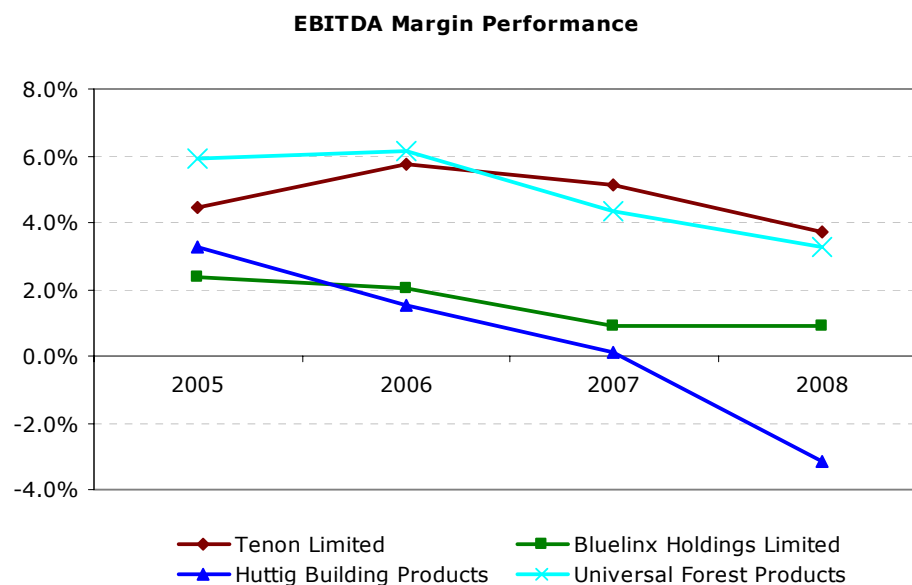
### Operating Observations

- Tenon has the highest gross margin given:
  - Its higher value product mix
  - A vertically integrated supply chain
  - The proportion of owned product sold through its full service distribution channel
- Generally we would expect Huttig and Bluelix to have the lowest margins reflecting their 'distribution only' business model.
- However UFP, while vertically integrated, has a lower value product mix and a high volume / low service business model meaning that its margins are comparatively lower than Tenon or Huttig.

## Relative performance

- Gross margins across the peer group have held up well, although Tenon and Bluelinx are the only companies to show a consistent improvement in gross margins. Huttig and UFP have recorded modest declines in gross margins.
- The improvement in Tenon's margins has likely been assisted by
  - Retailer support (e.g. Lowes) where Tenon has been able to significantly expand its store presence
  - A focus on higher margin specialty products
  - A full year of earnings from Ornamental Mouldings in 2007

## EBITDA Margins



### Operating Observations

- In an absolute sense Tenon and UFP have the highest EBITDA margins reflecting the differences in business models (ownership of processing assets) to Huttig and Bluelinx.
- Tenon's comparatively smaller EBITDA margin advantage compared to the peer group than for gross margins, reflects Tenon's full service model (higher sales and distribution costs).

