"Changing Markets For Wood Components"

"Hardwood Component Workshop"
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Typical wood component products

Profile of North American Wood Component Industry

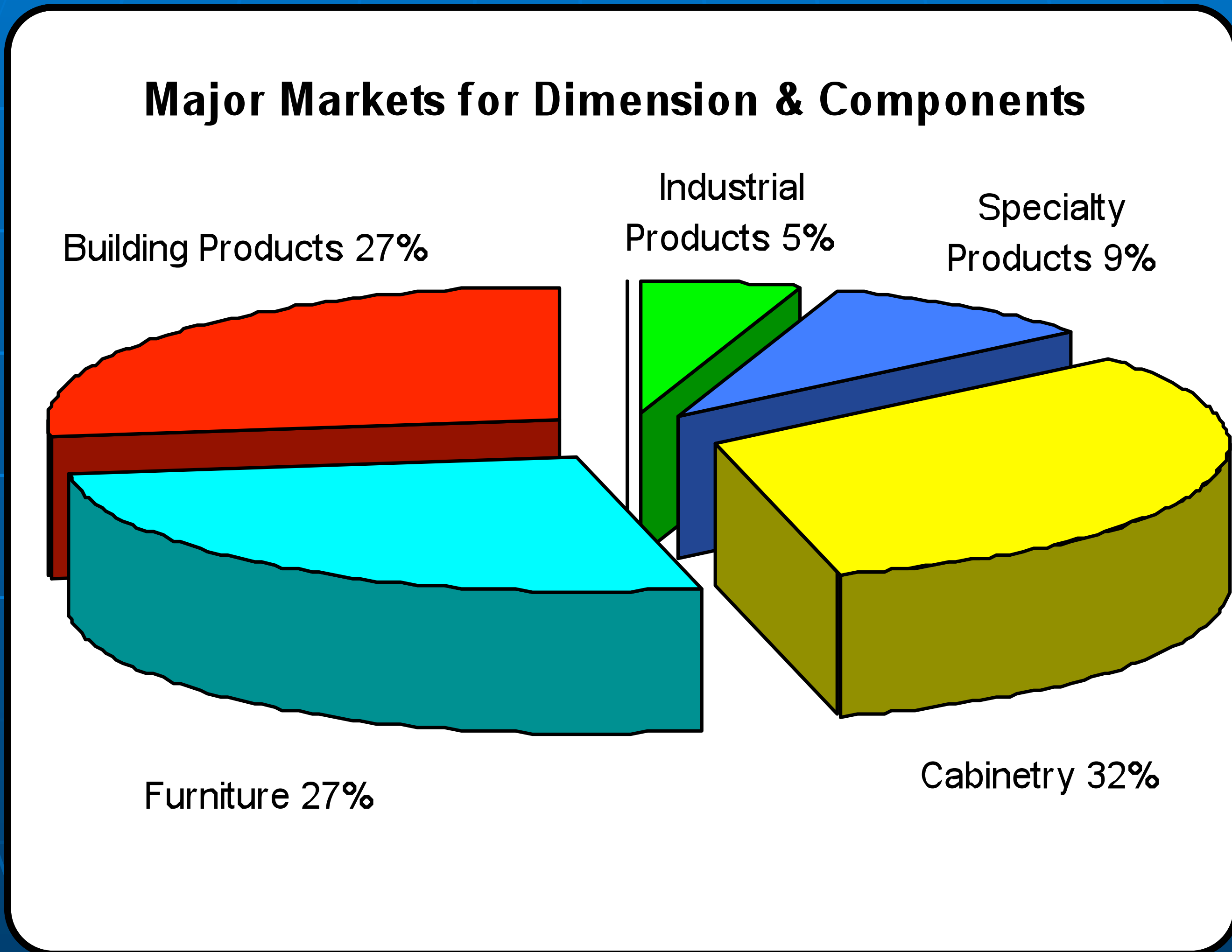
- $ 5 Billion Annual Shipments
- 1,600 Companies
- Sales of $174,000 per Employee
- Variety of Wood Materials Used
- Trend Toward Custom Products
- Many Decorative, Non-Structural applications

Components Most Often Outsourced

1. Cabinet Doors
2. Mouldings & millwork
3. Cabinet parts – drawer boxes, drawer fronts & face frames
4. Cut-to-size blanks
5. Stair parts: treads, newel posts
6. Edge-glued panels
7. CNC machined parts
8. Turnings, rounds & dowels
9. Solid & laminated squares
10. Veneer & engineered wood parts

