

THE PARLIMENT PAGES

October, 2007

I have a great friend and business associate who has a remarkably successful business in the medical supply segment. He and I visit regularly and spend most of our time talking business. No matter how many questions I have asked and how many countless hours we have spent talking, I just can't seem to understand his business. He has vendors who are not only vendors, but are customers and competitors as well. He has customers who are supplying him product. He has vendors who are in direct competition with him. Over and over again, I have seen him shake his head and say, "You have no idea how complex it is to manage a business when you never know if your best customer today could be your biggest competitor tomorrow."

I have always bragged about how easy our industry is. It is pretty straightforward. We have suppliers that we all buy from and we have competitors that we try to beat in the market place. Now however things are changing...

HARDLY BORING –

A lot of good and bad has been said about our industry over the past year. Some of it we agree with and some of it is just plain wrong. However, one thing is certain. We are not in a boring industry. There are so many changes taking place it is virtually impossible to keep up to date on everything. Some of these changes are not very significant while some others are going to change the very fundamentals of how our business is conducted.

Most of this change is being driven by Wall Street. There is presently over \$3 trillion sitting in private investment funds, hedge funds and mezzanine financing funds. This money has been placed there by investors who are entrusting these investment bankers to put their money to work and earn them big returns. On top of this, corporations are awash in cash and desperate for growth. When this happens, the boards start screaming for acquisition activity. The investment bankers are caught between a rock and a hard place. There is too much money chasing too few deals which causes overpricing of acquisition transactions. Coupled with that is the need to get the money working fast. So thousands of financial wizards are marching up and down Wall Street trying to consolidate companies, buy companies, sell companies, or just invest in companies for growth.

This influx of capital money is unprecedented and staggering in the amount and the implications. And what, to us, is most frightening, is that this money is in the hands of financial people who do a great job of crunching numbers, but have never made a payroll or had to understand how to operate a company. This lack of operational knowledge combined with incredible liquidity is causing mistakes of mammoth proportions.

Take for instance, the whole Home Depot situation. Several years ago they decided to broaden their market base by entering the contractor sales segment through the newly formed HD Supply. Soon thereafter, they purchased White Cap, Hughes, Williams Brothers, Cox Lumber and numerous other building supply operations. Their timing was horrible, their operations never gained the expected efficiency, their CEO was fired and the stockholders took a \$1.8 billion hit. Now, no one really seems to know what will happen to HD Supply. There is strong speculation that it will be broken into individual operating pieces, just like it was before.

It is easy to look at this situation and say, "Gee, no harm, it is just like before." But it is not. Relationships have been severed, people have been fired, pricing has become scrambled and the legacy of that mistake will haunt us for many years to come. Let's look at some more trends.

You Can Rely On Us

3031 Westside Blvd. Jacksonville, FL 32209

Ph# 904-387-8444 Toll Free – 866-387-7601 fax 904-387-8465

Parliment Building Products, Inc.
You Can Rely On Us

CONSOLIDATION OF SUPPLIERS –

Gerdau Ameristeel, one of the largest manufacturers of re-bar products has made some major acquisitions of steel fabricators/distributors. It is apparent that Ameristeel believes that acquiring a fabricator will ensure sales. This “downstream” acquisition will add more fabrication capacity to Ameristeel who is primarily a manufacturer. Execs at Ameristeel have announced that they will continue to aggressively seek other fabrication opportunities.

Simpson Strong-Tie recently purchased Swan Secure Products. This is a “horizontal” acquisition by Simpson designed primarily to add product offering to its already wide array. Here is a publicly traded company who dominates the market in the steel connector business. Wall Street demands growth and the only way they can grow is to move outside of their saturated market and purchase into another related industry.

Azek recently purchased ProCell Decking. This is another “horizontal” acquisition that will bring not only a new product line to the already formidable brand of Azek, but will also bring changes in the distribution chain.

There are rumors of several significant national builders who are looking to buy “upstream” by acquisition of one and two-step distributors.

