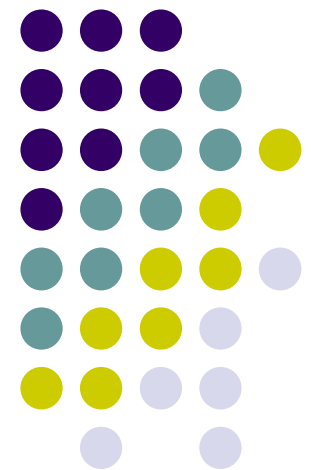


Industry Study Team B

Farm & Construction Equipment
And
Truck Manufacturing Industries





Farm & Construction Equipment

Relatively Low 5Yr Ave Sales Growth Rates

EPS Growth Rates A Bit Better

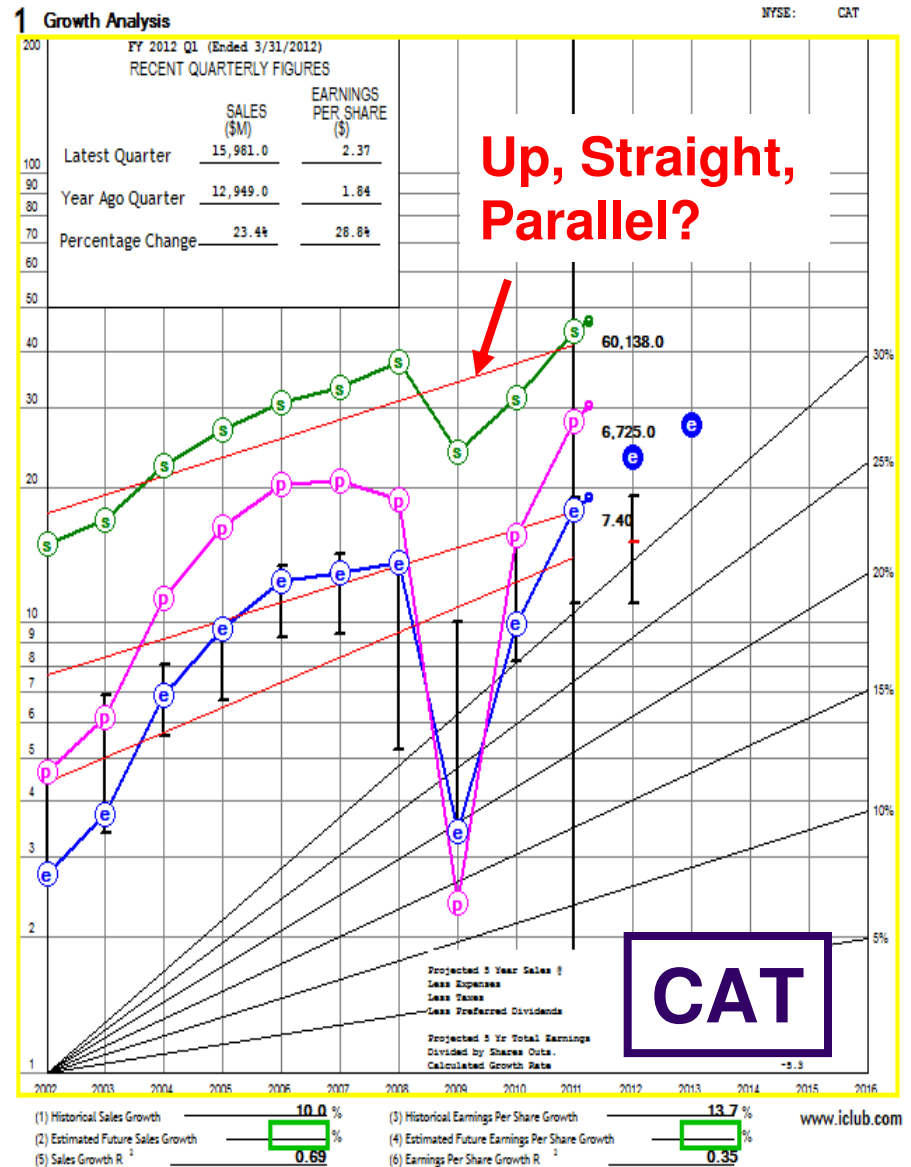
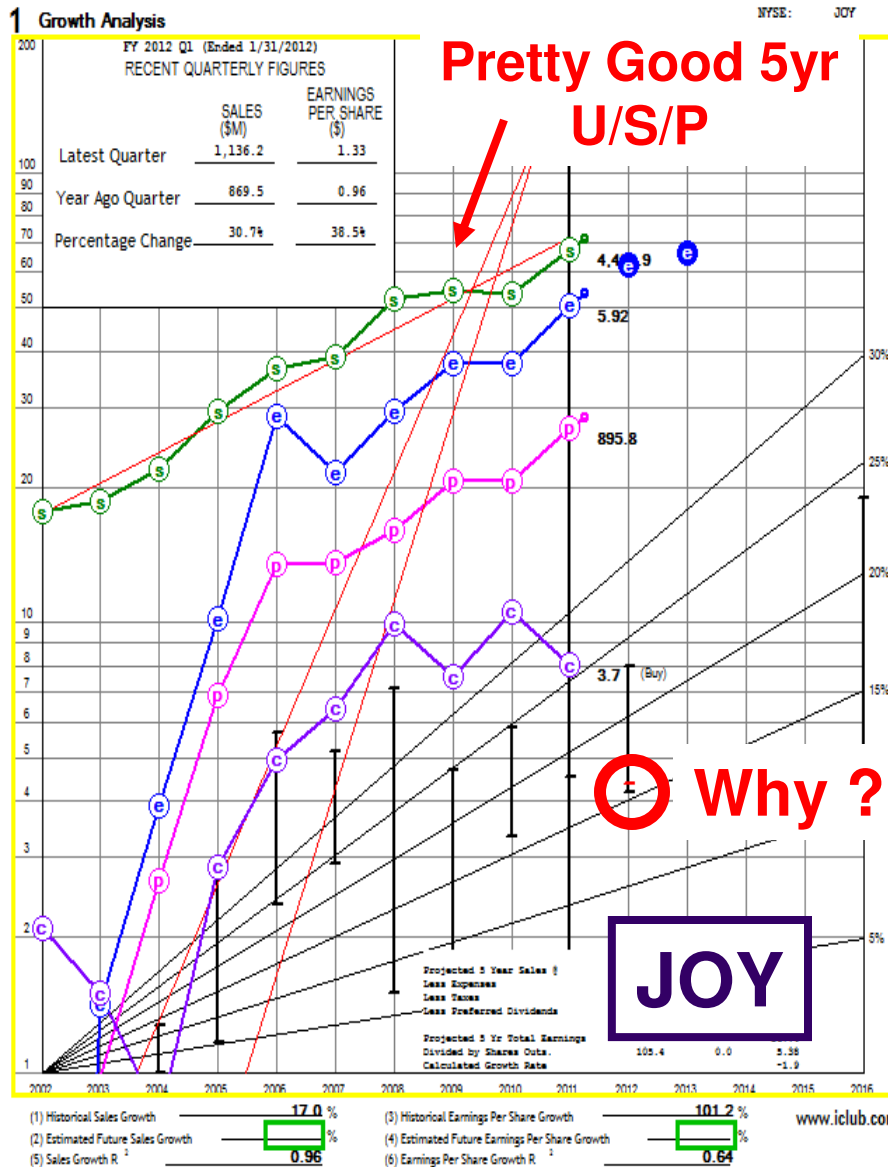
Key Financial Metrics Matrix			FARM & CONSTRUCTION EQUIP							
TICKER	FY Sales (\$Ms)	Debt to Cap (%)	5 Yr Ave Financial Metrics							