Source: WCMA 2006 Outsourcing Study

Major Markets for Components



Source: 2009 WCMA Market Study

Changing Component Markets

	1984	2008
Furniture	65%	22%
Cabinetry	16%	27%
Building Products	10%	42%
Industrial Products	5%	3%
Decorative Specialty	4%	7%

Imports have devastated the HH furniture industry

Source: 2008 WCMA Market Study

Changing Component Markets

	2008	2009
Building Products	42%	27%
Cabinetry	27%	32%
Furniture	22%	27%
Decorative Specialty	7%	9%
Industrial Products	3%	5%

Housing decline has hurt the component industry

Source: 2008 WCMA Market Study

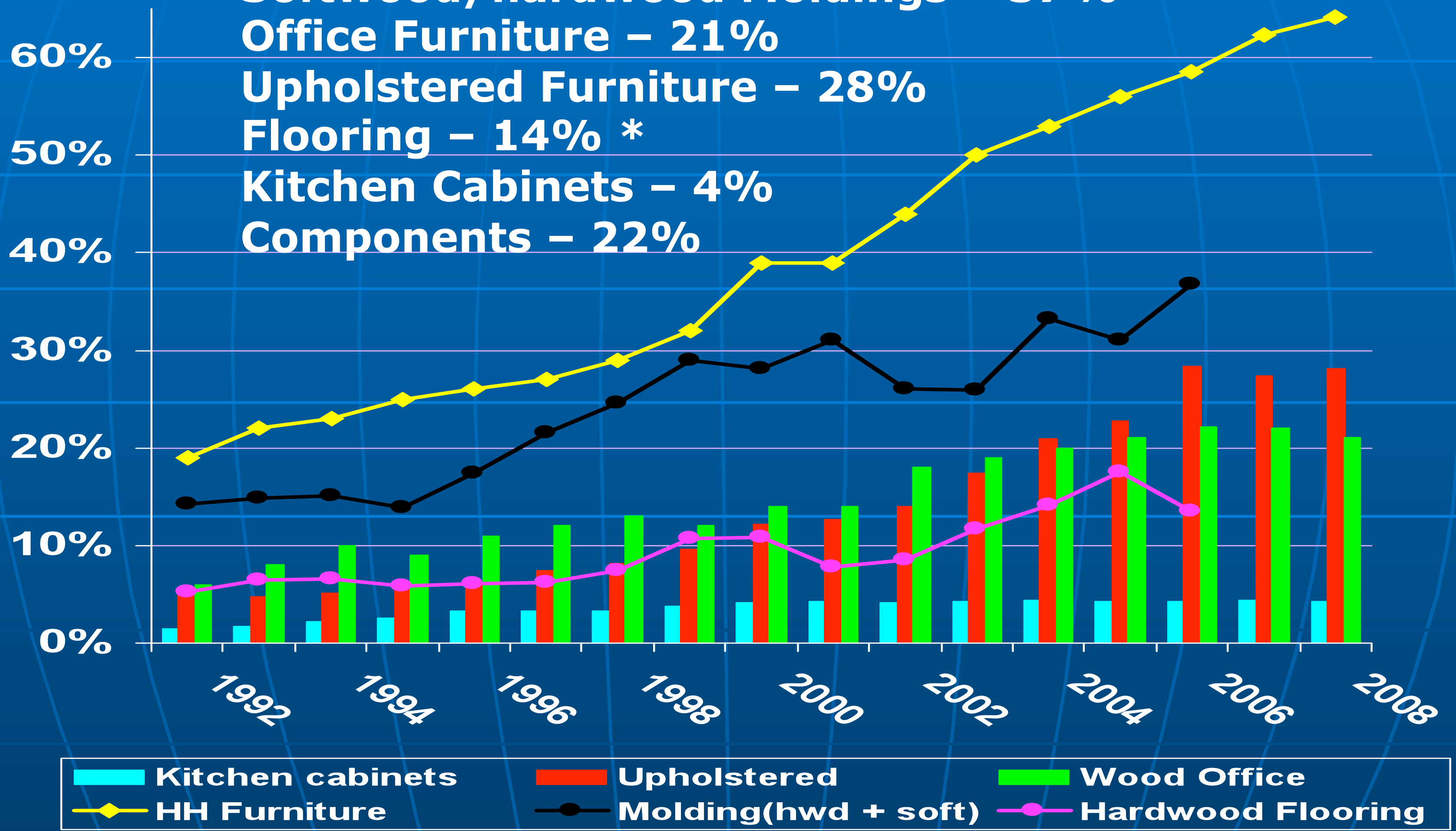
2008 Component Trade Trends

- Imported Furniture Parts - $1.1 billion
- Exported Furniture Parts - $162.4 million
- Top Export Markets for U.S. Components