So, what was once a clear definition of supplier, distributor, customer, is now becoming more and more blurred. It is going to be very interesting to see how this all plays out over the next few years.

BIG PICTURE–

A broken clock is right twice a day. That is a statement my best friend uttered to me a couple of days ago when I told him that I thought the housing recovery had started. He, too, is in our industry and he has been listening to me for the past several months claim that the recovery has started. He said if I stuck to that statement, that eventually I would be right. After all the weatherman will always be right if he predicts rain at some time in the future.

There doesn't seem to be doubt in anyone's mind that housing will recover. The key question being bantered about is WHEN. I will admit the recovery is not as strong as I have predicted in the past couple of issues. Many of you see no sign of it at all and think we are just another bunch of idiots who don't know what we are talking about. Idiot, or not, *I am sticking with my prediction.* And no, it is not out of stubbornness or the belief that eventually I will be right. *There is good statistical data supporting the fact that a recovery has begun.*

First let's look at the source of the bad news. Yes there are statistics that don't look good. This is what you continue to hear:

- Housing starts are down.
- More houses than ever are now for resale.
- Builders are all crying the blues.
- The subprime mortgage market is causing a meltdown in the housing industry.
- Florida is one of the worst housing markets in the country.

Now let's look at the facts. *Housing starts are down slightly from 2004 numbers.* That hardly qualifies as the worst housing market since 1971. Yes, more houses are for sale than ever before, but *the percentage of houses for sale is only marginally higher than the 20 year average.* Builders are crying the blues but many of them at the same time are starting to gobble up property at prodigious rates. Bob Toll of Toll Brothers will go on CNBC and talk about how bad the industry is while at the same time he is buying huge tracts of property, mostly at distressed

Parliment Building Products, Inc.
You Can Rely On Us

prices caused by his predictions of doom. Pretty smart if you ask me. The sub prime market is a small part of the overall mortgage industry. A total meltdown of that industry would have little economic impact on the overall industry. Yes, Florida is getting hammered. But most of it is happening in South and Southwest Florida. If you take those devastating statistics out of the mix, Florida really looks pretty good.

Ask yourself the following questions:

1. Are people going to build houses in Florida, Georgia and South Carolina?
2. Are interest rates still at incredibly low rates?
3. Are people moving to our market areas from out of state?
4. Are people moving to our market areas from the southern part of the state?
5. Is the job market in Florida continuing to grow?
6. Are foreigners going to continue to invest in the USA as the dollar gets weaker?
7. Is the age group of 45 – 54 year olds going to continue their 27 year pattern of spending more on housing than any other age group and will Florida continue to add more to that age group than any other state?

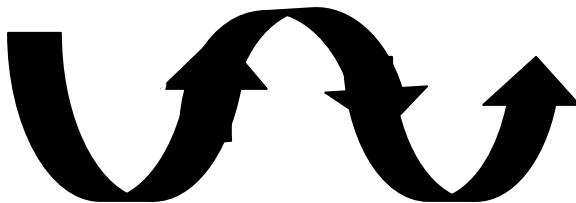
The answer to all of these questions is a YES. Well, these are the basic fundamentals that drive the housing industry. Maybe the recovery is not happening as fast and as briskly as we had predicted and hoped. But it is happening and it will continue to happen at a slow and steady pace over the next 6 – 8 months. At that time it will gain some steam and will be more visible.

This downturn is a small blip and is certainly NOT the cataclysmic event that so many of the talking heads are espousing.

CONCEPT OF LINEAL THINKING –

One of the most important business principles I have learned is called the concept of lineal thinking. Take the diagram below. This looks like any typical business cycle. Virtually every economic indicator, measurement or event seems to follow cyclical movement. However, despite the fact that we have numerous cycles and dozens of experiences with these cycles, we get fooled and as a result make huge strategic mistakes.

