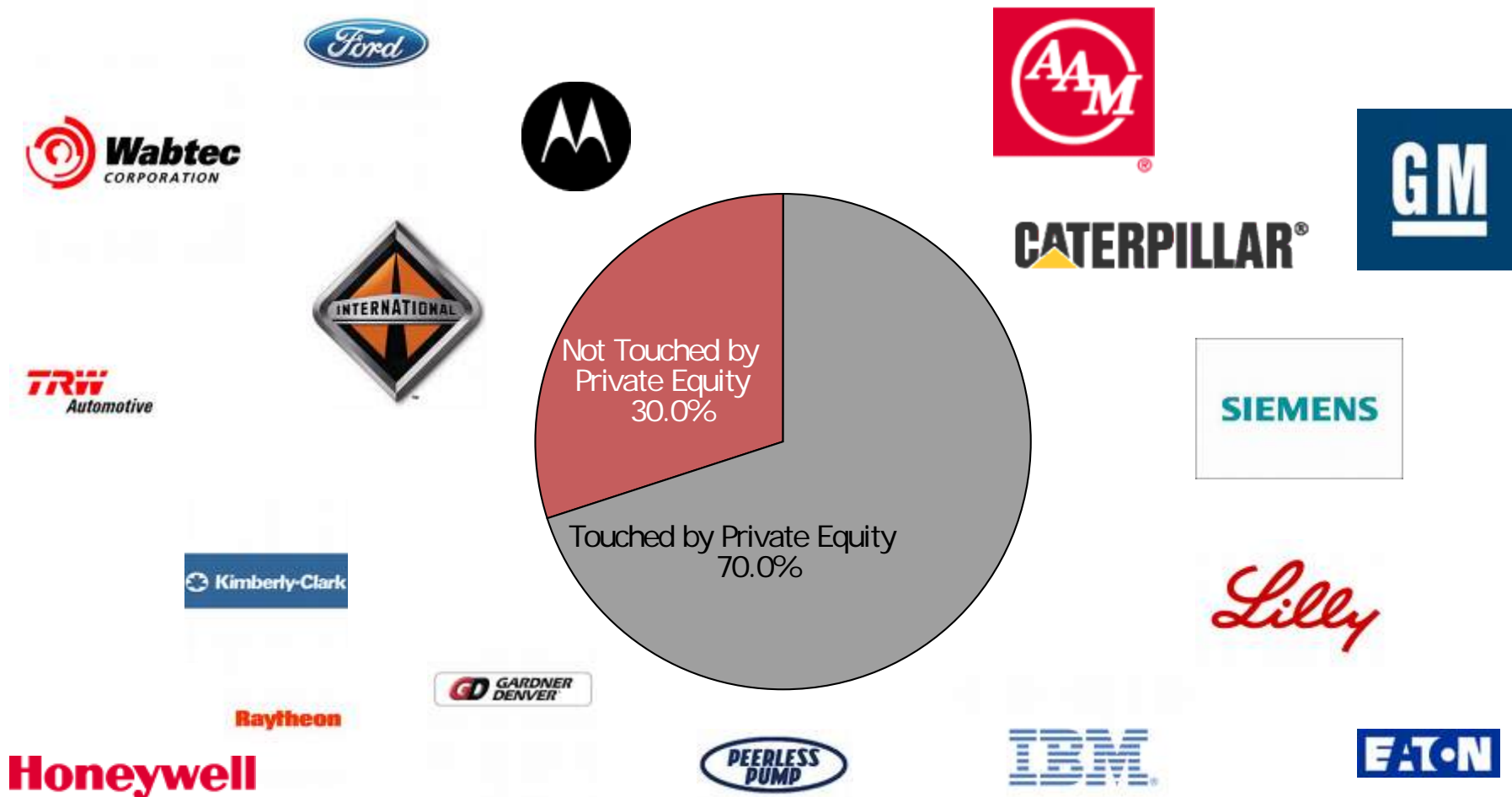

The Industrial Sector Through the Eyes
of a Private Equity Investor
September 21, 2006

The importance of private equity

~70% of you work for companies that have been touched by private equity.

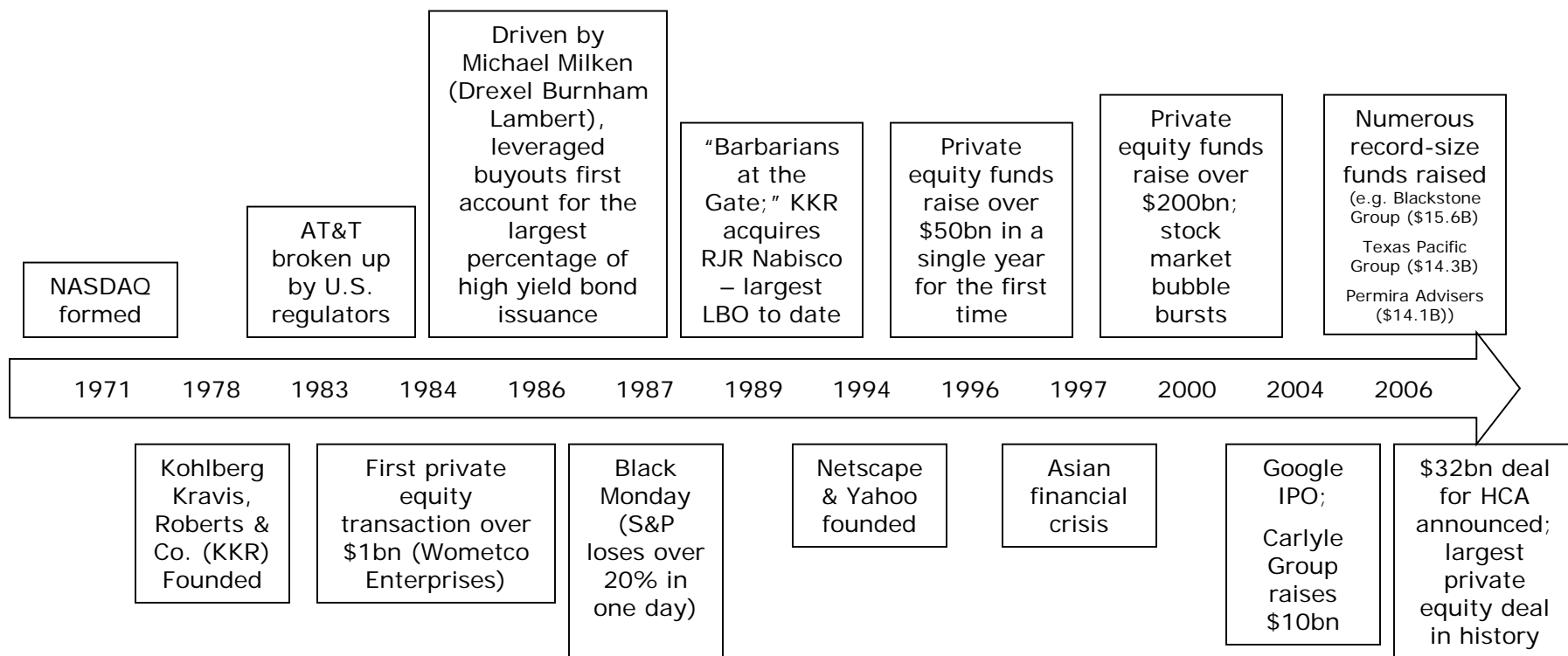


Agenda

- How and why does private equity impact you?
 - Why is private equity important?
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Historical Perspective on Private Equity

The private equity industry has grown dramatically over the last 30 years and now has a major impact on all sectors of the economy.



"Thirty years ago, the private equity industry was not really an industry at all. Today, private equity is mainstream, sophisticated and huge. It accounted for about \$200bn worth of deals in 2005, and the vast majority of that sum was spent on buy-outs of established companies"

-The Financial Times

Private Equity in the Press

“Private-equity firms now possess more than \$2 trillion in buying power. This year they have bought some of the world’s best-known brands, worth more than \$347 billion, twice last year’s pace and roughly equal to the gross domestic product of Belgium. Private-equity firms spent \$12.3 billion for Univision last month; \$22 billion for Kinder Morgan in May; as much as \$14 billion for General Motors’ finance unit, G.M.A.C., in April; and \$17.4 billion for Albertsons, the grocery chain, in January.”

-The New York Times

“Increasing emphasis lies on improvements in the fundamental performance [through] motivation of employees and managers of the acquired business [and] direct involvement of the acquiring buy-out group in the transaction. Importantly, some of these improvements persist even after the buy-out group re-sells the business.”