			Sales Gr (%)	EPS Gr (%)	ROE (%)	TTM (%)	PTP Margin (%)	TTM (%)	FCF Margin (%)	TTM (%)
JOY	4,404	41.7	11.9	21.7	48.1	36.0	18.3	20.2	12.2	7.7
LNN	479	2.3	8.1	11.7	13.6	13.8	9.9	10.9	5.6	6.8
DE	32,013	80.6	4.9	9.8	29.3	42.3	10.5	13.1	3.0	-0.2
KUB	12,753	73.5	4.8	9.2	34.8	38.3	8.3	11.5	7.1	3.6
CAT	60,138	34.6	4.0	3.4	13.9	20.8	4.7	6.6	3.3	2.8
AGCO	8,773	17.1	3.1	11.8	8.2	12.1	5.3	7.9	5.0	1.7
ALG	604	38.4	3.0	22.3	9.2	8.5	9.5	9.3	4.2	5.1
CNH	19,185	68.6	2.0	0.0	7.7	13.2	3.9	6.6	2.4	-2.1
ASTE	956	0.0	-0.4	-13.3	9.5	8.1	6.9	6.4	1.6	-0.6
SHS	2,057	29.3	-1.6	0.0	7.0	47.6	1.5	16.4	6.3	15.6
CASC	536	1.8	-3.4	0.0	7.5	22.6	6.4	16.0	7.0	7.3
NC	3,331	37.0	-4.6	0.0	-0.1	22.1	0.6	4.7	1.8	3.9
CMCO	524	48.5	-4.9	0.0	-5.6	12.5	1.5	4.8	4.9	3.4
MTW	3,652	79.9	-5.3	0.0	-11.7	8.6	-1.1	1.7	3.5	-0.8
TEX	6,505	57.7	-13.8	0.0	6.3	2.7	-1.0	1.5	-3.2	-1.0
COMPARATOR AVE	10394.0	40.7	0.5	5.1	11.8	20.6	5.7	9.2	4.3	3.5
INDUSTRY AVE	7484.0	26.8	6.5	5.8	14.5		7.8			