Let's take a minute and go through the cycle. Point "a" is when we start to come out of depressed market, see recovery and begin to feel optimistic. Point "b" is after this growth and success has been sustained for a while. Profits are strong, cash balances are building and we feel bulletproof. A certain euphoria settles in and the common thought is "this rise in business will last forever." That is what happened in the Dot.boom days and throughout 2005 and 2006 in the housing industry. Arrogance and overconfidence become the emotions of the day. Because of those emotions, huge mistakes will be made. Businesses are flush with cash, anxious to continue to grow and feeling that profits will only get better. As a result, acquisitions get made, expansions happen, new locations open and inventories will build. Overhead will skyrocket as the old axiom takes hold, "a little prosperity will bring a lot of overhead."



Then the crash hits and the market "suddenly" turns. The trip downward is catastrophic and as we approach point "c" everyone begins to believe this downward spiral will last forever. No one wants to stay in their business, moods become foul and pessimism is the emotion of the day. The most savvy of businesspeople will also recognize point "c" as the area of greatest strategic opportunity. That is the point where great deals can happen

Parliment Building Products, Inc. ***You Can Rely On Us***

Unlike point “b” when everything is at a premium, point “c” is the bargain basement. *This is the time to lay the foundation for future expansion.* This is the time to aggressively footprint new territories and customers. This is the time to invest in people. This is the greatest and most affordable time to invest in opportunities.

Who out there can dispute that this curve is exactly what our industry is facing? Who out there can dispute that we are past point “c” and are beginning to move towards point “d?” The only dispute can be, “how long will it take to get to point “d?” Well, we know it won’t take years. We know that we are only months away. *In the big picture, does it make any difference if this downturn lasts 3 months or 9 months.* Certainly, no one is projecting it to last years. So our point is the importance of understanding the curve. *Understand where we are on the curve and make decisions that are consistent with the curve.*

INTEREST RATES –

We are certain that all of you are aware of the recent ½ point decrease in interest rates by the Federal Reserve. *Most economists believe that the same thing will happen again at the next meeting in a couple of months.* This appears to be a move by the Fed Governors to bolster confidence in the overall economy and especially the housing sector. All numbers indicate that the economy is presently rocking and rolling at a great pace, especially considering the downward pressures exerted by the devastation in the housing market. However, the housing market has so dominated the news that the overall good economic health is just not making it into the minds of the public.

So, the Fed, which seems to be more politically motivated than ever, screams at the top of their lungs in the only way they can: cut rates. If they follow up this latest cut with another in October, *the public will hear the message and there will be an artificial stimulus hitting the economy.* The best news of all, *we believe this will accelerate the housing recovery.* The irony of this is that these decreases will not have much impact on long-term rates which will continue along at their already low rates. But this will show the importance of the emotion of the American buyer.

PRODUCT PRICING –

As we predicted, *prices seem to have stabilized at the present high levels.* Despite the tremendous decrease in demand in the housing sector, prices have not fallen nor are they expected to fall. Much of this is due to the voracious appetite for building materials still coming from China. This consumption is expected to take place right up to the Summer Olympics of 2008. For the life of me, I don’t see how the conclusion of the Olympics is going to stop the growth rate of the Chinese economy. But for now, the expectation should be fairly stable pricing on virtually all products through the end of 2007.

NEW PRODUCTS –

Composite and closed cell decking has migrated south and this, once only for the north, popular product has gained immense popularity in our region. Our decking sales have skyrocketed especially since we took on the Azek ProCell line. To compliment our deck products, we have recently taken on two different deck rail systems. The first, Tuscan, is the traditional rail system that will be on most installations. Competitively priced, durable and stylish, we expect this system will satisfy much of the demand for that product segment. The other rail system is about as different as can be. Calling it the Cadillac would be an insult. This is the Bentley of all rail systems. This system, made by Dow, and marketed under the brand, Mercado, has the same construction, installation and styles as the best of the best. However, this one launches into a whole new dimension with added features. Imagine a rail system with built in LED lighting; soft, indirect lighting coming directly from the rail system. Now mix in a fabulous state-of-the-art sound system piped out of the rails and post caps. This product is for the homeowner who truly wants to make a statement. The big box boys will have nothing like this and this will be *a great opportunity for you to once again, differentiate yourself.*