-The Financial Times

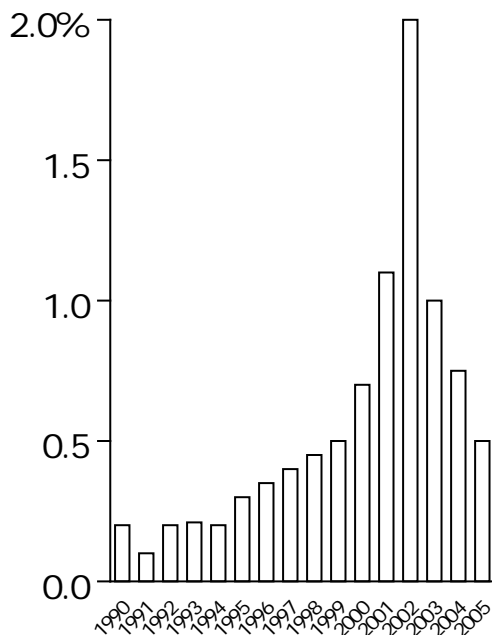
“Private money is also playing a growing role in mergers and acquisitions, an area long dominated by companies. So far this year, buyout funds have been involved in 24% of mergers and acquisitions by value, according to Thomson Financial, up from the 14% in 1988, the peak of the previous buyout boom.”

-Wall Street Journal

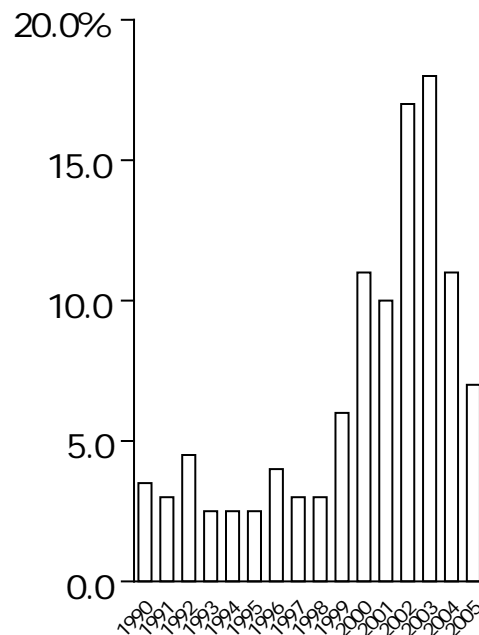
Size of the Private Equity Market Relative to GDP

Despite coming down from their peaks, the rates of private equity investment as a percentage of GDP and as a percentage of total M&A activity are still well above historical averages.

Private Equity Investment
as a % of U.S. GDP



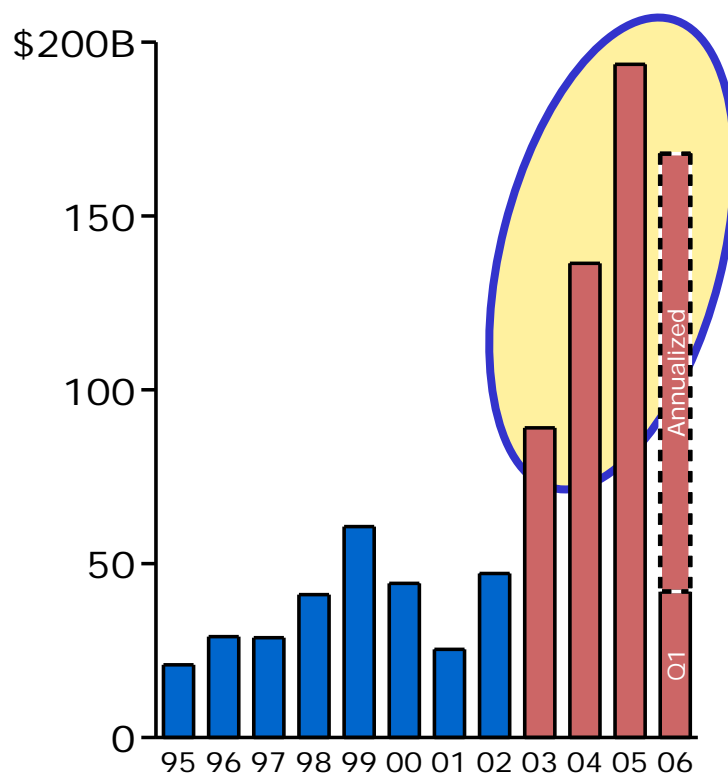
Private Equity Investment
as a % of U.S. M&A Market



LBO volume and returns have surged in recent years

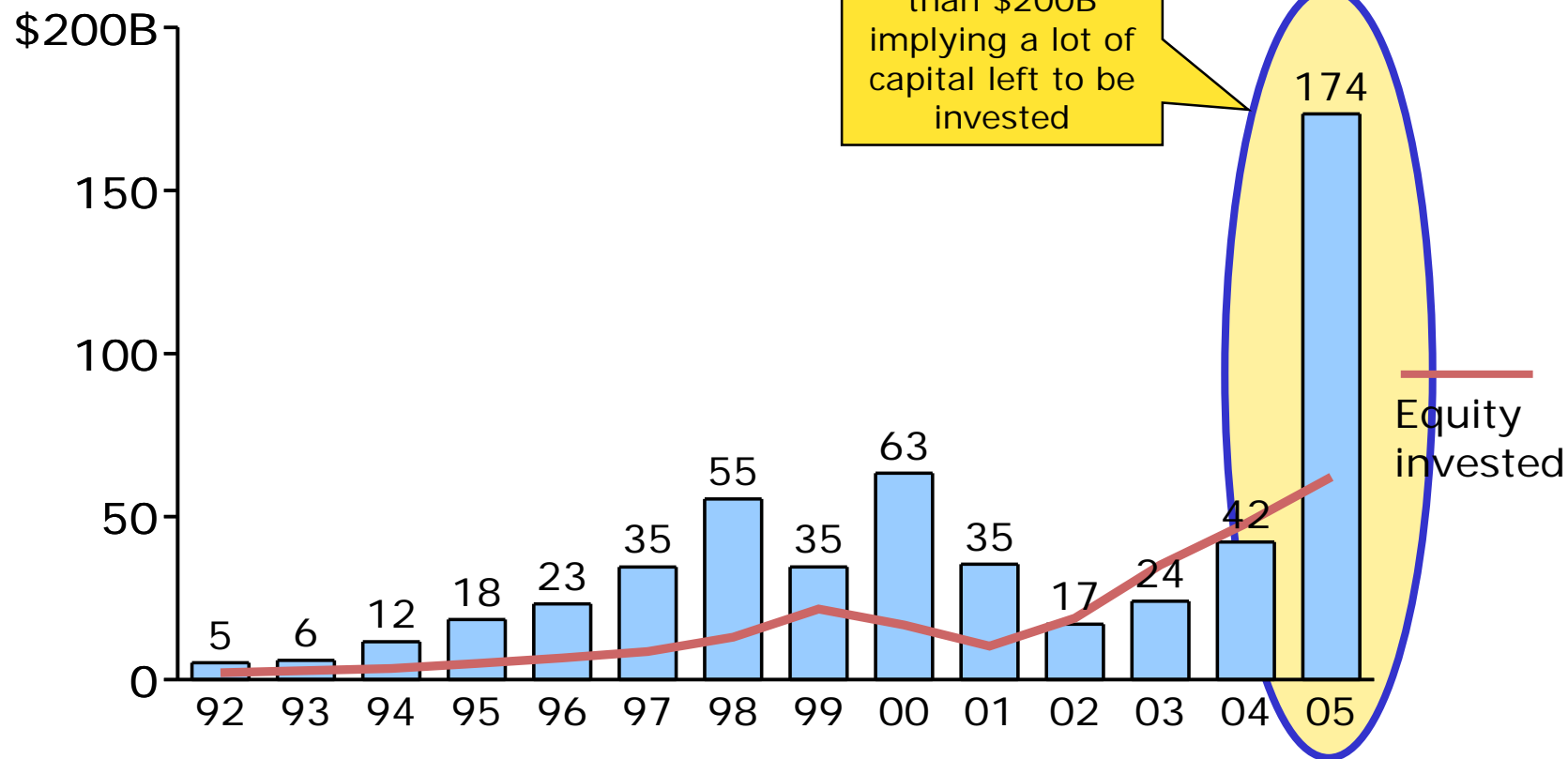
Deal volume is up sharply

LBO transactions by
US-based firms



New cycle of fund raising: Leads to a capital overhang

Capital raised vs.
deal volume (equity portion)



Berkshire Partners

Note: Capital raised includes foreign funds raised by US-based LBO firms
Source: Buyouts Newsletter, Bain LBO fund database, S&P LCD

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What is private equity?

