TB0273

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Masonite International Corporation (B): Will KKR Slam the Door?

It was February 16, 2005, and Edgar James,[1] from Merrill Lynch, one of the leading investment banks, was reviewing the file regarding the leveraged buyout (LBO) of Masonite International Corporation (Masonite). A couple of months earlier, Kohlberg, Kravis and Roberts (KKR), one of the oldest and largest private equity firms, had teamed up with Masonite's senior managers and offered to take the company private via a US$2.52 billion LBO. A shareholder meeting to vote on the transaction was scheduled in less than 48 hours, but it was very likely that the deal would be voted down. Most of the major shareholders had already announced that they would reject the transaction, arguing that the premium offered by KKR was insufficient. The meeting scheduled earlier on that day to discuss the financing of the deal had been cancelled. As the head of Merrill Lynch's team working on the LBO, Edgar had to finalize his recommendation before talking to Masonite's Board of Directors. Was KKR about to walk out? After all, there were increasing concerns about the profitability and growth prospects of building products companies in general and Masonite in particular, due to the ever-increasing cost of raw materials, the negative impact of the tightening of monetary policy on consumer spending and mortgage rates, and the debatable health of the housing market. But Masonite was still one of the best-positioned companies in the industry, with strong earnings and cash flows. Would this be enough to entice KKR to increase their offer?

Masonite

Masonite was one of the world's largest manufacturers and merchandisers of doors, door components, and door entry systems, headquartered in Mississauga, Ontario. It operated 75 facilities in 16 countries, sold its products to customers in 50 countries, and employed about 14,000 people.[2]

The previous day, Masonite had reported its results for 2004 (see the annual consolidated financial statements in Appendix 1). Between 2003 and 2004, sales had soared by 23.8% to US$2.2 billion, a balance of organic growth and acquisitions. Earnings before interest tax depreciation and amortization (EBITDA) and earnings before interest and tax (EBIT) were up by 23.0% and 20.8%, respectively. Net income had increased by 18.8% to US$128.0 million. The results for the fourth quarter were, however, telling a slightly different story (see the fourth quarter consolidated financial statements in Appendix 2). Between the last quarter of 2003 and the last quarter of 2004, revenues were up 25.1% to US$570.2 million, but all the margins were down: the EBITDA margin had dropped from 13.7% to 13.6%, the EBIT margin from 10.9% to 10.1%, and the net profit margin from 6.4% to 4.8%. Earnings per share (EPS) had decreased by US$0.04, from US$0.54 to US$0.50, breaking a trend of 18 consecutive quarters of profit growth.

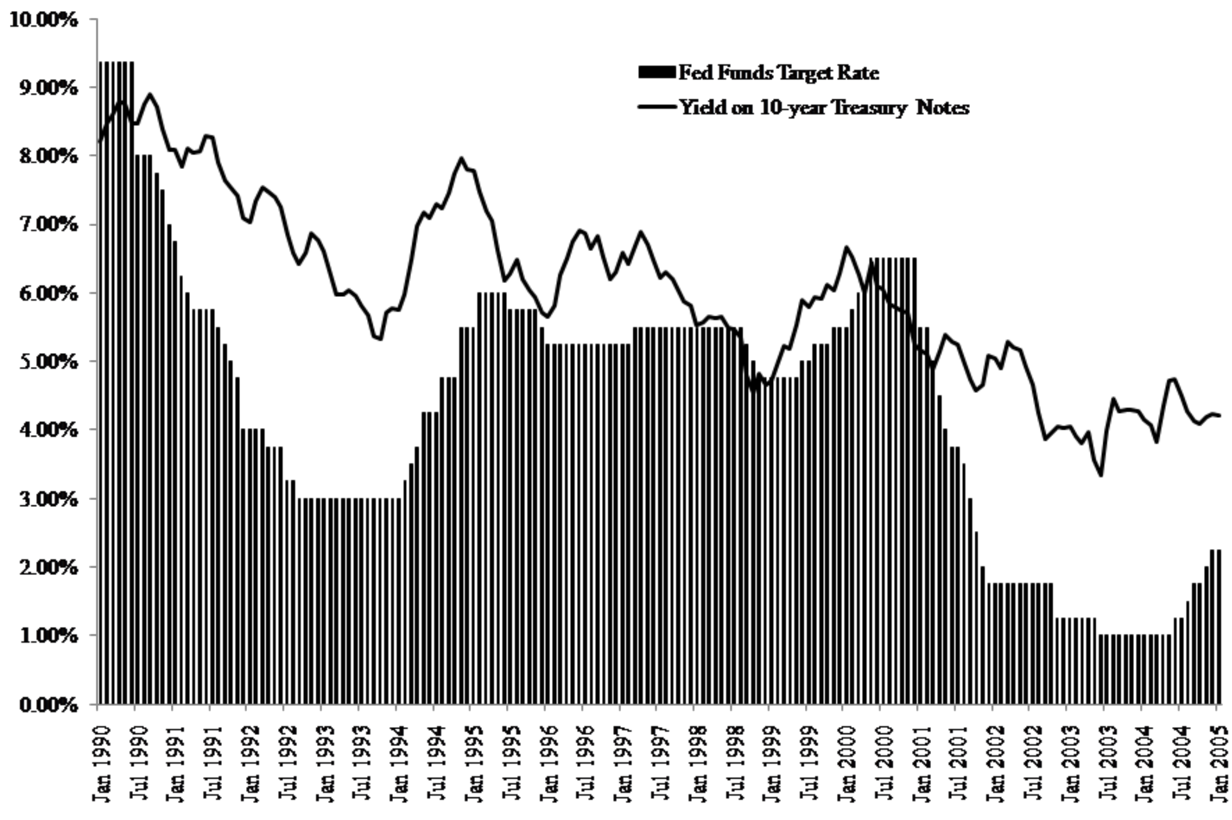
The decrease in profitability was the consequence of two major factors. First, the company had struggled to align price increases with cost increases. Over the previous year, the cost of raw materials, such as steel and lumber, had skyrocketed. In the first quarter of 2004, Philip Orsino, Masonite's Chief Executive Officer (CEO), had reassured the investment community that the company had the ability to pass through all the cost increases

[1] Edgar James is a fictional character who serves as the protagonist for this B case.
[2] More information about Masonite, its history, products, markets, and competitors is provided in the case, "Masonite International Corporation (A): Trouble at the Door?"

to its customers. But after visiting 60 home improvement stores in September 2004, Ralf Thomas,[3] analyst at SBU Investment Research, had found that selling prices for Masonite's products were not rising. In response, he had cropped his earnings estimates, and reduced his rating on Masonite's stock from "buy" to "hold." The company was now acknowledging that major distributors such as The Home Depot, the distributor of more than 20% of its production, were resisting price increases. Second, Masonite had recently undertaken a program of standardizing its entry door product offering and, as a consequence, it had closed two manufacturing facilities in the United States (U.S.). This had led to restructuring expenses of US$10.4 million in 2004, including cash expenses of US$7.5 million, primarily contractual termination benefits, and non-cash expenses of US$2.9 million related to property, plant, and equipment write-downs. Management was adamant that they were one-off, nonrecurring items.

Though Masonite had enjoyed double-digit growth rates for several years, it remained, like all building products companies, highly sensitive to the state of the economy, particularly to the level of interest rates and the health of the housing markets. And there were, in these areas, mounting concerns. First, in June 2004, the Federal Reserve (Fed) had started increasing its target rate from a 46-year low of 1.0% to 2.5%, but most analysts and economists were predicting further increases, perhaps all the way back to the level of the mid-1990s (see Exhibit 1).