  Canada - $107 million
  Mexico - $13 million
  United Kingdom - $4.8 million
  Japan - $2.7 million
  Bahamas - $2.2 million
  China - $2 million
  Saudi Arabia - $1.8 million

Market Share of U.S. Imports

Household Furniture – 64%
Softwood/hardwood Moldings – 37% *
Office Furniture – 21%
Upholstered Furniture – 28%
Flooring – 14% *
Kitchen Cabinets – 4%
Components – 22%



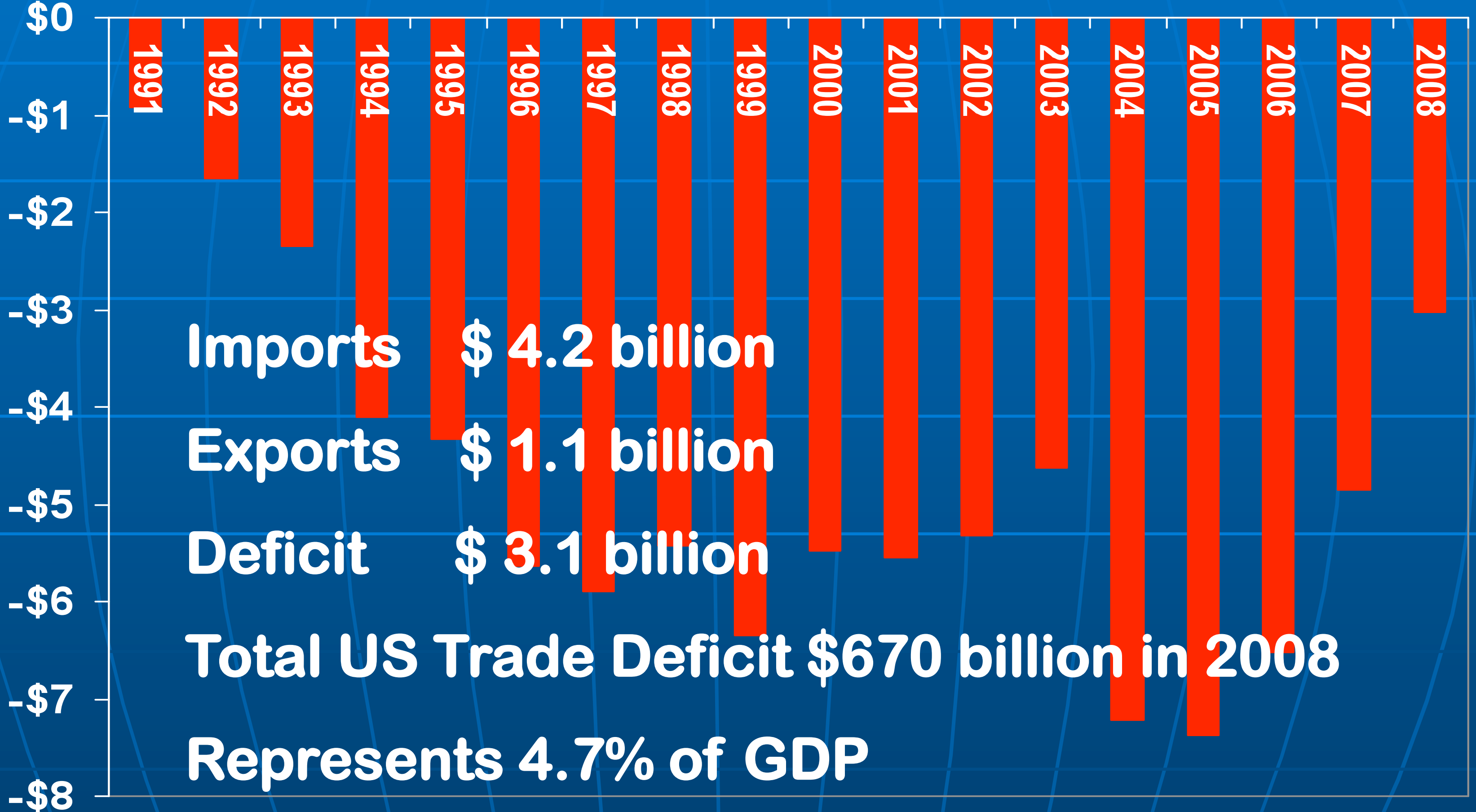
*These market shares are conservative because some imported components and finished furniture is included in the domestic shipments