It's not as glamorous as "Pretty Woman"



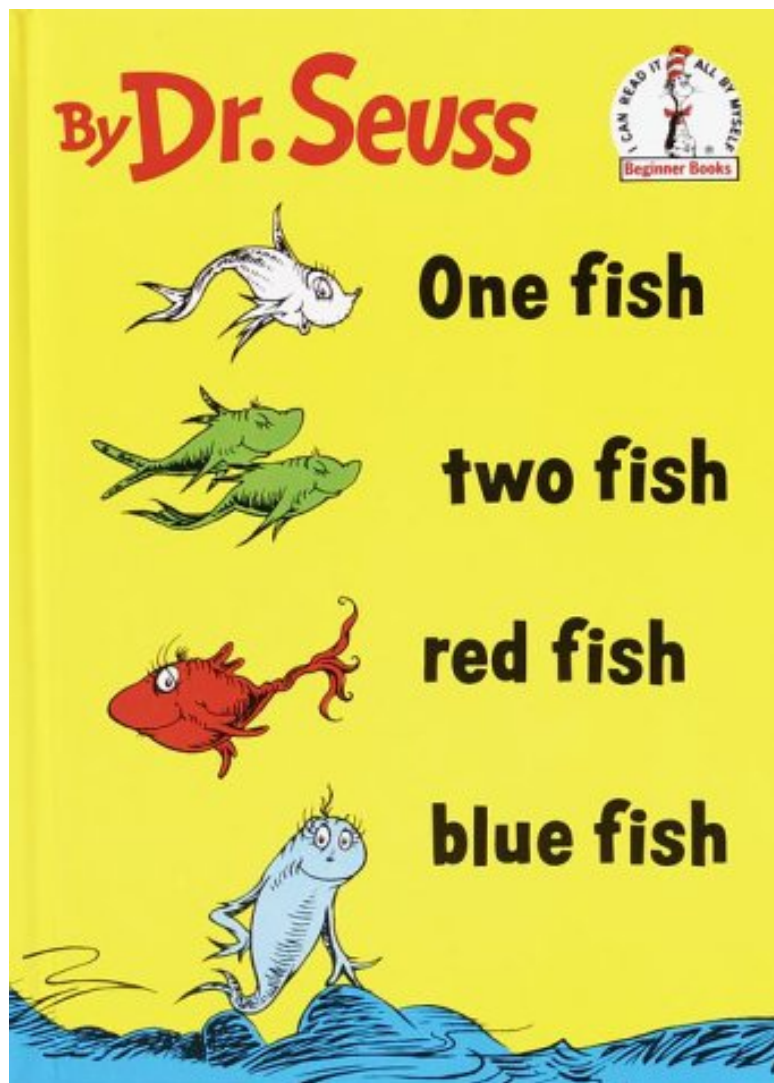
What is private equity?

It's not as ruthless as "Wall Street"



What is private equity?

And it's a bit more complicated than...



What is private equity?

Private Equity investing is essentially the practice of...

- 1) raising money to invest
- 2) investing in companies with strong teams and growth opportunities
- 3) helping to build and grow companies over time, and
- 4) eventually, realizing a happy return for all of the shareholders

Purpose of Financing

Private equity firms use the equity that they have raised from limited partners along with debt (collateralized by the companies they purchase) to buy portfolio companies.

Maximize Returns While Minimizing Risk

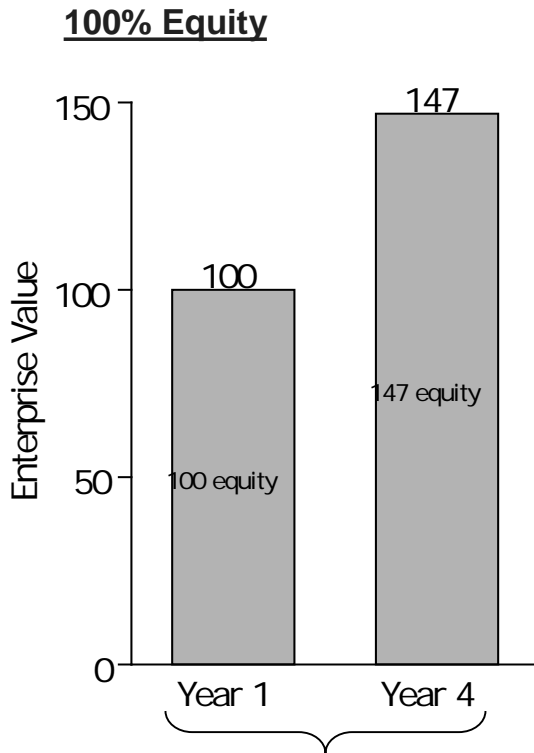
- Increasing leverage improves returns
- Provide a cushion in the instance that things go wrong

Optimize Financing Given Market Conditions and Company Situation

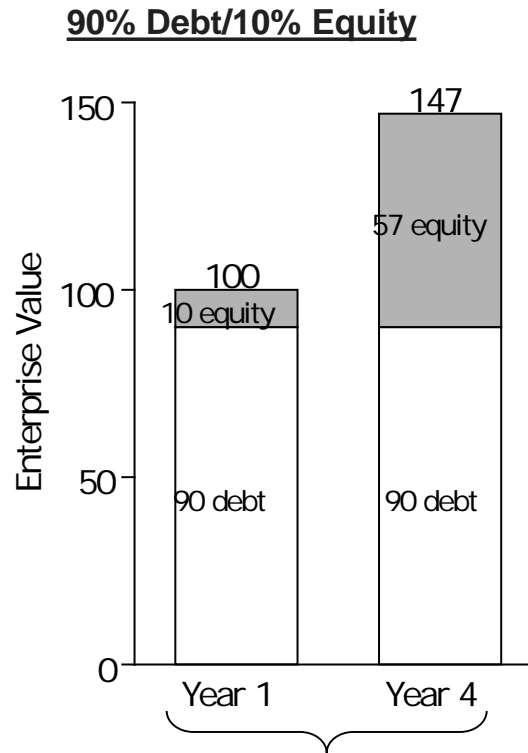
- Capital structure must fit company's needs
 - Working capital
 - Capex
 - Seasonality
 - Add-on acquisitions
- Financing must be "doable" in current market
 - Interest rate pricing
 - Bond market
 - Amortization schedule

Value of Leverage

Leverage enhances equity returns.



3 Years
↓
13.7% IRR
1.5x



3 Years
↓
78.6% IRR
5.7x

-
- Debt enhances the rate of return on an equity investment
 - However, debt also increases the risk to equity holders by increasing the volatility of returns and risking debt default

How Private Equity Firms Interact with Portfolio Companies

Firms have a range of approaches to working with portfolio companies, but often take an active role in supporting them.

Berkshire's role in a portfolio company

- Value added resource to our portfolio companies.
- Work with management to build a board of directors.
- Jointly develop a strategic plan for achieving growth, including key resources.
- Jointly establish metrics to measure performance against plan.
- Analytic and investment expertise to evaluate major operating and investment decisions such as new capital investments, acquisitions or new market initiatives.

Berkshire's interactions with a portfolio company

- Regular communication focuses on financial and strategic metrics.
- Managers seek our counsel regarding people and organizational issues.
- We draw on appropriate external professional resources.
- We provide opportunities for sharing of experiences across Berkshire portfolio companies.

Agenda

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 - How does private equity work?

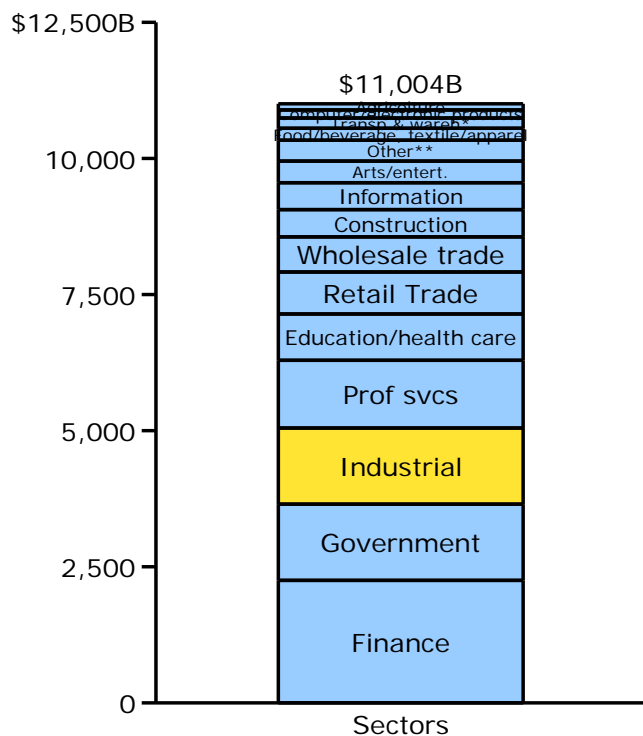
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The Industrial sector represents 13% of GDP & \$3.9T of Gross Output