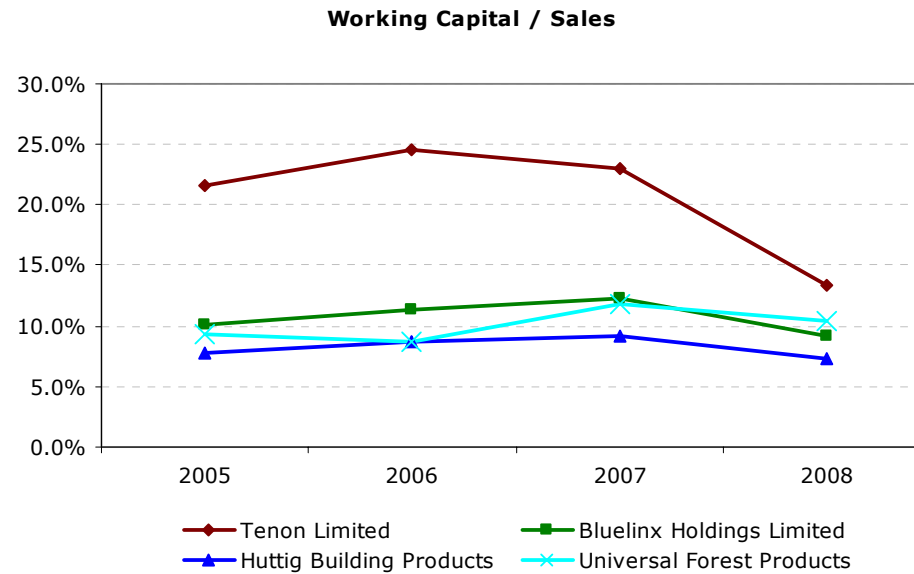
### Relative performance

- The entire peer group has been impacted by the US housing market decline – as evidenced by falling net margins for all comparable companies.



- Tenon has outperformed the peer group with the smallest percentage decline in EBITDA margin over the period 2005 -2008.
- This is somewhat surprising given its full service business model, i.e. relatively greater sales and distribution costs vis-à-vis its competitors and suggests Tenon has responded more quickly and/or been better positioned for the current market downturn.

## Working Capital Management



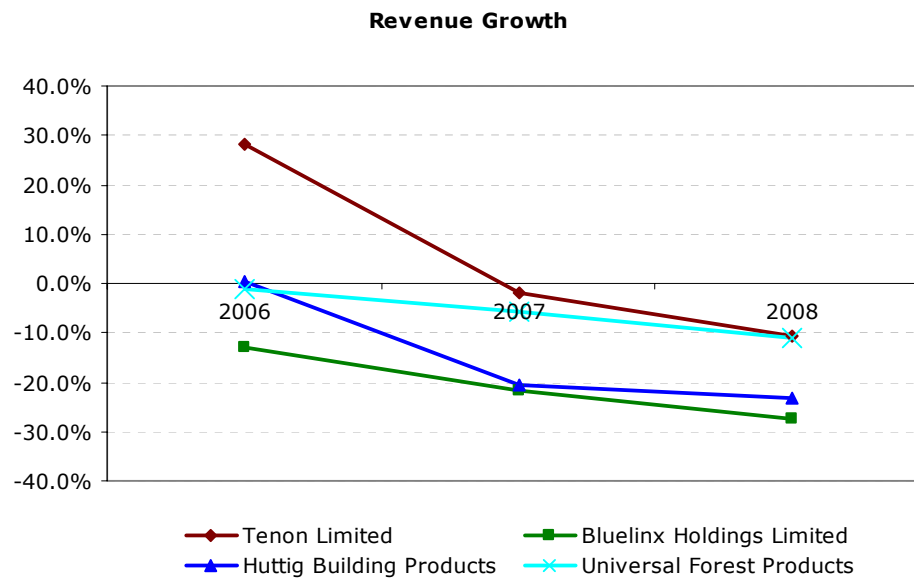
### Operating Observations

- Tenon has the highest working capital balances of the peer group, reflecting:
  - The distance of its processing assets from its major market
  - Its full service distribution model
  - The higher value of its inventory
  - Its focus on new products (eg: on its outdoor program) and retailer penetration (Lowe's)

## Relative performance

- All companies have experienced a decline in the ratio of their working capital to sales over the last financial year – almost certainly reflecting a focus on improving cashflow in response to extremely adverse market conditions.
- Tenon's working capital to sales ratio has fallen significantly since 2005 and has nearly halved compared with 2006. This is a solid improvement given:
  - The length of Tenon's supply chain compared with competitors
  - The fact Tenon's working capital will have been adversely impacted by the roll-out of new products e.g Armourwood and additional retailer penetration (new stores).