Consumption = shipments + imports – exports.
Import share = imports/consumption

Source: Census, ASM; ITA (www.ita.doc.gov)

U.S. Trade Balance in Forest Products*

Trade Imbalance, Billion $



Imports $ 4.2 billion

Exports $ 1.1 billion

Deficit $ 3.1 billion

Total US Trade Deficit $670 billion in 2008

Represents 4.7% of GDP

Source: FAS

* Forest products include roundwood, sawnwood, wood based panels, pulp

The U.S. Trade Dilemma…

We are exporting raw materials and importing finished goods…
The U.S. is the major exporter of hardwood lumber and logs…
BUT we are the major importer of finished hardwood products like furniture, flooring, staircases, mouldings, and components…

This needs to change if our secondary wood processing industry is to survive.

12,000 employees

Every month:

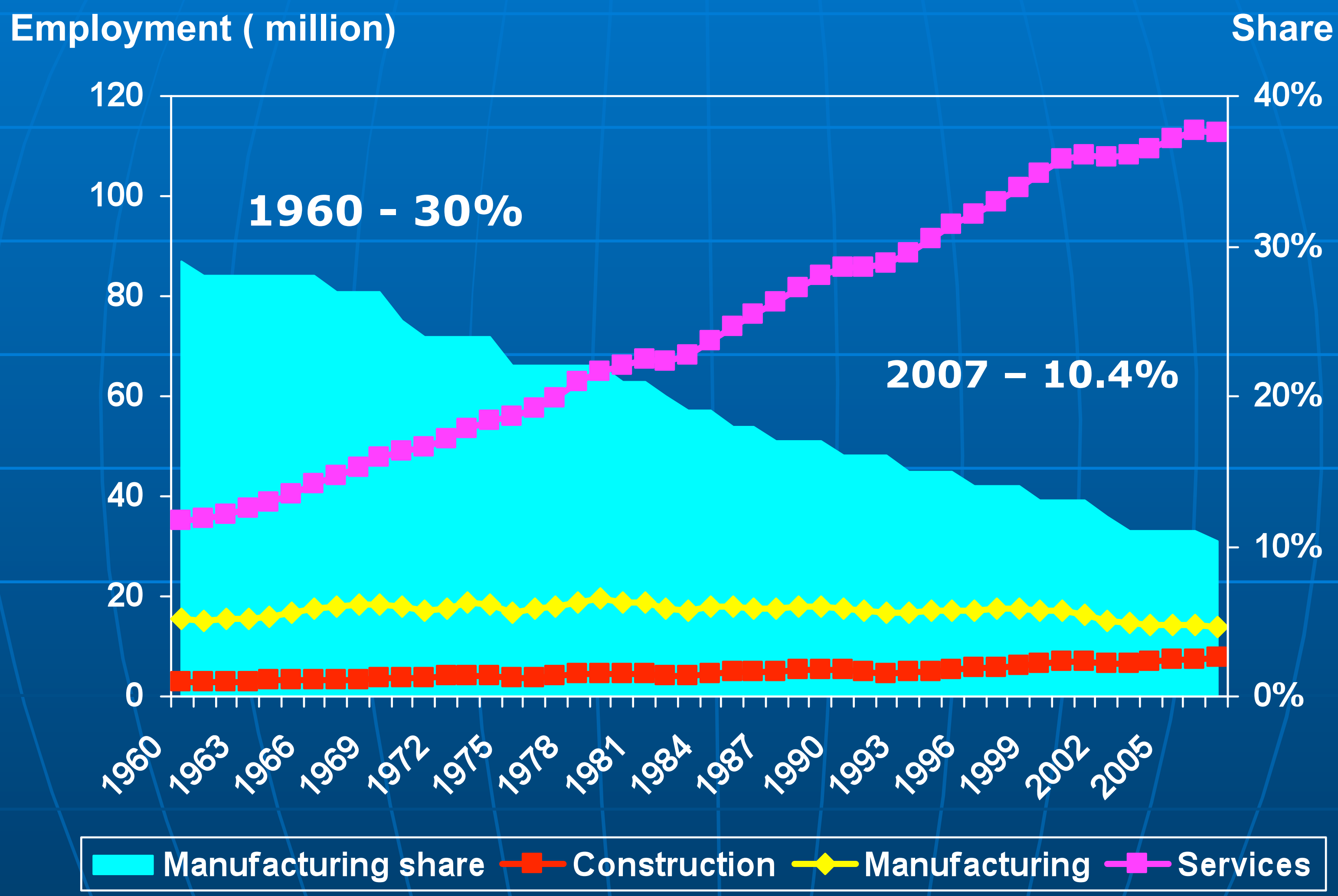
- **Import 1,000 containers of US lumber & veneer**
- **Export 4,000 containers of bedroom furniture to U.S.**