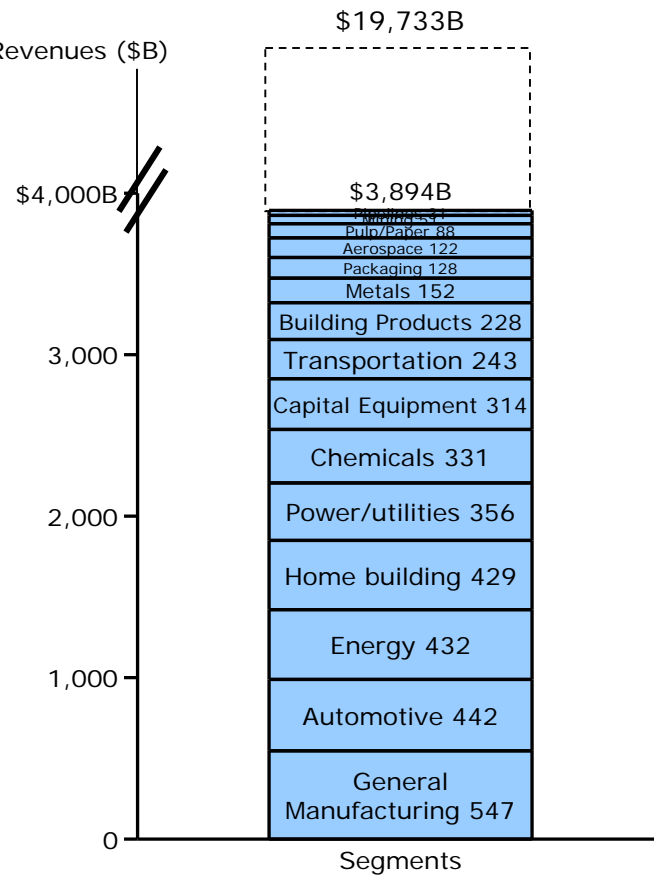
GDP
(Value Added)

2003 Value Added \$B (GDP)



Industrial Sector
(Gross Output)

2003 Revenues (\$B)



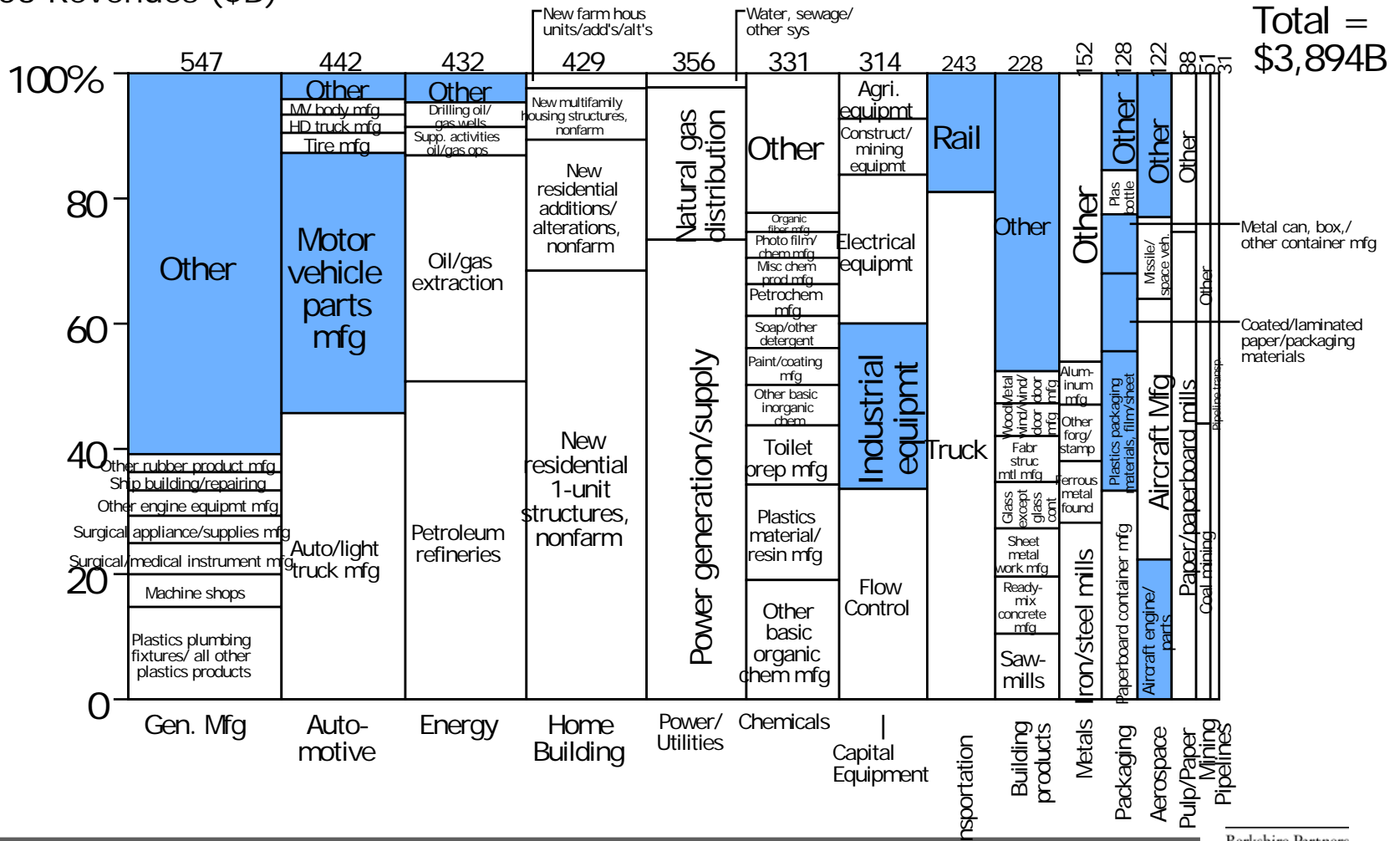
* Excludes truck and rail transportation

** Includes: Wood and non-metallic mineral products, printing and support activities, other services (excluded Government)

Source: BEA, Department of Commerce; Bain & Company

The Industrial sector is comprised of multiple sub-segments

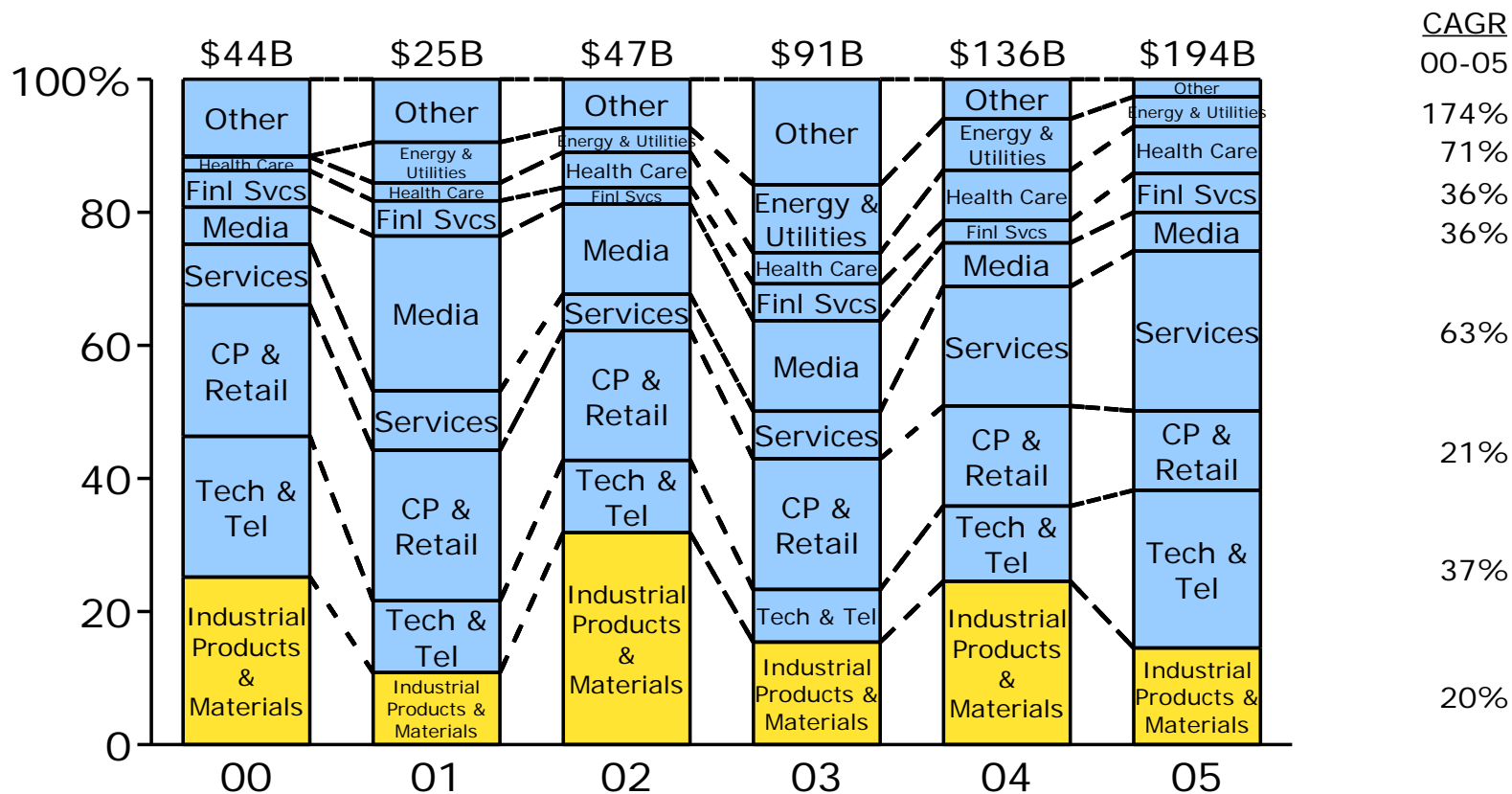
2003 Revenues (\$B)