Exhibit 1. Interest Rates



Source: Federal Reserve.

This tightening of monetary policy would have a negative impact on consumer spending, and that would directly affect sales, earnings, and cash flows of building products companies. It would also put pressure on mortgage rates, an important factor behind home purchases and improvements.

[3] Though Ralf Thomas is a fictional character who served as the protagonist for the A case, this anecdote is true; one of the analysts following Masonite did visit 60 home improvement stores, and downgraded the stock when he realized that Masonite was unable to pass through the cost increases.

Second, there were increasing concerns about the health of the housing market. Though the number of housing starts had broken another record in January 2005, the National Association of Home Builders (NASH) and both the Federal National Mortgage Association (nicknamed Fannie Mae) and the Federal Home Mortgage Corporation (nicknamed Freddie Mac), the large, government-sponsored enterprises guaranteeing half the mortgages in the U.S., were forecasting a decrease of 8% to 11% of housing starts for 2005. They were also predicting a decline in home sales of up to 12% if mortgage rates were rising due to interest rate increases. The housing bubble argument was also raging, in particular after the statistics for the fourth quarter of 2004 showed that national median home prices had increased by 13.0%, and by as much as 30.5% in Los Angeles and 41.7% in Las Vegas. The consensus was growing that there was indeed a bubble, but economists and analysts were disagreeing regarding the outcome. Would the bubble burst, or just deflate slowly? In any event, a slowdown in housing starts and home sales would impact Masonite and other building products companies negatively.[4]

Private Equity, Leveraged Buyouts, and KKR

Private Equity and Leveraged Buyouts

The private equity (PE) industry gained prominence in the early 1980s, and included two kinds of players: venture capital (VC) firms, and buyout firms—the latter representing a larger segment than the former. There were two categories of buyout firms: the mega-cap buyout firms, which took public companies private; and the middle-market buyout firms, which purchased private companies whose revenues and earnings were too small to access capital from the public equity markets. Buyout firms were typically seeking to capture and add value by opportunistically identifying companies that were cheap compared to their intrinsic value, by restructuring operations and improving management, and by capturing any gains from the restructuring of the existing debt or by adding new debt. One of the recurring themes behind LBOs was indeed to take advantage of the tax shield provided by debt, in light of Modigliani and Miller's famous proposition that a leveraged firm was worth more than an equivalent unleveraged (or low leveraged) one.[5]

Exiting the investment was also, for PE firms, an important consideration. First, there was a nonnegligible chance that the buyout would end in failure, leading to bankruptcy and liquidation. PE firms were therefore looking at high internal rates of returns (IRRs), sometimes as high as 30% or 40%. Second, because PE was by definition not publicly traded, the exit process was not straightforward. Exit strategies included initial public offerings (IPOs) and sale to a third party, either to a strategic buyer or to another PE firm.[6] Though buyout firms were looking for quick returns on their investments, it was usually taking them five to ten years to exit.[7]

An LBO was a form of acquisition that involved a high degree of financial leverage. When possible, buyout firms were teaming up with management to take over the target,[8] providing the equity of the newly acquired company. But, as they typically only had a fraction of the money needed to purchase the target, they had to turn to lenders to provide the bulk of the financing. The target's cash flows were then used to service the debt and repay the principal, and its assets very often served as collateral for secured borrowings. The financial health of the target was therefore critical in making the LBO successful. Buyout firms were focusing on companies in attractive industries, with a good competitive position, strong and sustainable cash flows, tangible assets, and preferably

[4] More information about the rising price of raw materials, the tightening of monetary policy, the health of the housing market, and the potential impact of these factors on Masonite's earnings and cash flows is provided in the case, "Masonite International Corporation (A): Trouble at the Door?"

[5] Modigliani, F., and Miller, M., 1963. "Corporate Income Taxes and the Cost of Capital: A Correction." American Economic Review 53(3), pp. 433-443.

[6] A sale to another PE firm is called a secondary buyout, a growing trend over the 2000s.

[7] Kaplan and Strömberg studied 17,171 LBOs done between 1970 and 2007. They found that in 54% of the cases, exit had not happened yet, an indication that the majority of LBOs happened in the 2000s. When exit had already happened, it had been through an IPO in 14% of the deals, a sale to a strategic buyer in 38% of the deals, a sale to another PE firm in 24% of the deals, another form of divestment in 18% of the deals, and bankruptcy in 6% of the deals. It had taken less than two years in 12% of the deals, three to six years in 39% of the deals, seven to ten years in 25% of the deals, and more than 10 years in 24% of the deals. [Kaplan, S., and Strömberg, P. J. 2008. "Leveraged Buyouts and Private Equity." *Journal of Economic Perspectives* 23(1), pp. 121-146.]

[8] LBOs that involve investment by the company's managers are called management buyouts (MBOs).

with a performing management team showing strong leadership. As for all acquisitions, it was also necessary to be able to gain control of the company, meaning that there had to be some flexibility in the ownership structure.

Since the birth of this industry in the early 1980s, there had been two major waves of LBOs. The first wave had seen the rise of players, such as Fortsmann Little & Co. and Kohlberg, Kravis and Roberts & Co. (KKR), competing for larger and larger deals, financed with increasingly larger amounts of debt. At the peak of this wave, deals were concluded with leverage ratios of up to 10 to 1. This overreliance on debt paved the way for trouble. As the U.S. slid into recession in 1989, several large LBOs were failing. Federated Department Stores and Revco, among others, filed for bankruptcy, and RJR Nabisco, the icon mega-deal of this first wave, had to be restructured to avoid the same fate. The junk bond market—which had provided the extra debt buyout firms required—collapsed, credit spreads widened, and the LBO market shrank from about US$17.5 billion in 1987 to approximately US$7.5 billion in 1991.

LBO activity picked up again in 1994 and reached a peak of US$22.3 billion in the second quarter of 1998, spreading around the world as yet another illustration that financial globalization was taking place. But the number and value of deals really reached new highs in the 2000s. The LBO of Dex Media in 2002 marked the return of highly leveraged transactions and the beginning of a new wave of mega-deals. In the third quarter of 2004, LBOs hit a new high of US$30.6 billion.

> *Two years ago, [I] could get two times EBITDA leverage on financing and the big buyout firms could get 4.5. Now, [I] get 4.5 and the big players can get six.*
>
> David Lobel, from Sentinel Capital Partners, quoted by Matt Craft
> in "Buyout Players See Signs of Bull Run Ending,"
> *Corporate Financing Week*, January 14, 2005.

> *They leverage up businesses to the point where they need growth to support the debt on the books. (...) But if these companies hit a bump in the road, they won't have the cash flow to make the payments.*
>
> Samir Desai, from Key Principal Partners, quoted by Matt Craft
> in "Buyout Players See Signs of Bull Run Ending,"
> *Corporate Financing Week*, January 14, 2005.

KKR

In early 2005, KKR was one of Wall Street's leading buyout firms, with experience in more than 125 major deals around the world. The firm, founded in 1976 by Jerry Kohlberg, Henry Kravis, and George Roberts, had US$15.1 billion in assets under management. Its first major deal was the purchase of A.J. Industries for US$26 million in 1977. In 1979, KKR acquired Houdaile Industries for US$380 million, the first-ever buyout of a mid-sized, publicly traded company. In 1986, it bought out Beatrice in its first-ever hostile takeover, leading to the departure of Kolhberg, unhappy about the firm's new hostile image. In the 20 years that followed, KKR became famous for breaking records about the size of its deals in the U.S. and abroad (see Table 1).[9]

Table 1. List of KKR Landmark Achievements

Date	Target	Value	Comment
1984	Wometco Enterprises	US$ 1.75 billion	The first billion dollar LBO
1986	Beatrice	US$8.7 billion	The largest LBOs in the United States at the time
1989	RJR Nabisco	US$31.4 billion	The largest LBOs in the United States at the time
2000	Shoppers Drug Mart	C$2.7 billion	The largest LBO in Canada at the time
2002	Yellow Pages Group	C$3.1 billion	The largest LBO in Canada at the time
2002	Legrand	€4.6 billion	The largest LBO in France at the time
2004	Maxeda	€2.5 billion	The largest LBO in the Netherlands at the time

Source: Kohlberg, Kravis and Roberts & Co.