* Data sources morningstar.com and Stock Prospector.

Notes on Screen

There are 15 companies in the Stock Prospector FARM & CONSTRUCTION EQUIPMENT Industry, in which **CAT** is categorized. The number of stocks was reduced to 7 by screening on 5Yr & 3Yr Ave Rev Growth > 0, and 5Yr & 3Yr Ave EPS Growth > 0.

Farm & Construction Equipment



Truck Manufacturing Industry



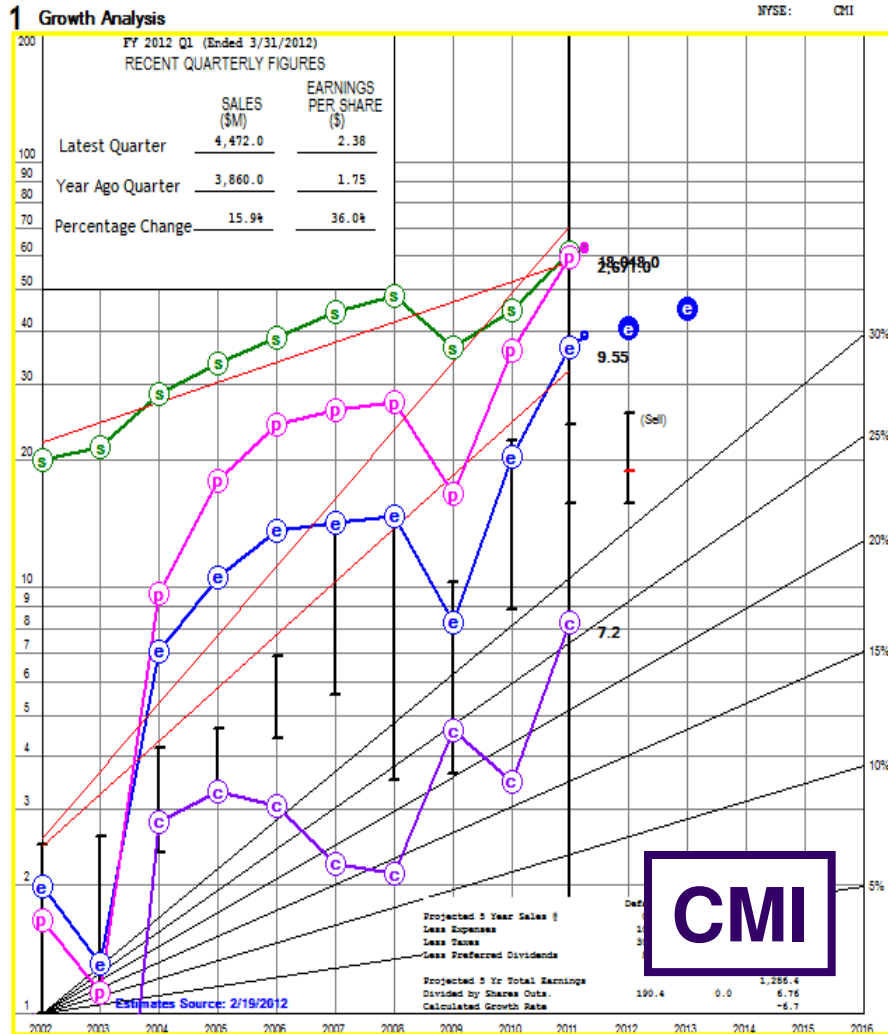
Only 1 Company with Positive 5yr Sales and EPS Growth

Key Financial Metrics Matrix			TRUCK MANUFACTURING							
TICKER	FY Sales (\$Ms)	Debt to Cap (%)	5 Yr Ave Financial Metrics							
			Sales Gr (%)	EPS Gr (%)	ROE (%)	TTM (%)	PTP Margin (%)	TTM (%)	FCF Margin (%)	TTM (%)
OSK	7,585	38.2	7.1	0.0	3.3	11.3	0.8	3.4	6.8	1.2
CMI	18,048	11.2	5.8	24.8	24.0	36.0	10.0	15.0	5.0	6.9
NAV	13,958	100.6	0.6	0.0	-	-	1.7	0.7	4.5	3.1
WNC	1,187	35.9	-1.2	0.0	-65.2	11.9	-12.5	1.3	-0.2	-2.4
PCAR	16,355	57.0	-2.3	-10.2	15.5	20.7	25.4	9.5	8.0	5.1
STS	301	26.4	-2.7	0.0	-6.1	8.5	-1.8	1.6	2.1	3.7
FSS	796	57.4	-11.4	0.0	-15.3	-4.6	-1.1	-1.1	4.2	1.5
SPAR	426	2.8	-14.0	-59.5	11.8	-0.2	4.0	-0.2	3.8	3.9
ACW	936	55.7	-49.9	0.0	-77.1	-5.4	-11.0	-0.3	-1.7	-2.7
COMPARATOR AVE	6621.3	42.8	-7.6	-5.0	-13.7	9.8	1.7	3.3	3.6	2.2
INDUSTRY AVE	5193.0	34.9	3.9	0.0	52.4		9.4			