Note: Revenues/Gross output represent the market value of an industry's production
 Source: BEA, Department of Commerce; Bain & Company

LBO deals by industry

Value of LBO deals



CAGR
00-05

174%

71%

36%

36%

63%

21%

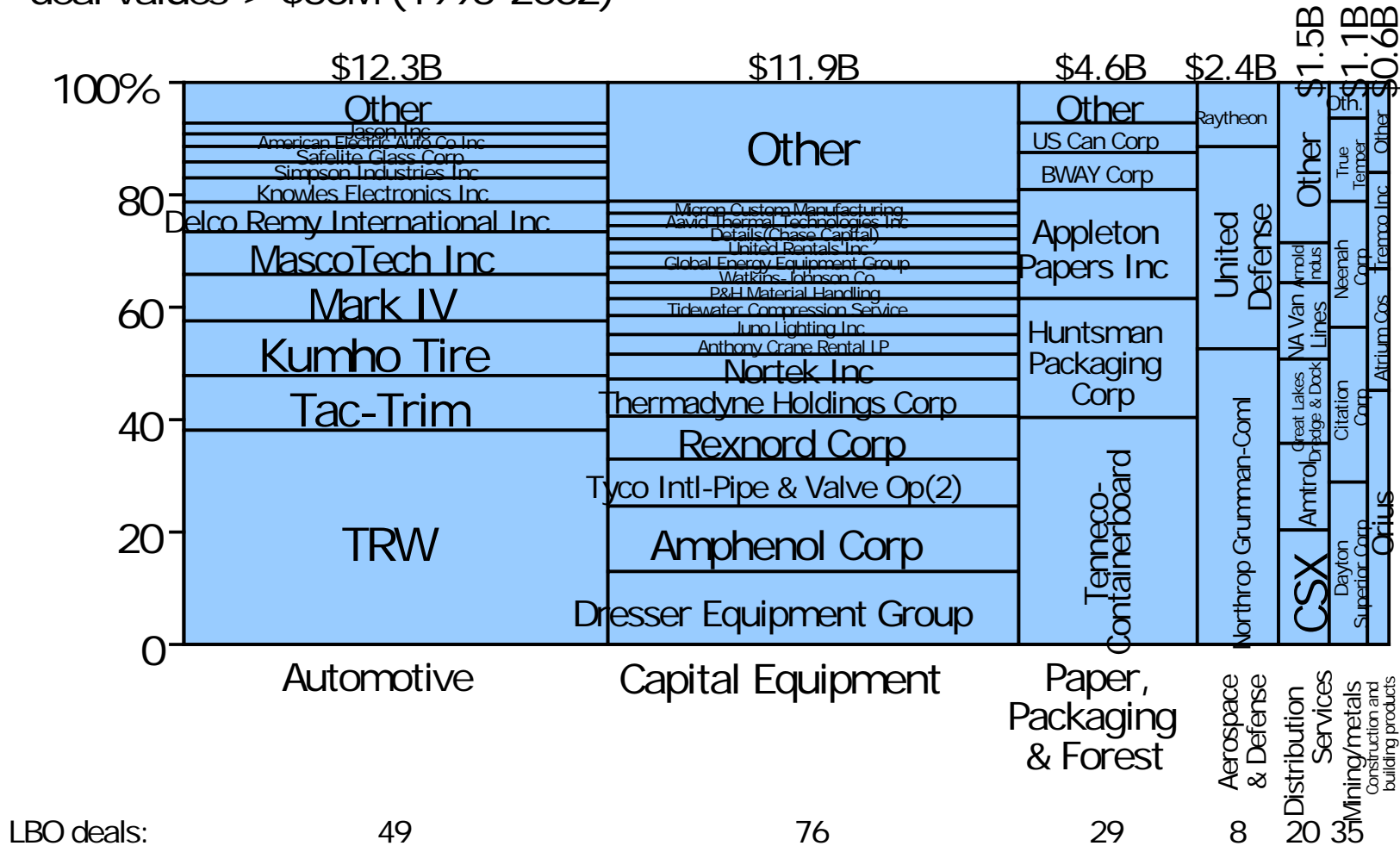
37%

20%

While automotive and capital equipment were the most popular industrial LBOs from 1995-2002 ...

Industrial deals with disclosed deal values > \$50M (1995-2002)

Total = \$35B

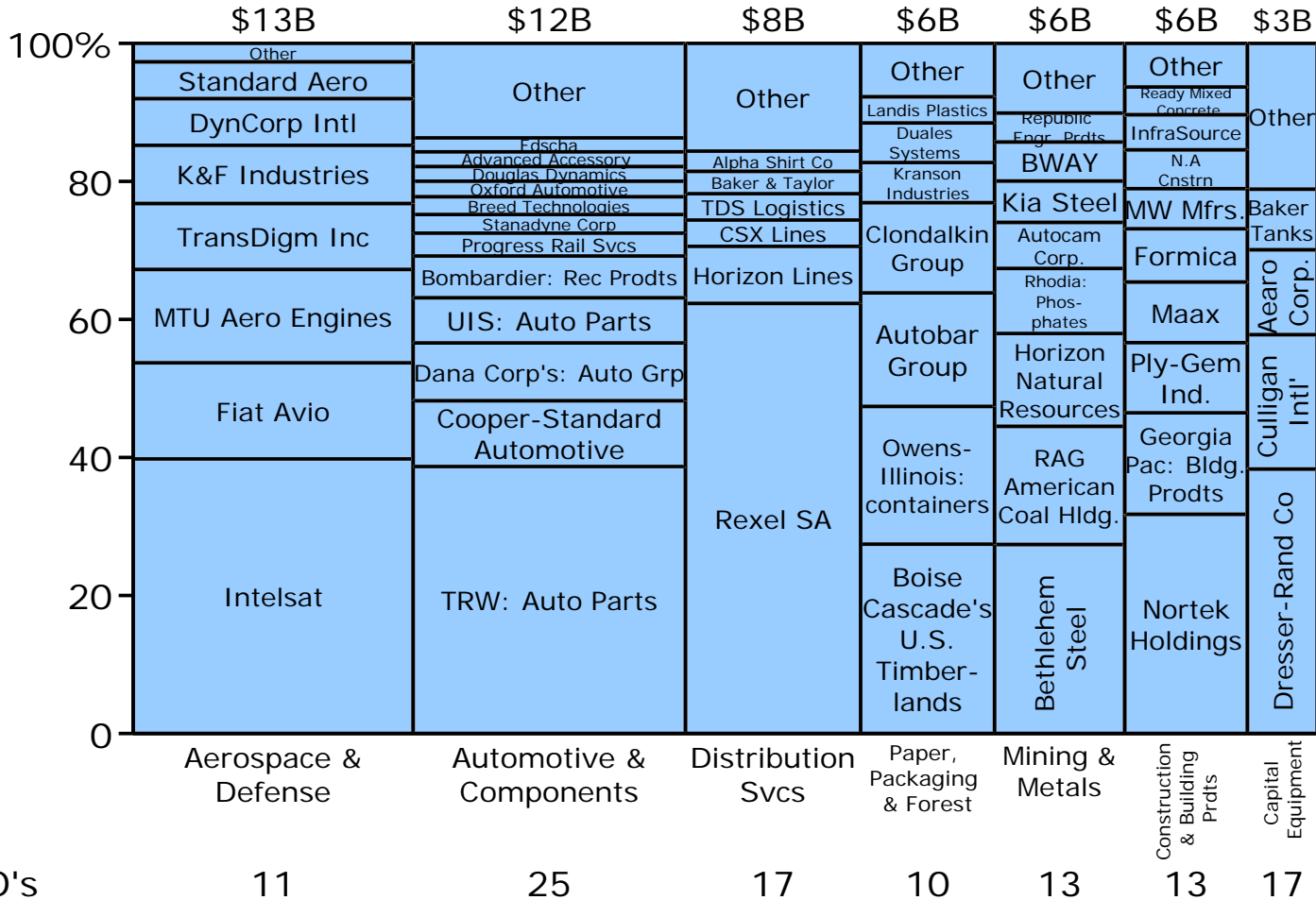


Note: 61 LBOs did not have disclosed deal values; Other recent losers include Essex Crane Rental Corp and Profile Metals; Bain & Company