[9] RJR Nabisco's LBO brought fame to KKR, thanks to the bestselling book, Barbarians at the Gate. [Burrough, B., and Elyar, J. 1989. *Barbarians at the Gate: The Fall of RJR Nabisco*. Harper & Row.]

In the early days, KKR focused on creating value through well-structured financing deals. With the purchase of Beatrice in 1986, the firm started selling pieces of the companies it was acquiring, and used junk bonds to finance some of its investments. But by the early 2000s, it also turned its attention to improving operational efficiencies, bringing industry experts to work with management to deliver top-line growth, cut costs wherever possible, and reduce the amount of cash tied up in net working capital.

Masonite's Leveraged Buyout

Timeline

Masonite's LBO was announced on December 22, 2004. KKR, through its wholly owned subsidiary, Stile Consolidated Corporation (Stile), was offering C$40.20 (or US$32.66) per share to take control of Masonite. The offer represented an implied premium of 13.2% based on the stock price at the close of the previous trading day, and a 21.3% premium based on the average stock price over the previous 60 trading days.

But though management and the Board of Directors (BoD) had unanimously approved the deal, it had taken 15 months to organize. In early October 2003, KKR asked Scotia Capital, who had a business relationship with Masonite, to arrange a meeting with Philip Orsino to discuss a potential transaction between KKR, Masonite, and another building products company. The first meeting between Philip Orsino and KKR's representatives took place in November 2003, and the talks were promising. By December 2003, KKR and Masonite had dropped the idea of involving another building products company, and they had signed a confidentiality and standstill agreement to start working on a deal.

At the BoD meeting on February10, 2004, Masonite's directors authorized Philip Orsino to continue the discussions. A month later, KKR presented a tentative transaction, which was reviewed by Masonite's directors on March 16 and 23, 2004. But at the request of Philip Orsino, the BoD terminated the talks because the offer price was far too low.

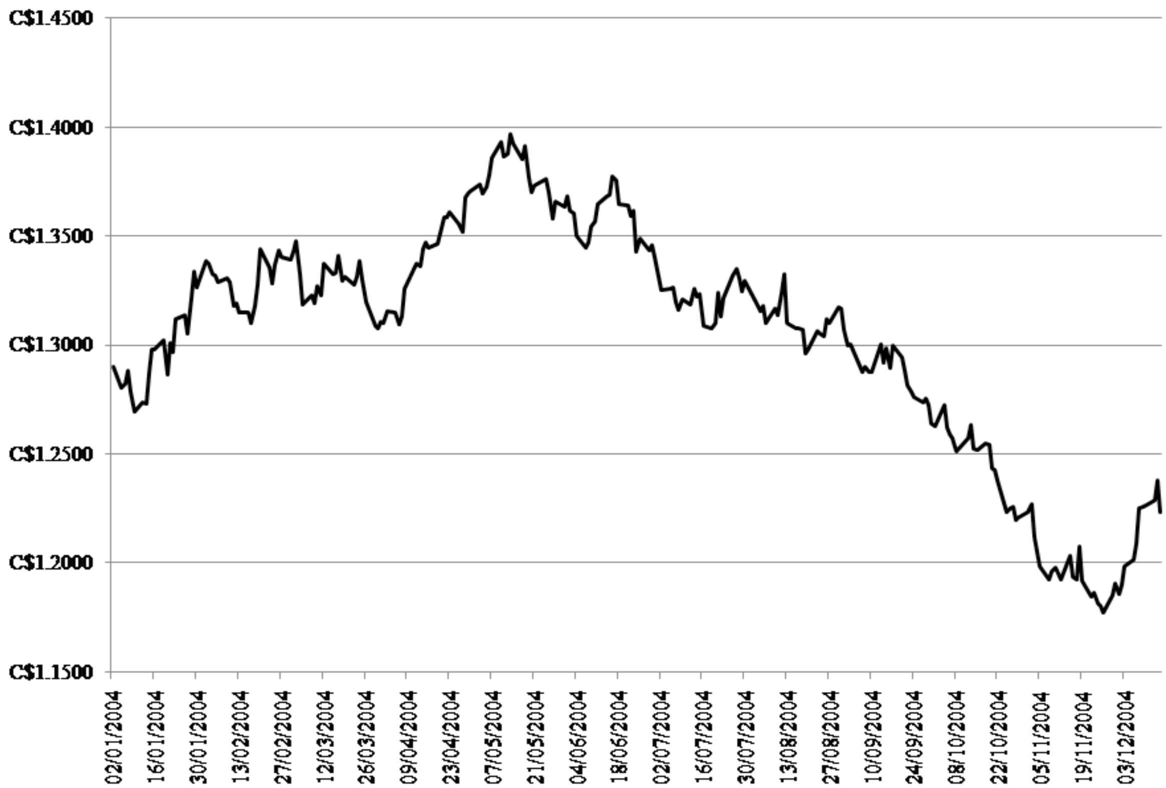
KKR did not give up, and approached Masonite again. In July 2004, Philip Orsino accepted to reopen the negotiations on the basis of C$40 to C$42 per share, but contacts over the summer were limited. At the BoD meeting on August 30, 2004, Philip Orsino convinced the directors to give KKR a second chance. In September 2004, KKR provided details about a potential LBO, including strategic growth alternatives and the key characteristics for the financing. At the BoD meeting on October 4, 2004, Philip Orsino presented two five-year financial models that had been provided by KKR, and indicated that the buyout firm was asking him and other executives to remain in place and to provide approximately 5% of the equity. As there was now a real possibility that a transaction involving management might go forward, Masonite's BoD appointed a Special Committee to consider KKR's proposal, review the alternatives available to the company, and conduct negotiations in the best interest of Masonite's shareholders. One of their first decisions was to engage a financial advisor. On December 1, 2004, they reviewed and retained the proposal put forward by Edgar and his team at Merrill Lynch. Edgar had structured deals for KKR before, and he was eager to get this LBO done. The next day, he was meeting with the Special Committee to review their legal obligations, and explain how they would move forward. It was agreed that Merrill Lynch would receive an engagement fee of C$1 million and transaction fees of C$1.9 million for doing the valuation and expressing a fairness opinion.

Over the following fortnight, Edgar and his team worked around the clock on "Project Balboa," reviewing public information about Masonite and its competitors, making financial projections about assets, liabilities, earnings and cash flows, studying previous acquisitions made by building product companies, and meeting regularly with senior management to gather and share information. On December 14, 2004, a sleep-deprived but enthusiastic Edgar met with the Special Committee, and discussed the preliminary analysis of the transaction. Based on his analyses, he had put Masonite's value per share in the range of C$37 to C$46.