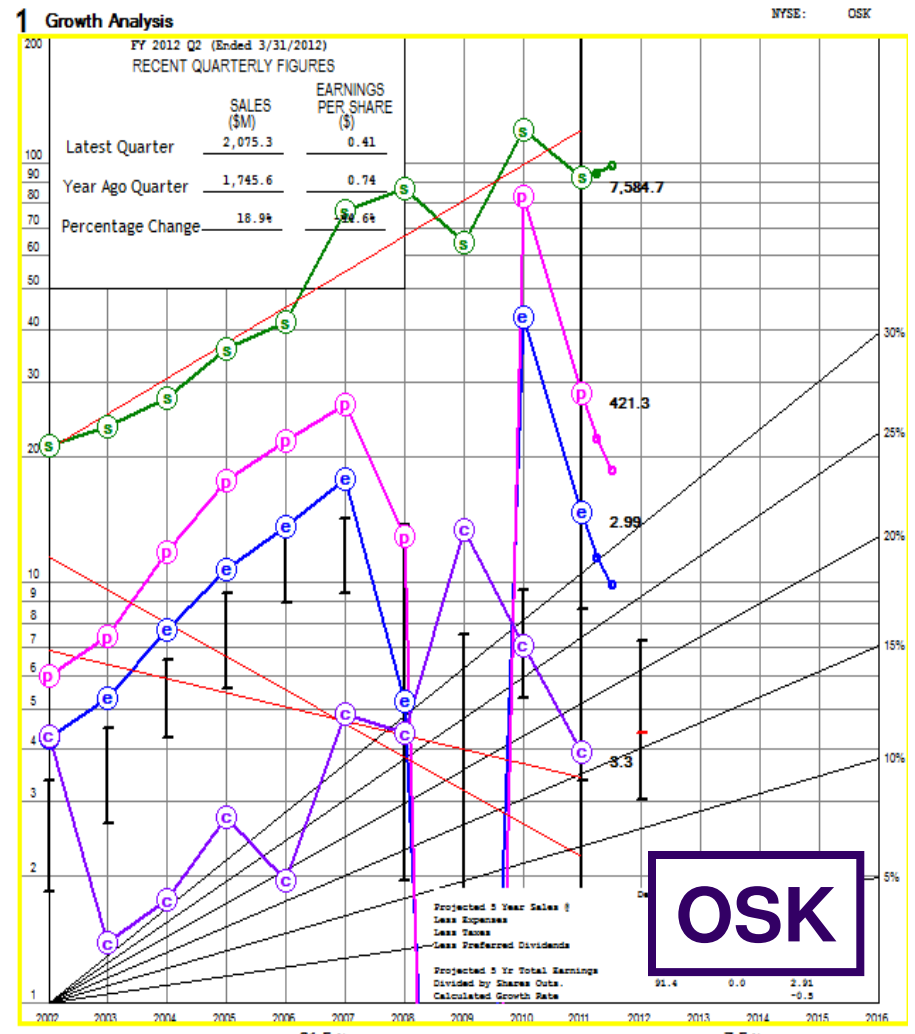
* Data sources morningstar.com and Stock Prospector.

There are 10 companies in the Stock Prospector TRUCK MANUFACTURING Industry.

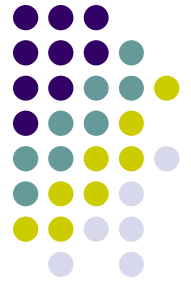
Truck Manufacturing Industry



- (1) Historical Sales Growth — 11.4%
 - (2) Estimated Future Sales Growth — 0.83%
 - (3) Historical Earnings Per Share Growth — 33.2%
 - (4) Estimated Future Earnings Per Share Growth — 0.72%
 - (5) Sales Growth R²
 - (6) Earnings Per Share Growth R²
- www.iclub.com



- (1) Historical Sales Growth — 21.5%
 - (2) Estimated Future Sales Growth — 0.90%
 - (3) Historical Earnings Per Share Growth — -7.5%
 - (4) Estimated Future Earnings Per Share Growth — 0.01%
 - (5) Sales Growth R²
 - (6) Earnings Per Share Growth R²
- www.iclub.com

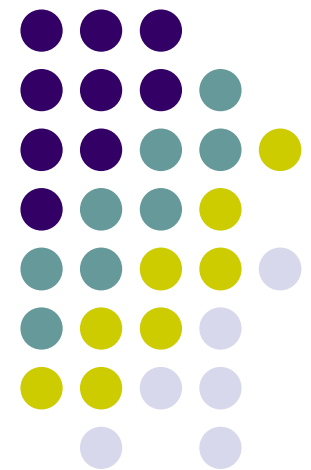


Overall Observations

- Most Companies Have High Debt.
- Nearly None are UP / STRAIGHT / PARALLEL.
- Very Few Have Decent Profit Margins.
- Of the Better Quality Companies, Most are Very Large by FY Sales.
- How do you Forecast and Value Such Companies?