...since 2003, LBOs have been spread more equally across sectors

Industrial deals with disclosed deal values > \$50M (2003-1Q2005)

Total = \$53B



Berkshire Partners

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Investment themes

Build-ups

- Drive consolidation where scale creates differential economics

Under-managed full potential

- Drive full potential from under-managed / under-invested players (often carve-outs)

Cyclical plays

- Time entry and exit to shifts in industry cycle

Sector evolution

- Identify businesses likely to benefit from
 - Product/technology substitution
 - New market segments
 - Regulatory changes
 - Distribution shifts

Profitable niches

- Identify small, profitable players with highly defensible market positions

Turnarounds

- Turnaround ailing player in fundamentally stable market

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Key success factors- Build-ups

- Tangible cost-driven scale economies
- High-quality standalone platform
- First mover advantage
- Add-on acquisitions at the right price
- Management talent, depth, and bandwidth

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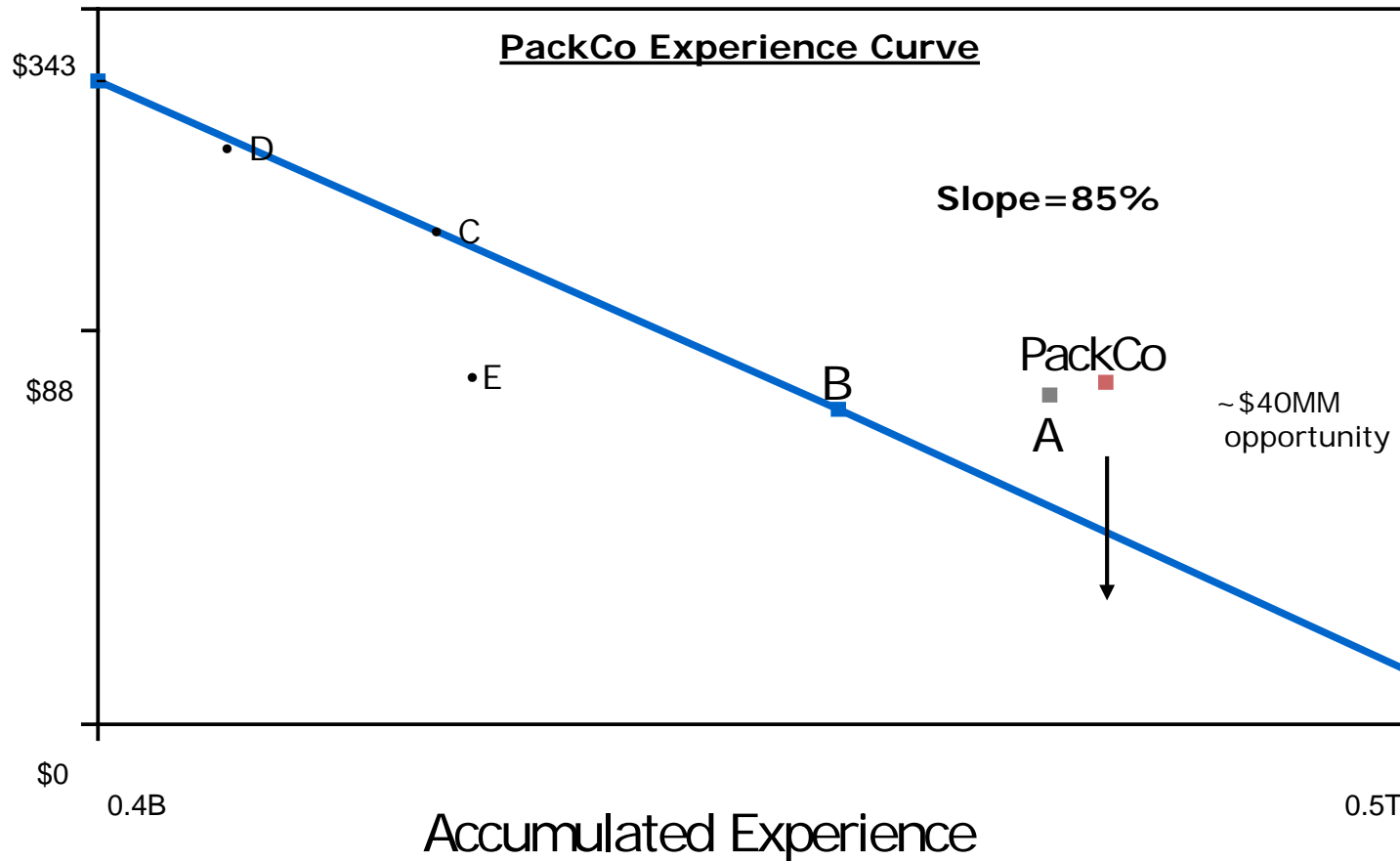
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Due to its greater accumulated experience, PackCo should realize a cost advantage vs. competitors

Cost \$/M



Note: Chart is in Natural Log (LN) scale

Source: Bain & Company

Key Success Factors – Full Potential

- Define “full potential” using outside-in, fact-based approach
- 100 day plan ready for day one of ownership
- Focused vision; aggressive management of assets
- Invest to support and grow the business
- Challenge management and organization

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Key Success Factors – Cyclical Plays

- Understand drivers of cyclicality
- Build robust forecast of the cycle
- Understand competitor, customer and supplier behavior through the cycle

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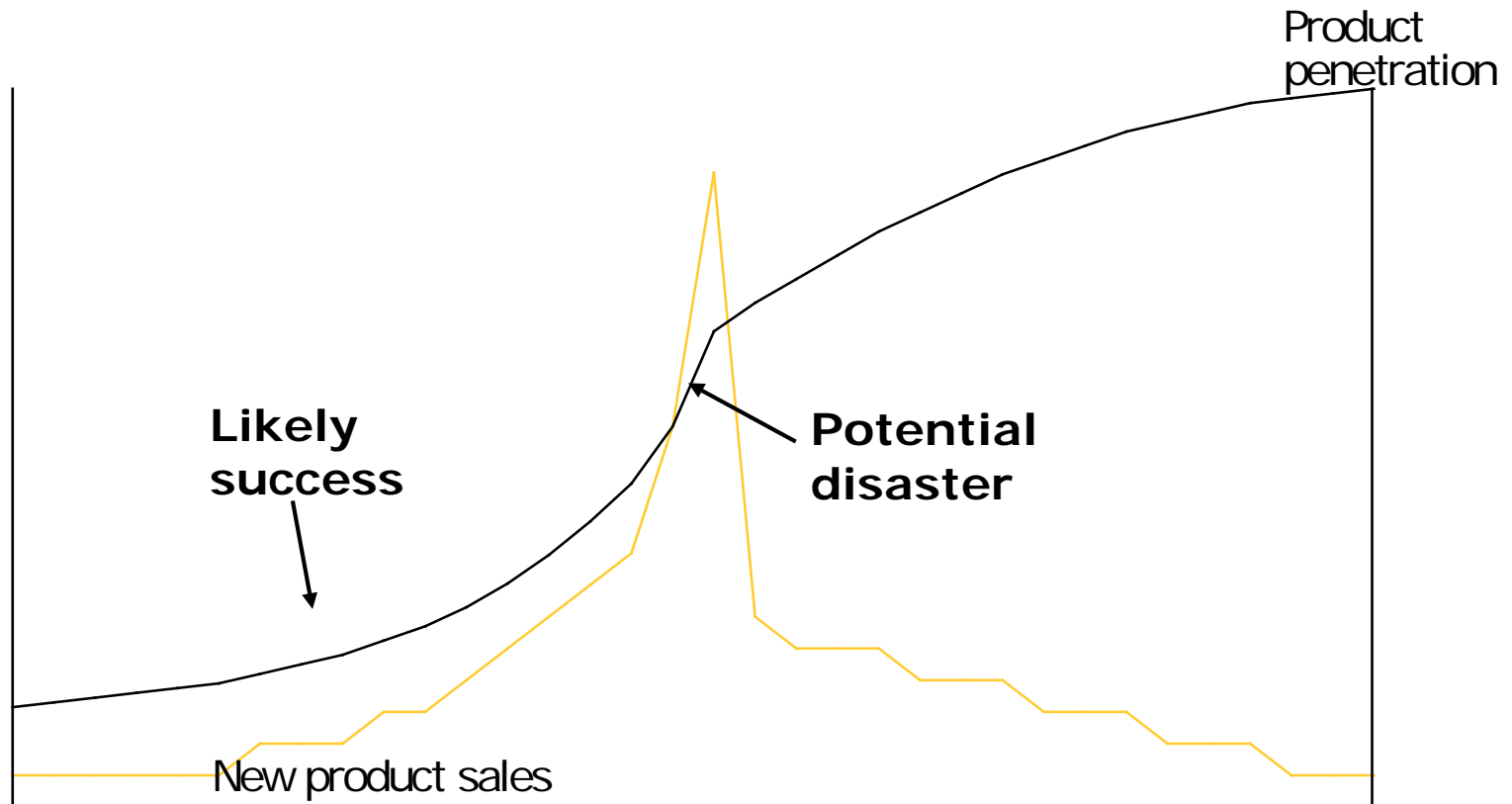
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Insights into industry changes can lead to successful investment decisions