The following day, KKR made its formal offer to acquire Masonite at US$32.25 per share (C$39.44 per share) with a breakup fee of US$0.82 per share (C$1.00 per share). Though negotiations started on the basis of C$40 to C$42 per share, KKR had decided to lower its offer due to the continuous depreciation of the US$

compared to the C$ since June 2004 (see Exhibit 2). Within 24 hours, the BoD came back to KKR indicating that the offer was too low, but that they would entertain an offer of C$43.50 per share with a breakup fee of no more than CS$0.50 per share. KKR immediately stated that C$43.50 per share was unacceptably high.

Exhibit 2. Exchange Rate C$/US$



Source: Pacific Exchange Rate Service.

On December 19, 2004, the Special Committee contacted Edgar, and gave him 48 hours to come up with an update with respect to the financial analysis of the proposed transaction, including a recommendation about the offering price, size of the breakup fee, and financing. During the day and well into the nights of December 20 and 21, negotiations between KKR and Masonite carried on, with Edgar always in the loop. On the morning of December 22, KKR finally increased its offer to C$40.20 per share with a breakup fee of C$0.50 per share, and indicated that it was its final offer. Within a few hours, Edgar delivered his oral opinion to the Special Committee, and subsequently confirmed in writing that the consideration to be received by Masonite's shareholders was fair. By lunchtime, the LBO was publicly announced, just in time before the Christmas break.

Transaction and Valuation

KKR, through Stile, was offering to pay C$40.20 (or US$32.66) per share for the 54,796,531 shares of common stock outstanding. But its offer also extended to the 2,281,018 stock options, 299,433 restricted share units (RSUs), and 167,443 deferred share units (DSUs). RSUs and DSUs were phantom shares, part of the compensation package awarded to senior managers if they reached performance targets. These shares had the same price as shares of common stock, but they could not be cashed immediately. Managers had to wait three years to cash their RSUs, and could not cash their DSUs until they either retired or left the company. By extending its offer to stock options and phantom shares, KKR was not only giving management the opportunity to monetize their compensation package early, but also providing the bulk of the financing for the 5% equity stake they required for the transaction to be completed. All this was structured in a very tax-efficient way, as the shares could be rolled over with no tax on capital gains.

During the course of their analyses, Edgar and his team had prepared historical and projected financials (see Appendix 3). They had also gathered data about comparable companies (see Appendix 4) and comparable transactions (see Appendix 5).

One issue that Masonite had been facing for years was the low liquidity on its stock, with average trade volumes of only 3 million shares a month on the Toronto Stock Exchange, and fewer than 250,000 shares a month on the New York Stock Exchange. As a consequence, Masonite's stock was trading at a discount compared to its peers, and KKR had reflected this discount in its offering price by lowering its bid by 10%. By building up Masonite's size and diversifying the company, and by using its connections with brokers, it was expected that KKR could align Masonite's multiples with Masco's, a fairly similar competitor. Though it was too early to tell how KKR would exit its Masonite investment, most speculated that it would be through an IPO in the U.S.

Financing

To get the deal done, KKR needed to raise US$2.52 billion (see Table 2).

Table 2. Structure of the Deal

	Amount (in US$ million)	Percentage of Total
Uses of Funds		
Purchase of Common Equity	1,865	74.0%
Debt Refinancing	574	22.8%
Tax Liability on Debt Refinancing	17	0.7%
Transaction Fees	8	0.3%
Financing Fees	56	2.2%
Total	**2,520**	**100.0%**
Sources of Funds		
Options Proceeds	30	1.2%
Proceeds from Sale of Land	5	0.2%
Equity	575	22.8%
Debt	1,910	75.8%
Total	**2,520**	**100.0%**

Source: Merrill Lynch, "Presentation to the Special Committee of the Board of Directors Regarding Project Balboa," filing SC 13E3, filed with the Securities and Exchange Commission on January 19, 2005, pp. 14-15.

After the transaction, Masonite's capital structure would include a mix of common equity and debt. The equity would be provided by KKR and various employees and officers. Specifically, KKR would invest US$550 million. Approximately 40 of Masonite's employees and officers would provide US$25 million, including US$19.5 million from four executives: Philip Orsino would contribute US$7.5 million, and three other top executives would provide US$4 million each. As an incentive to turn the LBO into a success, KKR also set up a stock option plan that could give these employees and officers an additional 7% to 13% of the equity if performance targets were met.

Bank of Nova Scotia had structured the financing on the debt side, and had been joined by four other banks: Bank of Montreal, Deutsche Bank AG, SunTrust Bank Inc., and UBS AG. There would be a senior credit facility, including a senior-secured-term loan facility of US$1.175 billion, and a senior-secured multicurrency revolving credit facility of up to US$350 million. These facilities would be secured by Masonite's assets, with covenants attached to them. The investment vehicle would also issue up to US$300 million of unsecured senior floating rate notes and up to US$525 million of unsecured senior subordinated notes. Last, there would be an unsecured bridge facility of up to US$825 million in the event Stile could not issue the bonds (see Appendix 6).

The day after the LBO was announced, Standard & Poor's put Masonite on negative watch because of the financial leverage that would result from the transaction. It then lowered its credit rating on bonds from BB+

to B+ and on bank loans from B- to BB-. Gone was the investment-grade credit rating that had repeatedly been discussed as a priority over the last few months.

The Issues

Despite Merrill Lynch's fairness opinion, the deal was not as well received as Edgar had hoped. Very quickly, investors and journalists voiced concerns, the three major ones being related to the offer price, the breakup fee and, more importantly, the role of senior managers and the BoD in reaching the best deal for Masonite's shareholders.

First, several investors and analysts were arguing that KKR was trying to buy Masonite on the cheap. In particular, they were highly critical of the 10% discount factored in the offer price to reflect the low liquidity on the stock. Analysts were indeed of the opinion that, due to Masonite's strong growth and recent acquisitions abroad, it would soon reach international status, and the discount would naturally disappear. All KKR was doing was to take advantage of this slow adjustment process.

Second, the investment community was shocked at the size of the breakup fee—C$0.50 per share or C$28.7 million, including all shares and options. It was always in the best interests of the target's shareholders if a bidding war was to follow the announcement of an acquisition. But Masonite was prevented from seeking another bidder and, if one emerged, it would face a penalty of close to a quarter of annual net income to break the deal with KKR. This could very well prevent any company that might have an interest in Masonite from coming forward, something that was detrimental for current shareholders.

In fact, everybody was wondering why the BoD had remained so secretive about the deal until its announcement. Why had they accepted to put the company for sale, in particular when Masonite was in reportedly good financial health? And why had they decided to sell to the first buyer that came along without auctioning the company? In December 2004, Edgar had discussed with the Special Committee the opportunity of soliciting interest from potential buyers, including industry players and financial groups. He was in particular keen in talking to Masco and Fortune Brands, who would surely be interested in at least discussing a potential combination with Masonite. But the BoD had turned the idea down, saying that nobody had expressed an interest in the last 15 years, that the chance of another bidder emerging was slim, and that auctioning the company would prove extremely disruptive.

> *Where are the directors on this one, because it doesn't look like they opened the door to any other bidders. (...) They have a fiduciary duty to get the best price. It's my capital they used to grow the company, and they're giving it away".*
>
> Rick Durst, quoted by Jason Kirby in "Masonite Shares Soar Past Bid Price: Rival Offer Possible," *Financial Post*, December 24, 2004.

Last but not least, investors and journalists were pointing out that senior managers were facing a substantial conflict of interest. First of all, their job description was to act in the best interest of shareholders, but by accepting to team up with KKR to take over the company, they were no longer in a position to do so. In fact, the management team was asking shareholders to sell, when they themselves were buying into the company. Could it be that they had purposefully sold the company on the cheap to be able to buy it at a discount? Second, by being able to roll their common and phantom shares into the new company, they were offered a tax-efficient deal, when all other shareholders would have to pay capital gains.