Cyclical Companies (Caterpillar, Inc. (CAT))

Team B
6/19/2012

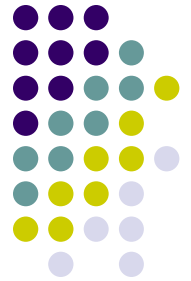




What is a Cyclical Company

- Companies whose fundamentals:
 - Grow when Economy / Industry is improving.
 - Decline when Economy / Industry is declining.
- Examples: Automotive, Steel, Oil, Heavy Equipment, and Consumer Discretionary.

Keys to Investing in Cyclical



- Method much different than for Growth Companies.
- Not typically suited to beginning investors.
- Not suited to Buy and Hold Strategies.
- Invest from a Contrarian point of view.
 - Buy when earnings are LOW (high P/E).
 - Sell when earnings are HIGH (low P/E).
 - Understand the BALANCE SHEET.
 - AVOID THE PEAK EARNINGS VALUE TRAP.

Keys to Investing in Cyclical



- Projecting Growth
 - Difficult.
 - Historical growth rates are of limited value.
 - Must understand underlying drivers of profits & predict peak earnings of next business cycle.
- Understanding of Economy & Industry Business Cycle is REQUIRED.
 - Industry SWOT analysis.
 - Direction economy is heading.
- SELL BEFORE fundamentals show deterioration.
 - Must watch leading indicators.