Advanced Drainage Systems



ADVANCED DRAINAGE SYSTEMS, INC.



Key Success Factors – Sector Evolution

- Understand key trends affecting industry
- Realistic forecasting and scenario modeling
- Question straight-line projections of growth
- Know penetration curve and inflection point

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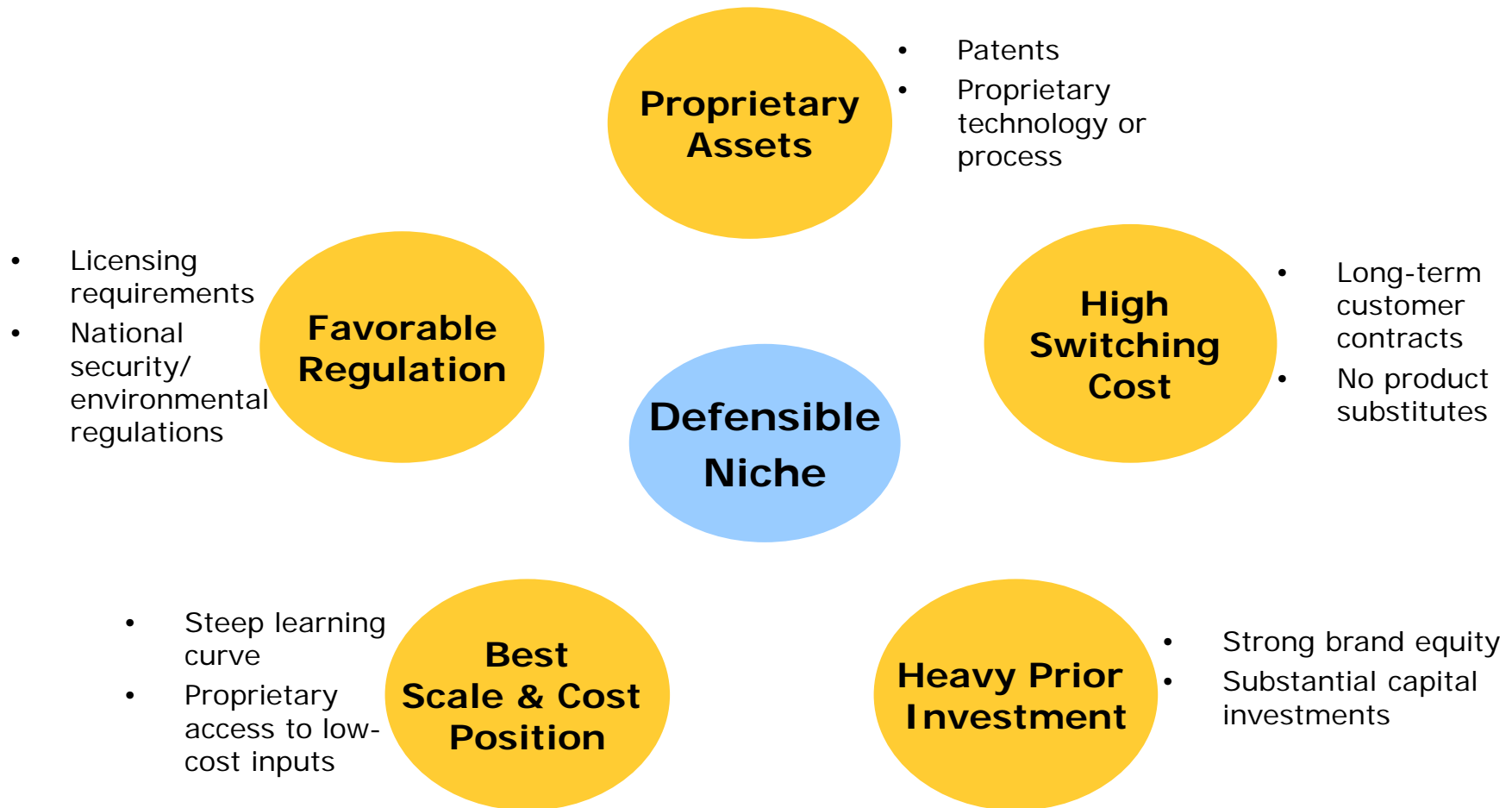
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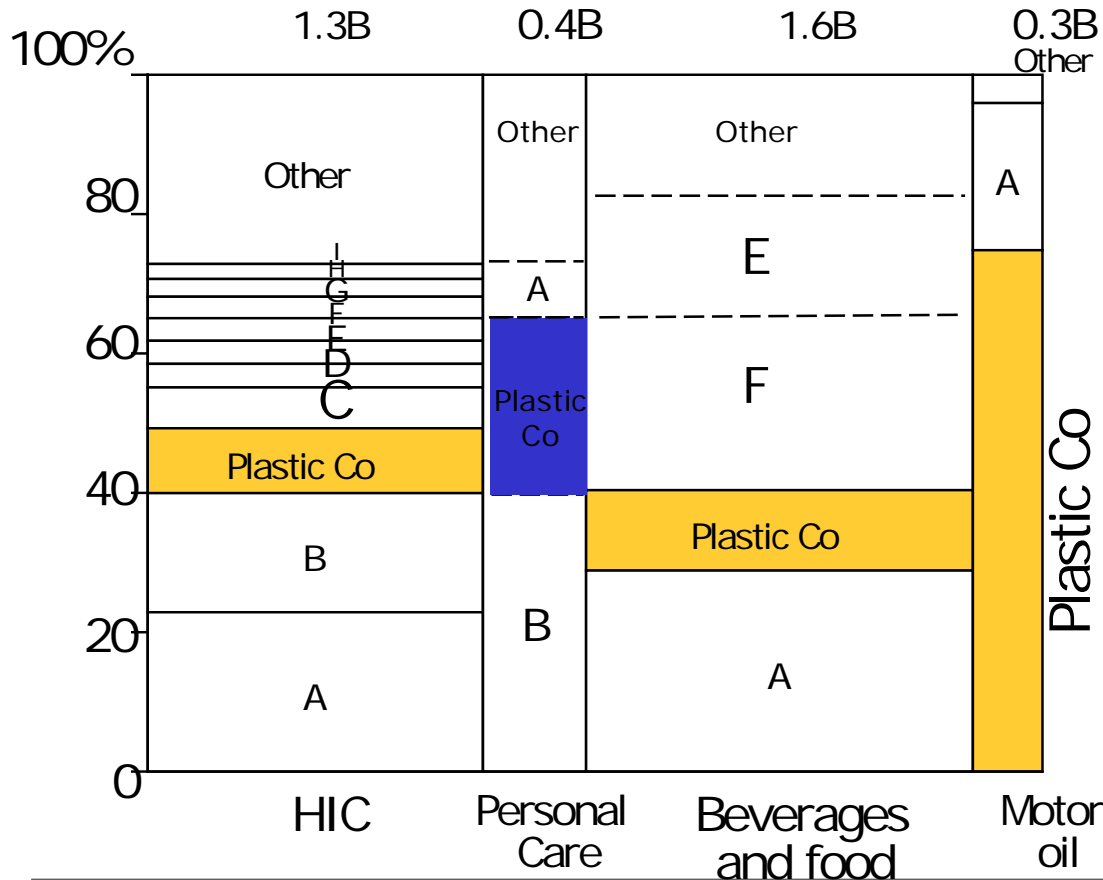
- Turnaround ailing player in fundamentally stable market