> *Directors and employees of a public company should not be allowed to receive any compensation or benefits—or promised compensation or benefits—from anyone bidding for their company or anyone who might bid for their company. (...) Public companies should never allow themselves to be tied up in secret with a buyer in a deal that includes any restrictions or future compensation pledges that are designed to discourage other bidders.*
>
> Diane Francis, "KKR's Masonite Bid Should Be Revised: An Example of Inappropriate Arrangements that Are of Little Shareholder Benefit," *Financial Post*, February 8, 2005.

On February 1, 2005, Ricky Sanders, the manager of Eminence Capital, a New York-based hedge fund that started investing in Masonite when the LBO was announced and had accumulated about 5.5% of the company's common stock since then (see Table 3), crystallized these criticisms by sending a letter to the Securities and Exchange Commission (SEC). He argued that the company was worth at least US$50 per share, and noted several inconsistencies in the valuation produced by Merrill Lynch. First, the valuation reflected a growth rate in revenues of only 1% to 3%. But, a few weeks earlier, during the conference call with analysts, management had reiterated their forecast of a growth rate of revenues of 7% to 10%. What could possibly explain such a dramatic change in such a short period of time, without informing investors? Second, the forecasted cash flows were not reflecting the recent acquisitions of Kronodoor, a door manufacturer with a strong presence in Central and Eastern Europe, and Samling's door-facing manufacturing facility in Malaysia, therefore underestimating Masonite's fundamental value.

Table 3. Key Investors on February 16, 2005

	Percentage of Common Shares
Greystone Managed Investments	8.0%
Eminence Capital	5.5%
Mawer Investment Management	1.2%
Ontario Teachers' Pension Plan	1.0%
Directors and Officers	3.8%

Source: Authors' estimates.

The same day, the SEC issued a list of 48 questions and comments, asking Masonite and KKR to provide more clarity about the deal. Unsatisfied about the answers, the SEC sent two other requests on February 8 and 9, 2005.

When, on February 11, 2005, the Ontario Teachers' Pension Plan (Teachers') announced that it would join Greystone Managed Investments, Eminence Capital, and Mawer Investment Management and vote against the LBO, Edgar knew that the writing was on the wall. Teachers only owned 1% of Masonite's common stock, but it was a big player in the PE industry, managing a C$5 billion portfolio and having generated a 25% annual return since 1991. It was also a champion of good corporate governance. Teachers' was not opposed to LBOs as a matter of principle. In fact, it had already hooked up with KKR to buy Shoppers Drug Mart in 2001, Yellow Pages in 2002, and Alias in 2004. But it did not think that KKR's price was reflecting the full value of Masonite. If Teachers' was against the LBO, no doubt a lot of smaller shareholders would follow suit and would turn the deal down.

Conclusion

In order for KKR to proceed, the transaction had to be approved by at least 66.7% of the votes. With the press regularly publishing negative stories about the deal, and institutional investors opposed to it, Edgar knew that the shareholders meeting scheduled in a couple of days would have to be called off. But was there a chance to rescue the deal? What offer price would win the votes of Eminence Capital, Teachers', and other institutional investors?

Edgar checked his watch. He had an hour before meeting Masonite's BoD, and they would certainly ask him for an update about a realistic price range. He therefore decided to go over his valuation one more time, and to incorporate the latest market conditions and expectations (see Appendix 7). He opened his Excel financial model, and started digging into the numbers.

Appendix 1. Masonite's Annual Consolidated Financial Statements, 2001-2004

	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Number of Employees	14,000	12,000	12,000	12,000	9,000

Income Statements	In thousands of US$					Common-Size				
	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Sales	**2,199,865**	**1,777,238**	**1,619,516**	**1,421,602**	**1,291,775**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Sales	-1,722,711	-1,380,178	-1,254,208	-1,154,927	-1,075,674	-78.3%	-77.7%	-77.4%	-81.2%	-83.3%
Gross Profit	**477,154**	**397,060**	**365,308**	**266,675**	**216,101**	**21.7%**	**22.3%**	**22.6%**	**18.8%**	**16.7%**
Selling, General and Administrative (S&A) Expenses	-188,126	-162,166	-155,513	-123,218	-106,215	-8.6%	-9.1%	-9.6%	-8.7%	-8.2%
Depreciation and Amortization Expenses	-63,914	-48,561	-44,855	-35,403	-25,577	-2.9%	-2.7%	-2.8%	-2.5%	-2.0%
Operating Income	**225,114**	**186,333**	**164,940**	**108,054**	**84,309**	**10.2%**	**10.5%**	**10.2%**	**7.6%**	**6.5%**
Interest Expense	-39,968	-35,536	-43,767	-32,456	-23,629	-1.8%	-2.0%	-2.7%	-2.3%	-1.8%
Other Non-Operating Expense	-7,703	-3,145	3,988	-17,887	-2,641	-0.4%	-0.2%	0.2%	-1.3%	-0.2%
Income Before Tax	**177,443**	**147,652**	**125,161**	**57,711**	**58,039**	**8.1%**	**8.3%**	**7.7%**	**4.1%**	**4.5%**
Tax Expense	-42,653	-34,464	-27,951	-12,933	-15,210	-1.9%	-1.9%	-1.7%	-0.9%	-1.2%
Net Income	**134,790**	**113,188**	**97,210**	**44,778**	**42,829**	**6.1%**	**6.4%**	**6.0%**	**3.1%**	**3.3%**
Non-Controlling Interest	-6,839	-5,517	-7,667	-5,318	-5,258	-0.3%	-0.3%	-0.5%	-0.4%	-0.4%
Net Income Attributable to Equity Holders	**127,951**	**107,671**	**89,543**	**39,460**	**37,571**	**5.8%**	**6.1%**	**5.5%**	**2.8%**	**2.9%**
Average Number of Common Shares Outstanding	54,773,000	53,857,000	52,628,000	46,807,000	43,876,000					
Basic Earnings per Share (in US$)	2.34	2.00	1.70	0.84	0.86					
Diluted Earnings per Share (in US$)	2.29	1.95	1.65	0.84	0.85					
Dividend per Share (in US$)	0.00	0.00	0.00	0.00	0.00					