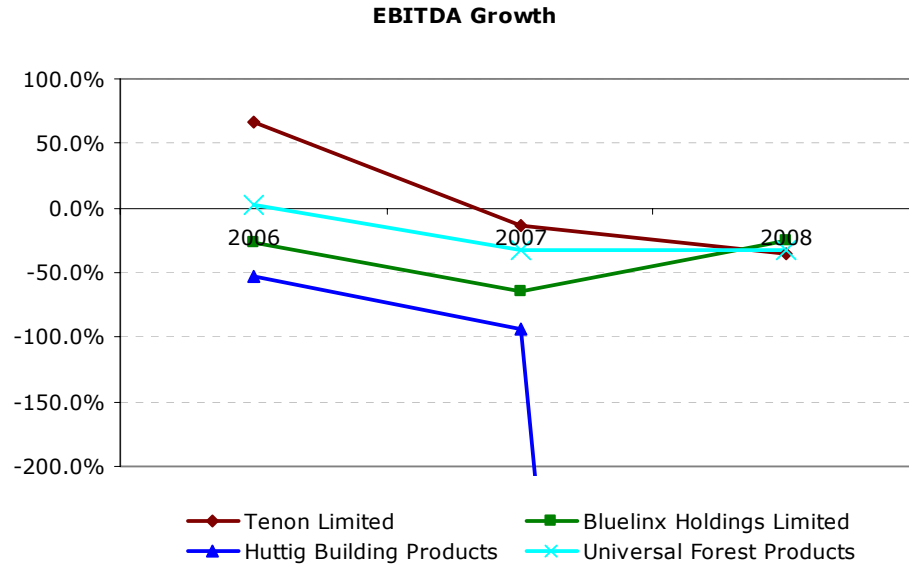
## Revenue Growth



### Relative performance

- Tenon is the only company in the peer group to record positive revenue growth over the period 2005-08 (+4%). The peer group has recorded negative revenue growth of between 6% and 21%.
- This performance reflects:
  - Improved distribution penetration – particularly Lowe’s.
  - An East Coast distribution focus – the East Coast (and Texas) housing markets have been among the best performing in the US through the downturn.
  - New product development e.g. Tenon’s expansion into the outdoor market.

## EBITDA Growth



### Relative performance

- All peer group companies have experienced significantly negative declines in EBITDA growth.
- Tenon's EBITDA growth performance has been the best of its peers, more likely reflecting its specialty products focus and greater exposure to the remodelling market which has held up better than the new home segment to which its peers are more exposed. For example, housing starts are down 74% from their peak while remodelling expenditure is down "only" 25% from Q2 2007<sup>1</sup>.
- The worst declines have been felt by the pure distributors (Bluelinx and Huttig) with Tenon and UFP holding up relatively better.

<sup>1</sup> Harvard Joint Centre for Housing Studies remodelling indicator.

## Summary

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## Summary

Tenon's financial and share price performance has been severely negatively impacted by the global credit crisis and the downturn in the US housing and renovation markets.

Tenon's business model and strategy has the following features compared to its peer group:

- It owns specialised processing assets in New Zealand.
- It has a narrow product range focused on high-end specialised products.
- It owns a large proportion of its distribution channel.
- It has a high service model.

The analysis strongly suggests that Tenon's strategy has outperformed its peer group over the last two years:

- Tenon's revenue and EBITDA growth has outperformed its peer group over the period 2005 - 2008. Tenon is the only company to record positive revenue growth over this period with its peers all registering negative growth of between 6% and 21%.
- Tenon has the highest gross margins and is one of only two players to show a consistent improvement in gross margins over the 2005 - 2008 period.
- Tenon's EBITDA margin is currently the highest of its peers and the company has outperformed its peers with the smallest decline in EBITDA margin over the 2005 - 2008 period.
- Tenon has higher asset intensity (lower sales/fixed assets) than its peer group but is the only company which has not experienced deterioration in this metric over the forecast period.
- While Tenon's level of working capital to sales is higher than its peers, the business has shown a dramatic improvement in working capital efficiency over the forecast period on an absolute and relative basis compared with its peers.

It is our view that Tenon has been the best performing company of its peer group over the period 2005 to 2008. This suggests that Tenon's business model and strategy has been well executed and has shown to be materially more resilient to the US downturn than those of its peers.

## Appendix i

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## Summary Table

Figures are reported in \$US unless otherwise stated | Company results are normalised to a calendar year-end | Tenon results in 2003 and 2004 are converted to \$USD usings spot rates of 0.6400 and 0.5866 respectively.