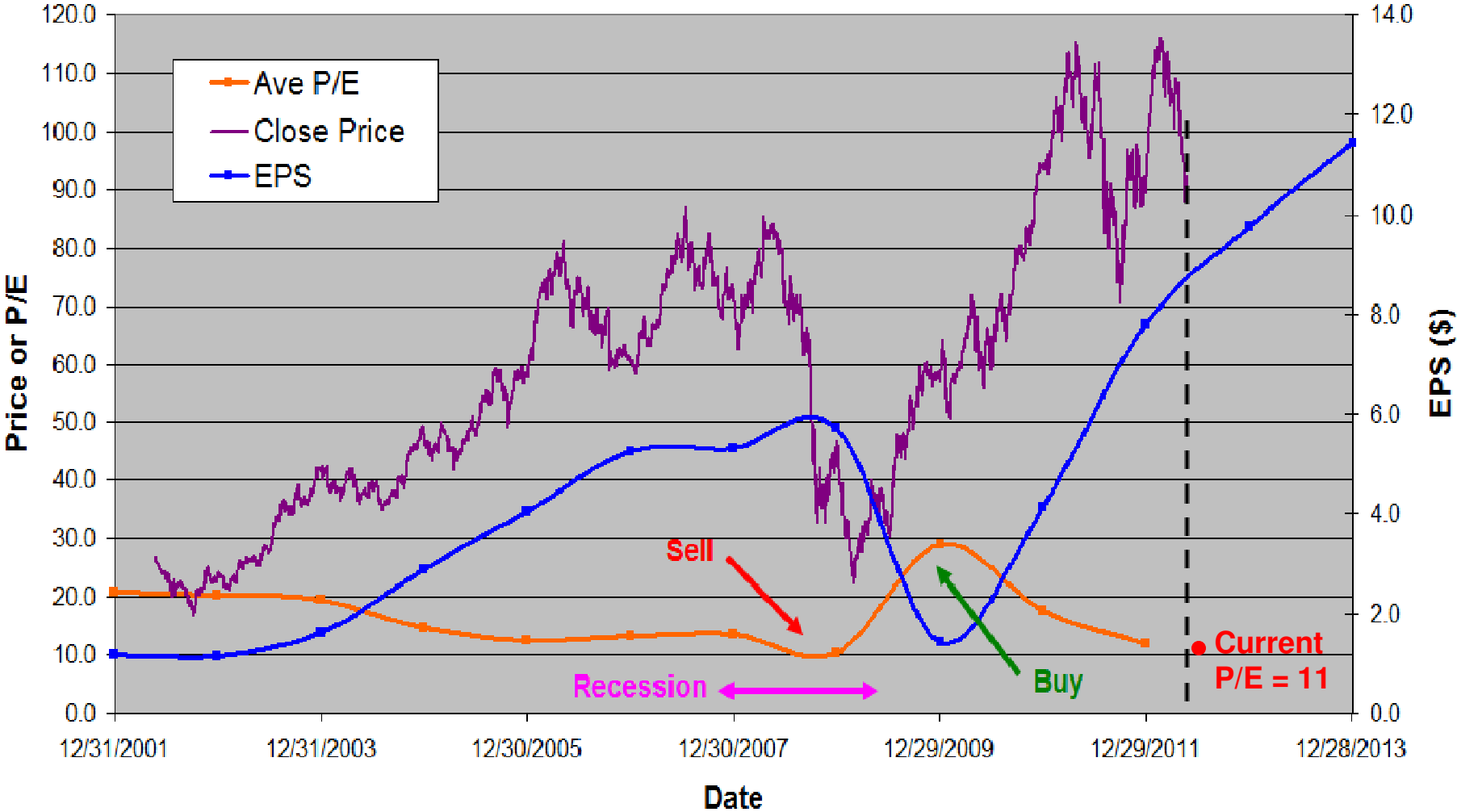
Valuing Cyclical Companies

- Consider:
 - Average earnings of past business cycles, not recent historical earnings trends.
 - Historical return from past cycles.
 - **SSG is of limited use.**
- Indicators of **Over-Value** (rules of thumb):
 - Low TTM P/E.
 - High ROE for companies in Industry overall.
 - If a high ROE were sustainable (long-term), competitors would likely enter the market.

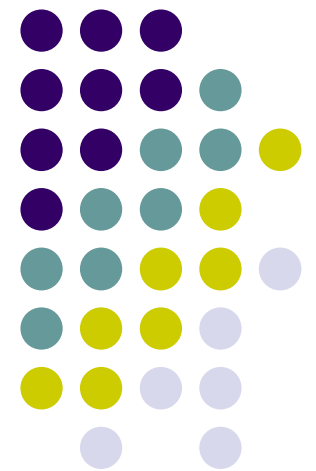
Example - CAT



CAT 10 Yr Price, EPS & P/E History



Added Considerations





Economy

- Slow recovery in US?
- Recession in Europe?
- Slowdown in Government stimulus in China?
- Expected growth and duration?



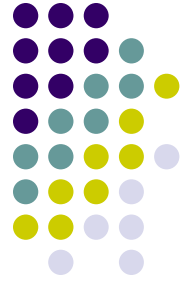
Industry

- Depending on company, what countries is growth expected to come from? Market share in those countries?
- What is past and future growth rates expected for Industry geographically?
- What are leading indicators of industry performance?



Company

- How and why is the company positioned to capitalize on next Business Cycle?
- Estimated Peak earnings? When?
- Leading indicators of future fundamental performance?



Conclusion

- Team B does not generally recommend this Industry for club ownership:
 - Does not follow BI Quality Growth Stock principles.
 - Companies generally carry high debt and offer less than spectacular profitability.
 - Requires much deeper understanding of company, industry and global economy than typical stocks we seek to own.
 - SSG is not a good tool to assess cyclical stocks.
 - Presents stock watching logistical issues / risks.