Balance Sheets

	In thousands of US$					Common-Size				
	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Cash and Cash Equivalents	86,488	129,676	47,644	40,611	3,878	4.1%	7.7%	3.3%	2.8%	0.5%
Accounts Receivable	257,234	258,264	197,927	201,765	172,846	12.2%	15.3%	13.5%	14.0%	20.8%
Inventories	421,786	321,145	293,878	256,689	239,113	20.0%	19.0%	20.1%	17.8%	28.8%
Prepaid Expenses	16,695	17,185	11,289	12,055	7,793	0.8%	1.0%	0.8%	0.8%	0.9%
Other Current Assets	19,653	29,318	32,768	140,159	7,295	0.9%	1.7%	2.2%	9.7%	0.9%
Total Current Assets	**801,856**	**755,588**	**583,506**	**651,279**	**430,925**	**38.0%**	**44.6%**	**39.9%**	**45.2%**	**51.9%**
Property, Plant and Equipment, Net	931,180	752,110	711,601	614,216	321,397	44.2%	44.4%	48.6%	42.6%	38.7%
Goodwill	326,153	133,182	124,001	117,407	43,338	15.5%	7.9%	8.5%	8.1%	5.2%
Other Non-Current Assets	49,296	52,271	43,683	59,384	34,846	2.3%	3.1%	3.0%	4.1%	4.2%
Total Non-Current Assets	**1,306,629**	**937,563**	**879,285**	**791,007**	**399,581**	**62.0%**	**55.4%**	**60.1%**	**54.8%**	**48.1%**
Total Assets	**2,108,485**	**1,693,151**	**1,462,791**	**1,442,286**	**830,506**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Short-Term Debt	19,082	6,608	3,830	105,377	15,399	0.9%	0.4%	0.3%	7.3%	1.9%
Current Portion of Long-Term Debt	24,834	35,498	35,582	16,177	13,641	1.2%	2.1%	2.4%	1.1%	1.6%
Accounts Payable	154,226	301,484	241,292	217,814	144,307	7.3%	17.8%	16.5%	15.1%	17.4%
Other Current Liabilities	177,002	27,013	4,671	0	6,317	8.4%	1.6%	0.3%	0.0%	0.8%
Total Current Liabilities	**375,144**	**370,603**	**285,375**	**339,368**	**179,664**	**17.8%**	**21.9%**	**19.5%**	**23.5%**	**21.6%**
Long-Term Debt	593,363	447,260	498,000	591,419	291,787	28.1%	26.4%	34.0%	41.0%	35.1%
Other Non-Current Liabilities	134,662	106,662	98,744	78,152	17,144	6.4%	6.3%	6.8%	5.4%	2.1%
Total Non-Current Liabilities	**728,025**	**553,922**	**596,744**	**669,571**	**308,931**	**34.5%**	**32.7%**	**40.8%**	**46.4%**	**37.2%**
Total Liabilities	**1,103,169**	**924,525**	**882,119**	**1,008,939**	**488,595**	**52.3%**	**54.6%**	**60.3%**	**70.0%**	**58.8%**
Common Stock	271,126	266,870	257,325	236,262	172,562	12.9%	15.8%	17.6%	16.4%	20.8%
Paid-In Capital	587	191	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Retained Earnings	529,611	403,525	295,854	206,311	166,851	25.1%	23.8%	20.2%	14.3%	20.1%
Cumulative Translation Adjustments	115,624	62,054	-738	-37,351	-19,585	5.5%	3.7%	-0.1%	-2.6%	-2.4%
Total Equity Attributable to Equity Holders	**916,948**	**732,640**	**552,441**	**405,222**	**319,828**	**43.5%**	**43.3%**	**37.8%**	**28.1%**	**38.5%**
Non-Controlling Interest	88,368	35,986	28,231	28,125	22,083	4.2%	2.1%	1.9%	2.0%	2.7%
Total Equity	**1,005,316**	**768,626**	**580,672**	**433,347**	**341,911**	**47.7%**	**45.4%**	**39.7%**	**30.0%**	**41.2%**
Total Liabilities and Equity	**2,108,485**	**1,693,151**	**1,462,791**	**1,442,286**	**830,506**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Cash Flow Statements	In thousands of US$				
	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Net Income Attributable to Equity Holders	**127,951**	**107,671**	**89,543**	**39,460**	**37,571**
Reconciliation of Profit with CFFO:					
Depreciation and Amortization Expenses	63,914	48,561	44,855	35,403	25,577
Other Non-Cash Expenses	31,879	13,220	24,157	22,547	8,792
Change in Operating Assets and Liabilities:					
Change in Accounts Receivable	29,253	-62,290	11,538	-2,745	-7,218
Change in Inventories	-75,258	-29,769	-30,967	10,406	-17,904
Change in Accounts Payable	-24,491	60,231	4,683	-6,874	3,768
Change in Other Operating Assets and Liabilities	-6,353	17,148	8,411	-23,873	-15,264
Cash Flow from Operating Activities (CFFO)	**146,895**	**154,772**	**152,220**	**74,324**	**35,322**
Capital Expenditures	-59,519	-49,454	-43,503	-30,538	-51,129
Acquisitions	-254,779	-4,476	-15,991	-313,874	-43,137
Other	-3,512	5,199	81,291	-22,827	-6,298
Cash Flow from Investing Activities (CFFI)	**-317,810**	**-48,731**	**21,797**	**-367,239**	**-100,564**
Change in Short-Term Debt	12,474	2,357	-101,547	87,890	-39,836
Proceeds from Issuance of Long-Term Debt	200,000	0	550,000	485,000	145,453
Repayment of Long-Term Debt	-103,751	-51,140	-636,462	-300,381	-37,748
Proceeds from Issuance of Equity	4,750	9,545	10,082	63,700	76
Repurchase of Equity	-2,359	0	0	0	0
Payment of Dividends	0	0	0	0	0
Other	-3,227	0	0	0	0
Cash Flow from Financing Activities (CFFI)	**107,887**	**-39,238**	**-177,927**	**336,209**	**67,945**
Effect of Changes in Exchange Rates	19,840	15,229	10,943	-6,561	-4,704
Change in Cash and Cash Equivalents	-43,188	82,032	7,033	36,733	-2,001
Beginning Cash and Cash Equivalents	129,676	47,644	40,611	3,878	5,879
Ending Cash and Cash Equivalents	**86,488**	**129,676**	**47,644**	**40,611**	**3,878**

The ROE Model

	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Growth Rate in Sales	**23.8%**	**9.7%**	**13.9%**	**10.1%**	**n.a.**
Operating Income	225,114	186,333	164,940	108,054	84,309
Sales	2,199,865	1,777,238	1,619,516	1,421,602	1,291,775
Operating Profit Margin (1)	**10.2%**	**10.5%**	**10.2%**	**7.6%**	**6.5%**
Sales	2,199,865	1,777,238	1,619,516	1,421,602	1,291,775
Invested Capital	1,777,257	1,364,654	1,216,828	1,224,472	679,882
Capital Turnover (2)	**1.24**	**1.30**	**1.33**	**1.16**	**1.90**
Pre-Tax Return on Invested Capital (3)=(1)×(2)	**12.7%**	**13.7%**	**13.6%**	**8.8%**	**12.4%**
Net Income	134,790	113,188	97,210	44,778	42,829
Income Before Tax	177,443	147,652	125,161	57,711	58,039
Tax Effect (4)	**0.76**	**0.77**	**0.78**	**0.78**	**0.74**
Effective Tax Rate	**24.0%**	**23.3%**	**22.3%**	**22.4%**	**26.2%**
Return on Invested Capital (5)=(3)×(4)	**9.6%**	**10.5%**	**10.5%**	**6.8%**	**9.2%**
Income Before Tax	177,443	147,652	125,161	57,711	58,039
Operating Income	225,114	186,333	164,940	108,054	84,309
Financial Cost Effect (6)	**0.79**	**0.79**	**0.76**	**0.53**	**0.69**
Invested Capital	1,777,257	1,364,654	1,216,828	1,224,472	679,882
Equity	1,005,316	768,626	580,672	433,347	341,911
Financial Structure Effect (7)	**1.77**	**1.78**	**2.10**	**2.83**	**1.99**
Financial Leverage Multiplier (8)=(6)×(7)	**1.39**	**1.41**	**1.59**	**1.51**	**1.37**
Return on Equity (9)=(5)×(8)	**17.7%**	**19.2%**	**21.6%**	**13.3%**	**17.0%**

Source: Masonite's Form 40-F, filed on March 7, 2005.