Fundamentals																											
Company Name Tenon Limited NZSE:TEN							Company Name Bluelinx Holdings Limited BXC							Company Name Huttig Building Products OTCPK:HBPI							Company Name Universal Forest Products UFPI						
Share Price (\$NZ)	0.51						Share Price	1.49						Share Price	0.20						Share Price	22.50					
Shares on Issue	66.67						Shares on Issue	32.81						Shares on Issue	22.04						Shares on Issue	19.24					
Market Cap (\$NZ)	34.0						Market Cap	48.9						Market Cap	4.4						Market Cap	432.8					
Market Cap (\$US)	<u>17.8</u>						Net Debt	<u>319.2</u>						Net Debt	<u>21.3</u>						Net Debt	<u>87.8</u>					
Net Debt	43.0						Enterprise Value	368.1						Enterprise Value	25.7						Enterprise Value	520.7					
Enterprise Value (\$US)	60.8	exchange rate	0.5244																								
Profit and Loss Analysis																											
	2003	2004	2005	2006	2007	2008		2003	2004	2005	2006	2007	2008		2003	2004	2005	2006	2007	2008		2003	2004	2005	2006	2007	2008
Revenue			311.1	399.0	391.0	350.0	Revenue	4,271.8	5,558.2	5,622.1	4,899.4	3,833.9	2,779.7	Revenue	790.5	938.4	1,097.2	1,102.7	874.8	671.0	Revenue	1,898.8	2,453.3	2,691.5	2,664.6	2,513.2	2,232.4
Revenue Growth			28.3%	-2.0%	-10.5%		Revenue Growth	30.1%	1.1%	-12.9%	-21.7%	-27.5%		Revenue Growth	18.7%	16.9%	0.5%	-20.7%	-23.3%		Revenue Growth	29.2%	9.7%	-1.0%	-5.7%	-11.2%	
Gross Profit			72.6	105.0	107.0	98.0	Gross Profit	457.5	560.4	512.4	479.8	391.9	318.3	Gross Profit	151.0	182.0	212.5	206.8	166.5	123.4	Gross Profit	258.0	296.3	359.3	381.7	309.0	254.2
Gross Margin			23.3%	26.3%	27.4%	28.0%	Gross Margin	10.7%	10.1%	9.1%	9.8%	10.2%	11.5%	Gross Margin	19.1%	19.4%	19.4%	18.8%	19.0%	18.4%	Gross Margin	13.6%	12.1%	13.3%	14.3%	12.3%	11.4%
EBITDA			13.8	23.0	20.0	13.0	EBITDA	110.9	172.9	134.4	98.3	34.4	25.7	EBITDA	12.9	30.0	35.6	16.7	1.0	-21.3	EBITDA	107.4	125.8	159.6	163.4	109.2	73.0
EBITDA Margin			4.4%	5.8%	5.1%	3.7%	EBITDA Margin	2.6%	3.1%	2.4%	2.0%	0.9%	0.9%	EBITDA Margin	1.6%	3.2%	3.2%	1.5%	0.1%	-3.2%	EBITDA Margin	5.7%	5.1%	5.9%	6.1%	4.3%	3.3%
EBITDA Growth			66.7%	-13.0%	-35.0%		EBITDA Growth	56.0%	-22.3%	-26.9%	-65.0%	-25.3%		EBITDA Growth	132.6%	18.7%	-53.1%	-94.0%	-2230%		EBITDA Growth	17.1%	26.9%	2.4%	-33.2%	-33.2%	
05-08 Revenue CAGR	4.0%						05-08 Revenue CAGR	-20.9%						05-08 Revenue CAGR	-15.1%						05-08 Revenue CAGR	-6.0%					
05-08 Av Gross Margin	26.3%						05-08 Av Gross Margin	10.1%						05-08 Av Gross Margin	18.9%						05-08 Av Gross Margin	12.8%					
05-08 Av EBITDA Margin	4.8%						05-08 Av EBITDA Margin	1.6%						05-08 Av EBITDA Margin	0.4%						05-08 Av EBITDA Margin	4.9%					
Balance Sheet Analysis																											