Universal & Legacy Classic brands sold directly to retailers

Produce for U.S. furniture companies in Dongguan plant

New LacquerCraft Furniture Factory near Shanghai, China

U.S. Employment Trends
Decline of Manufacturing Employment



Source: BLS (http://www.bls.gov/oes/2007/may/oes_nat.htm)

Importance of Manufacturing to U.S. Economy

- Represents 15% of GDP
- Highest rate of productivity growth
- Highest Wages – 23% higher than national average
- Supports $1.37 in other sectors for every $1.00 of manufactured goods
- Performs 71% of all R & D
- Accounts for 2/3 of all US exports

Source: NAM Facts About Modern Manufacturing

How to Save our Manufacturing Industries…

- Produce innovative, customized products
- Focus on product design, finishing, marketing & distribution
- Automate production to reduce labor
- Focus on cost reduction
- Adopt new production technologies & lean manufacturing techniques
- Invest more in education and R&D

Source: COSMU 2006 Furniture Conference

Residential vs. Non-Residential Construction Forecast

Percent change from 2007 to 2008

	Residential	Non-Residential structures
NAHB	-17.0	
NAR	-15.8	
Economy.com	-17.4	+14.4
Average	**-16.7**	**+14.4**

Source: NAHB – National assoc. Homebuilders,
NAR – National Assoc. of Realtors, Economy.com's Dismal Scientist

Residential vs. Non-Residential Construction Forecast

Percent change from 2008 to 2009

	Residential	Non-Residential structures
NAHB	-25.0	
NAR	-25.3	
Economy.com	-18.3	-14.5
Average	**-22.9**	**-14.5**

Source: NAHB – National assoc. Homebuilders,
NAR – National Assoc. of Realtors, Economy.com's Dismal Scientist

Moulding & Trim Demand

					% Annual Growth	
Million Dollars						
Item	1999	2004	2009	2014	2004-2009	2009-2014
Moulding & Trim Demand	7,139	9,047	9,825	11,790	1.7%	4.0%
BY PRODUCT						
Moulding	3,349	4,348	4,630	5,385	1.3%	3.3%
Stairwork	1,863	2,352	2,590	3,280	2.0%	5.3%
Other	1,926	2,347	2,605	3,125	2.2%	4.0%
Source: The Freedonia Group Inc.						

U.S. Cabinet Demand

(Million Dollars)

	2000	2005	2010	% Annual Growth 2000-05	2005-10
Cabinet Demand	10,920	14,040	16,350	5.7%	3.3%
Kitchen	9,065	11,760	13,650	5.9%	3.2%
Bath	1,145	1,500	1,760	6.2%	3.5%
Other	710	780	940	2.0%	4.1%

Source: The Freedonia Group Inc.

U.S. Home Organization Product Demand

(In million dollars)

Item	2001	2006	2011	% Annual Growth '01-'06	'06-'11
Home Organization Product Demand	5,945	6,920	8,640	3.1%	4.5%
Bedrooms & Closets	2,270	2,520	3,235	2.1%	5.1%
Family Rooms	1,330	1,510	1,745	2.6%	2.9%
Kitchens & Pantries	785	962	1,040	4.2%	1.6%
Bathrooms & Utility Rooms	510	528	560	0.7%	1.2%

Source: The Freedonia Group

A "new" and growing market – smaller customers?

- "Yesterday, it was five loads to one customer; today, it is one load to five customers
  - and all five want something a little different!"
- Short lead times and on-time deliveries are more critical than ever !

Characteristics of Successful Component Manufacturers

- Access to quality & value-priced timber resources (materials more than 50% cost)
- A marketing advantage (close relationships and proximity to customers)
- A production advantage (optimization systems & lean manufacturing)
- Access to capital & adequate cash flow
- Active "hands on" management and technical expertise

Focus On Competitive Advantages

- Guaranteed delivery times
- Ability to ship small orders
- Ability to make last minute changes
- Consistent quality
- Flexible payment terms
- Close proximity to suppliers & customers
- Access to sustainable and renewable hardwood resources --- A Key North American advantage !

…And Some U.S. Manufacturers are Succeeding…

- "We do the tough commercial projects – high complexity, thin tolerances – where there can be no blips in the supply chain."

- "Our business model is short run, quick turnaround, customized parts. We can't compete on price with China, but this service can't be provided by China so it doesn't matter"

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