Appendix 2. Masonite's Fourth Quarter Consolidated Financial Statements, 2002-2004
(in millions of US$ except per share amounts)

Income Statements	In thousands of US$			Common-Size		
	Q4 2004	Q4 2003	Q4 2002	Q4 2004	Q4 2003	Q4 2002
Sales	**570,162**	**455,897**	**395,808**	**100.0%**	**100.0%**	**100.0%**
Cost of Sales	-445,396	-354,298	-301,120	-78.1%	-77.7%	-76.1%
Gross Profit	**124,766**	**101,599**	**94,688**	**21.9%**	**22.3%**	**23.9%**
Selling, General and Administrative (S&A) Expenses	-47,474	-39,338	-41,967	-8.3%	-8.6%	-10.6%
Depreciation and Amortization Expenses	-19,569	-12,544	-11,688	-3.4%	-2.8%	-3.0%
Operating Income	**57,723**	**49,717**	**41,033**	**10.1%**	**10.9%**	**10.4%**
Interest Expense	-11,097	-8,407	-9,346	-1.9%	-1.8%	-2.4%
Other Non-Operating Expense	-9,639	-2,746	341	-1.7%	-0.6%	0.1%
Income Before Tax	**36,987**	**38,564**	**32,028**	**6.5%**	**8.5%**	**8.1%**
Tax Expense	-7,955	-8,376	-7,777	-1.4%	-1.8%	-2.0%
Net Income	**29,032**	**30,188**	**24,251**	**5.1%**	**6.6%**	**6.1%**
Non-Controlling Interest	-1,691	-990	-2,042	-0.3%	-0.2%	-0.5%
Net Income Attributable to Equity Holders	**27,341**	**29,198**	**22,209**	**4.8%**	**6.4%**	**5.6%**
Basic Earnings per Share (in US$)	0.50	0.54	0.42			
Diluted Earnings per Share (in US$)	0.49	0.53	0.40			
Dividend per Share (in US$)	0.00	0.00	0.00			

Balance Sheets	In thousands of US$			Common-Size		
	Q4 2004	Q4 2003	Q4 2002	Q4 2004	Q4 2003	Q4 2002
Cash and Cash Equivalents	86,488	129,676	47,644	4.1%	7.7%	3.3%
Accounts Receivable	257,234	258,264	197,927	12.2%	15.3%	13.5%
Inventories	421,786	321,145	293,878	20.0%	19.0%	20.1%
Prepaid Expenses	16,695	17,185	11,289	0.8%	1.0%	0.8%
Other Current Assets	19,653	29,318	32,768	0.9%	1.7%	2.2%
Total Current Assets	**801,856**	**755,588**	**583,506**	**38.0%**	**44.6%**	**39.9%**
Property, Plant and Equipment, Net	931,180	752,110	711,601	44.2%	44.4%	48.6%
Goodwill	321,378	130,475	124,001	15.2%	7.7%	8.5%
Other Non-Current Assets	54,071	54,978	43,683	2.6%	3.2%	3.0%
Total Non-Current Assets	**1,306,629**	**937,563**	**879,285**	**62.0%**	**55.4%**	**60.1%**
Total Assets	**2,108,485**	**1,693,151**	**1,462,791**	**100.0%**	**100.0%**	**100.0%**
Short-Term Debt	19,082	6,608	3,830	0.9%	0.4%	0.3%
Current Portion of Long-Term Debt	24,834	35,498	35,582	1.2%	2.1%	2.4%
Accounts Payable	319,719	301,484	241,292	15.2%	17.8%	16.5%
Other Current Liabilities	11,509	27,013	4,671	0.5%	1.6%	0.3%
Total Current Liabilities	**375,144**	**370,603**	**285,375**	**17.8%**	**21.9%**	**19.5%**
Long-Term Debt	593,363	447,260	498,000	28.1%	26.4%	34.0%
Other Non-Current Liabilities	134,662	106,662	98,744	6.4%	6.3%	6.8%
Total Non-Current Liabilities	**728,025**	**553,922**	**596,744**	**34.5%**	**32.7%**	**40.8%**
Total Liabilities	**1,103,169**	**924,525**	**882,119**	**52.3%**	**54.6%**	**60.3%**
Common Stock	271,126	266,870	257,325	12.9%	15.8%	17.6%
Paid-In Capital	587	191	0	0.0%	0.0%	0.0%
Retained Earnings	529,611	403,525	295,854	25.1%	23.8%	20.2%
Cumulative Translation Adjustments	115,624	62,054	-738	5.5%	3.7%	-0.1%
Total Equity Attributable to Equity Holders	**916,948**	**732,640**	**552,441**	**43.5%**	**43.3%**	**37.8%**
Non-Controlling Interest	88,368	35,986	28,231	4.2%	2.1%	1.9%
Total Equity	**1,005,316**	**768,626**	**580,672**	**47.7%**	**45.4%**	**39.7%**
Total Liabilities and Equity	**2,108,485**	**1,693,151**	**1,462,791**	**100.0%**	**100.0%**	**100.0%**

Cash Flow Statements	In thousands of US$		
	Q4 2004	Q4 2003	Q4 2002
Net Income Attributable to Equity Holders	**27,341**	**29,198**	**22,209**
Reconciliation of Profit with CFFO:			
Depreciation and Amortization Expenses	19,569	12,544	11,688
Other	-26,138	69,953	24,723
Cash Flow from Operating Activities (CFFO)	**20,772**	**111,695**	**58,620**
Capital Expenditures	-15,883	-14,616	-19,449
Other	-4,944	7,312	-5,647
Cash Flow from Investing Activities (CFFI)	**-20,827**	**-7,304**	**-25,096**
Change in Short-Term Debt	-905	-4,741	-478
Change in Long-Term Debt	-50,999	-7,759	-45,295
Proceeds from Issuance of Equity	160	3,778	15
Repurchase of Equity	0	0	0
Payment of Dividends	0	0	0
Other	0	0	0
Cash Flow from Financing Activities (CFFI)	**-51,744**	**-8,722**	**-45,758**
Effect of Changes in Exchange Rates	13,202	4,063	3,927
Change in Cash and Cash Equivalents	-38,597	99,732	-8,307
Beginning Cash and Cash Equivalents	125,085	29,944	55,951
Ending Cash and Cash Equivalents	**86,488**	**129,676**	**47,644**

Source: Masonite's Form 6-K, filed on February 16, 2005.

Appendix 3. Masonite's Historical and Projected Financials, 2005-2009
In millions of US$

	Historical				Projected				
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Income Statement									
Sales	1,421.6	1,619.5	1,777.2	2,199.9	2,444.1	2,544.3	2,709.6	2,902.0	3,119.7
% Growth		13.9%	9.7%	23.8%	11.1%	4.1%	6.5%	7.1%	7.5%
EBITDA	143.5	209.8	234.9	289.0	332.4	358.7	395.6	438.2	486.7
% Margin	10.1%	13.0%	13.2%	13.1%	13.6%	14.1%	14.6%	15.1%	15.6%
EBIT	108.1	164.9	186.3	225.1	261.5	262.1	311.6	345.3	390.0
% Margin	7.6%	10.2%	10.5%	10.2%	10.7%	10.3%	11.5%	11.9%	12.5%
Cash Flow Statement									
Depreciation and Amortization Expense	-35.4	-44.9	-48.6	-63.9	-70.9	-96.7	-84.0	-92.9	-96.7
Change in Net Working Capital	-23.1	-6.3	-14.7	-76.8	-13.8	3.5	-1.2	-5.6	-8.0
Capital Expenditure	-30.5	-43.5	-49.5	-59.5	-70.0	-80.0	-90.0	-100.0	-110.0

Source: Merrill Lynch, "Presentation to the Special Committee of the Board of Directors Regarding Project Balboa," filing SC 13E3, filed with the Securities and Exchange Commission on January 19, 2005, p. 6.