Fixed Assets			35.0	42.0	44.0	40.0	Fixed Assets	187.0	184.0	178.2	172.4	152.8	Fixed Assets	34.0	30.3	36.4	30.0	26.6	24.4	Fixed Assets	214.2	216.3	224.3	250.3	274.3	247.2	
Goodwill			51.0	76.0	68.0	67.0	Goodwill	0.0	0.0	0.0	0.0	0.0	Goodwill	13.6	13.6	19.1	19.1	18.3	9.6	Goodwill	125.0	123.8	131.6	152.8	147.9	156.9	
Inventory			64.0	81.0	71.0	57.0	Inventory	500.2	473.1	410.7	335.9	189.5	Inventory	66.4	74.2	99.7	97.3	88.7	59.4	Inventory	169.6	212.9	253.8	245.1	235.9	193.5	
Total Receivables			29.0	42.0	46.0	24.0	Total Receivables	363.7	399.1	307.5	263.2	130.7	Total Receivables	66.3	73.1	85.3	74.1	56.1	33.0	Total Receivables	140.3	157.6	194.1	155.3	155.7	146.0	
Total Assets			209.0	253.0	243.0	196.0	Total Assets	1137.1	1157.6	1004.4	883.4	732.4	Total Assets	226.0	215.0	266.8	250.6	212.7	146.0	Total Assets	686.9	762.4	876.9	913.4	957.0	816.0	
Net Debt			33.0	74.0	69.0	43.0	Net Debt	668.6	578.9	555.7	499.9	319.2	Net Debt	62.8	35.6	31.8	39.6	24.8	21.3	Net Debt	195.8	181.9	163.3	119.0	162.5	87.8	
Accounts Payable			26.0	25.0	27.0	34.0	Accounts Payable	270.3	327.0	195.8	164.7	78.4	Accounts Payable	63.6	58.9	88.5	62.1	50.1	23.5	Accounts Payable	81.7	87.4	106.7	94.4	83.5	63.2	
Working Capital			67.0	98.0	90.0	47.0	Working Capital	602.5	568.1	553.2	470.1	254.9	Working Capital	78.4	78.4	86.0	96.1	80.8	48.8	Working Capital	181.1	219.4	252.3	232.5	295.1	232.5	
Value Analysis																											
EV / EBITDA					3.0x	4.7x	EV / EBITDA					10.7x	14.3x	EV / EBITDA					25.7x	N/A	EV / EBITDA					4.8x	7.1x
Sales / Fixed Assets	8.9x	9.5x	8.9x	8.8x			Sales / Fixed Assets	29.7x	30.5x	27.5x	22.2x	18.2x	Sales / Fixed Assets	23.3x	31.0x	30.1x	36.8x	32.9x	27.5x	Sales / Fixed Assets	8.9x	11.3x	12.0x	10.6x	9.2x	9.0x	
Sales / Total Assets	148.9%	157.7%	160.9%	178.6%			Sales / Total Assets	488.8%	485.6%	487.8%	434.0%	379.5%	Sales / Total Assets	349.8%	436.5%	411.2%	440.0%	411.3%	459.6%	Sales / Total Assets	276.4%	321.8%	306.9%	291.7%	262.6%	273.6%	
EBITDA / Total Assets	6.6%	9.1%	8.2%	6.6%			EBITDA / Total Assets	15.2%	11.6%	9.8%	3.9%	3.5%	EBITDA / Total Assets	5.7%	14.0%	13.3%	6.7%	0.5%	-14.6%	EBITDA / Total Assets	15.6%	16.5%	18.2%	17.9%	11.4%	8.9%	
Working Capital / Sales	21.5%	24.6%	23.0%	13.4%			Working Capital / Sales	10.8%	10.1%	11.3%	12.3%	9.2%	Working Capital / Sales	9.9%	8.4%	7.8%	8.7%	9.2%	7.3%	Working Capital / Sales	9.5%	8.9%	9.4%	8.7%	11.7%	10.4%	
Inventory Turnover	7.5x	4.1x	3.7x	3.9x			Inventory Turnover	10.0x	10.5x	10.0x	9.2x	9.4x	Inventory Turnover	10.8x	10.2x	9.1x	7.6x	7.4x		Inventory Turnover	11.3x	10.0x	9.2x	9.2x	9.2x	9.2x	
Inventory Days Outstanding	49.0	90.0	97.7	92.7			Inventory Days Outstanding	36.5	34.8	36.5	39.6	39.0	Inventory Days Outstanding	33.9	35.9	40.1	47.9	49.4		Inventory Days Outstanding	32.4	36.5	39.9	39.8	39.8	39.6	