Appendix 4. Comparable Companies

All amounts, except per share amounts, are in millions of US$

	As of 02/16/05			EV/EBITDA		EV/EBIT		Net Debt / 2004 EBITDA
	Stock Price	Market Value	Enterprise Value (EV)	2004	2005E	2004	2005E	
U.S. (1)								
ASD	45.10	10,163	12,072	10.7	9.7	11.9	10.5	1.7
MWD	41.69	692	681	7.2	6.1	10.7	8.7	-0.1
BDK	82.19	7,036	7,724	10.1	8.6	12.4	10.4	0.9
ELK	39.81	832	990	10.7	8.3	13.2	10.9	1.7
FO	83.80	12,579	14,704	10.5	9.8	13.0	11.7	1.3
JJZ	10.19	792	1,230	8.3	7.4	9.9	9.1	3.0
MAS	36.91	16,922	20,207	9.9	9.3	11.3	10.6	1.6
MHK	89.46	6,079	6,970	9.2	8.3	11.0	10.1	1.2
SHW	44.93	6,648	7,344	9.7	8.7	11.7	10.6	0.9
SWK	46.33	3,989	4,424	9.8	8.3	10.8	10.1	0.9
			Mean	9.6	8.5	11.6	10.3	1.3
			Median	9.9	8.5	11.5	10.5	1.3
Canada (2)								
RYG	8.47	791	1,285	5.5	5.7	10.1	10.9	2.1
MHM	32.42	1,820	2,532	8.8	7.8	11.2	9.4	2.2

(1) American Standard Companies Inc. (ASD), American Woodmark Corporation (MWD), The Black and Decker Corporation (BDK), Elkcorp (ELK), Fortune Brands Inc. (FO), Jacuzzi Brands Inc. (JJZ), Masco Corporation (MAS), Mohawk Industries Inc. (MHK), The Sherin-Williams Company (SHW) and The Stanley Works (SWK)

(2) Royal Group Technologies Limited (RYG) and Masonite International Corporation (MHM)

Source: Merrill Lynch, "Presentation to the Special Committee of the Board of Directors Regarding Project Balboa", filing SC 13E3, filed with the Securities and Exchange Commission on February 17, 2005, p. 7.

Appendix 5. Comparable Transactions (with sponsor deals in bold)

Date Announced		Target	Acquirer	Transaction Value (in millions)	Transaction Value / EBITDA
2004	**Dec-04**	**Associated Materials**	**Investcorp**	**US$945**	**7.6**
	Nov-04	**Goodman Global**	**Apollo Advisers**	**US$1,430**	**8.6**
	Sep-04	Tapco	Headwaters	US$715	8.7
	Aug-04	Atlas Copco Tools	Techtronic Industries	US$713	N/A
	Aug-04	Professional Paint	Consorcio Comex	US$400	8.3
	Jul-04	MW Manufacturers	Ply-Gem	US$320	7.4
	Jul-04	Pentair Tools	Black & Decker	US$775	7.5
	Jul-04	Nortek	Thomas H. Lee Partners	US$1,750	7.4
	Mar-04	MAAX	J.W. Childs	US$424	7.1
	Feb-04	Hillman Companies	Code Hennessy & Simmons	US$510	8.3
2003	Dec-03	Gower	Nobia	SEK 890	N/A
	Dec-03	**Atrium**	**Kenner / UBS Capital / ML PE**	**US$700**	**7.3**
	Dec-03	Door Division of Stanley Works	Masonite	US$160	7.6
	Dec-03	**Nortek / Ply-Gem**	**Caxton-Iseman**	**US$570**	**7.5**
	Nov-03	Therma-Tru	Fortune Brands	US$925	8.4
	Sep-03	**Norcraft**	**Saunders Karp / Trimaran**	**US$315**	**7.6**
	Jul-03	Baldwin Hardware & Weiser Lock	Black & Decker	US$275	N/A
2002	**Apr-02**	**Nortek**	**Kelso**	**US$1,600**	**7.5**
	Apr-02	Omega Cabinets	Fortune Brands	US$538	8.6
	Apr-02	**Associated Materials**	**Harvest Partners**	**US$455**	**7.1**
	Mar-02	West-Wood	Door Holding A/S	€ 315	7.5
2001	Nov-01	Dal-Tile International	Mohawk Industries	US$1,702	9.8
	Jul-01	Caradon Mira	Kohler	€ 301	9.9
	Jun-01	Milgard	Masco	US$420	8.0
	Apr-01	**Sanitec**	**BC Partners**	**€ 1,200**	**8.4**
	Mar-01	United Dominion Industries	SPX Corp	US$1,830	6.4
				Mean	7.9
				Median	7.6

Source: Merrill Lynch, "Presentation to the Special Committee of the Board of Directors Regarding Project Balboa", filing SC 13E3, filed with the Securities and Exchange Commission on February 17, 2005, p. 9.

Appendix 6. Financing

Sources of Funds

Type	Amount	Amortize	Term	Interest	Moody's Rating
Senior Secured Term Loan Facility	US$1,175 million	Yes*	8 years	1-year LIBOR + 250 bp	B2
Senior Secured Multi-Currency Revolving Credit Facility	US$350 million	No	6 years	1-year LIBOR + 250 bp	B2
Unsecured Senior Floating Rate Notes	US$300 million	No	8 years	1-year LIBOR + 600 bp	B3
Unsecured Senior Subordinated Notes	US$525 million	No	10 years	1-year LIBOR + 600 bp	Caa1
Bridge Facility	US$825 million	No	18 months	First two quarters: Maximum of 1-year LIBOR + 600 bp or 8.5% Thereafter: Increase of 50 bp per quarter	n.a.

* The senior-secured-term loan facility will amortize 40% by the end of its term.

Source: Management Proxy Circular, filing SC 13E3, filed with the Securities and Exchange Commission on January 19, 2005, pp. 36-38.

Covenants

The senior secured credit facilities will contain affirmative and negative covenants, including:

- A net debt to EBITDA coverage ratio of maximum 7.9 times with step-down provisions.
- An EBITDA interest coverage ratio of 1.5 times minimum with step-up provisions.
- Other covenants restricting asset sales, indebtedness, investments, mergers and acquisitions, transactions with affiliates, dividends and stock repurchases.

Appendix 7. Current Market Conditions (as of 02/16/05)

A. Interest Rates

LIBOR, by maturity:

1 month	3 month	6 month	1 year
2.69%	2.91%	3.15%	3.51%

Source: British Bankers' Association.

Yields on U.S. Treasuries, by maturity:

1 month	3 month	6 month	1 year	2 year	3 year	5 year	7 year	10 year	20 year
2.39%	2.58%	2.85%	3.04%	3.39%	3.54%	3.75%	3.94%	4.14%	4.58%

Source: Federal Reserve

B. Other Information

Market Risk Premium: 5.5%

Source: E. Dimson, P. Marsh, and M. Staunton, "The Worldwide Equity Premium: A Smaller Puzzle," Working Paper, April 7, 2006, p. 17.

Masonite's:

- Debt: Almost all of Masonite's debt carries floating rates at a weighted average cost of debt of LIBOR + 250 basis points. But the company has entered two five-year swap agreements, one for US$250 million in September 2001 to pay a fixed rate of 7.96% and the other one for US$75 million in August 2002 to pay a fixed rate of 5.72%.

  Source: Masonite's Form 40-F, 2003, p. 46.

- Stock Price: US$32.42

  Source: Merrill Lynch, "Presentation to the Special Committee of the Board of Directors Regarding Project Balboa", filing SC 13E3, filed with the Securities and Exchange Commission on February 17, 2005, p. 7.

- Beta: 1.15

  Source: Worldscope.