Ensuring there are defensible barriers to entry is critical in a niche play

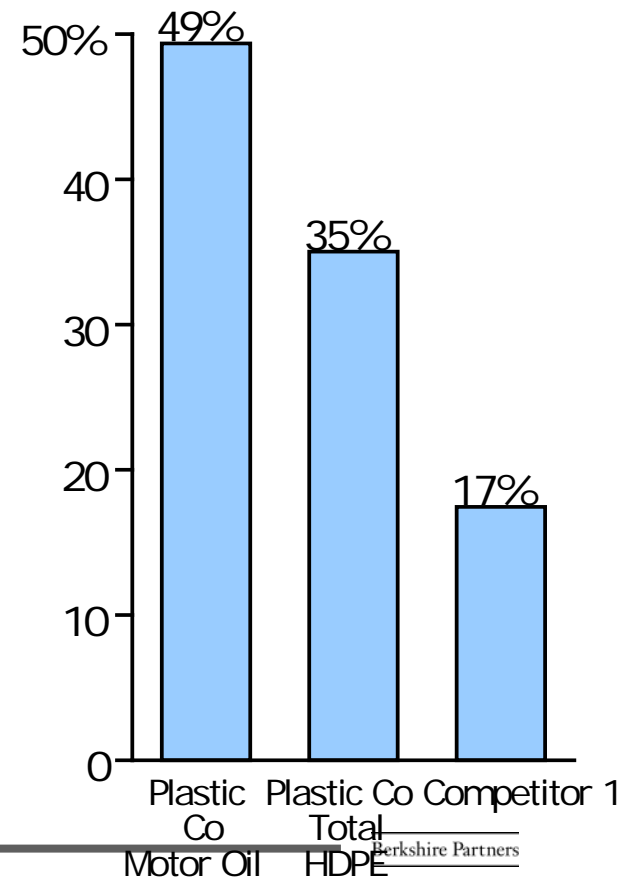


Plastic Co had a highly profitable niche position in motor oil containers

North American Blow-molded HDPE Market - Total Pounds (%)



EBITDA Margin Comparison (% of Sales)



Note: Dashed lines indicate estimates

Source: Freedonia; Plastics World; Paine Webber; Company Financials; Bain & Company

Key Success Factors – Niche

- Differentiate defensible niche vs. “bubbles”
- Identify switching costs for customers
- Evaluate adjacent niche businesses
- Know upside and exit opportunities
- Cost and cash management across value chain

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Key Success Factors – Turnarounds

- Focus on core strategic platforms
- Act quickly to get control
- Exit unprofitable, non-core business
- Look to balance sheet for value
- Seek proven operators with turnaround experience
- Align management and staff incentives

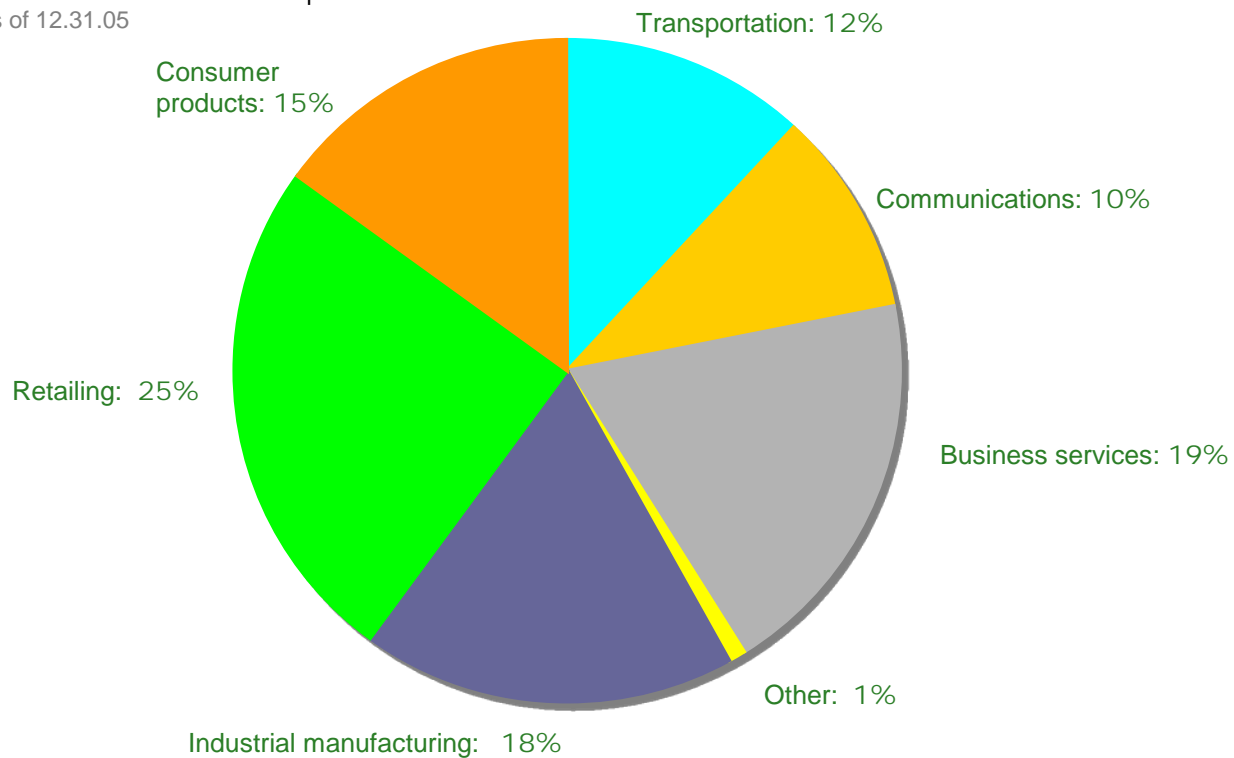
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Berkshire Partners Overview

Berkshire's investments have been concentrated in six areas in both the U.S. and overseas.

Percent of invested capital
as of 12.31.05



Berkshire Partners Overview

Fund VI Investor Base - Representative Investors

Berkshire has experienced tremendous continuity in its investor base. Berkshire's team invests significantly alongside our investors in each transaction we complete.

University Endowments:

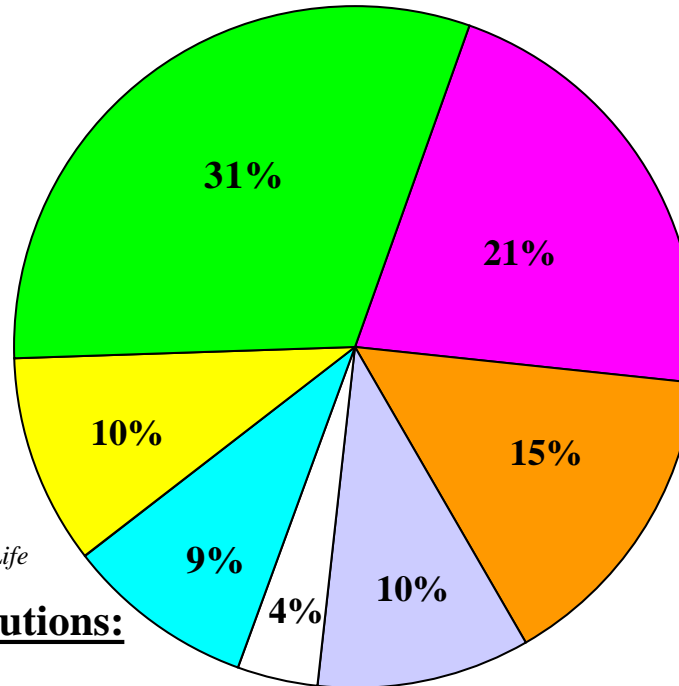
*Dartmouth
Harvard
M.I.T.
Univ. of Michigan
Univ. of Pennsylvania
Princeton
Stanford
The CommonFund
Williams
Yale*

Insurance:

*AIG Global
New York Life
Northwestern Mutual Life*

Financial Institutions:

*Adams Street Partners
Bank of America
GE Capital
Goldman Sachs
HarbourVest Partners*



Special Relationships:

*Berkshire CEOs, etc.
Other entrepreneurs*

Pensions:

*Calpers/Grove Street
EDS
IBM
L.A. County Employees
Lockheed Martin
Massachusetts PRIM
State of Michigan Employees*

Foundations:

*Carnegie Foundation
Ford Foundation
Hewlett Foundation
Howard Hughes Medical Institute
Investment Fund for Foundations
Robert Wood Johnson Foundation
Metropolitan Museum of Art
Rockefeller Foundation*

Non U.S. Institutions:

*Allianz
Government of Singapore
Ontario Municipal Employees
Wellcome Trust*

Berkshire Partners Types of Exit

Berkshire consistently exits its investments with management's full support.

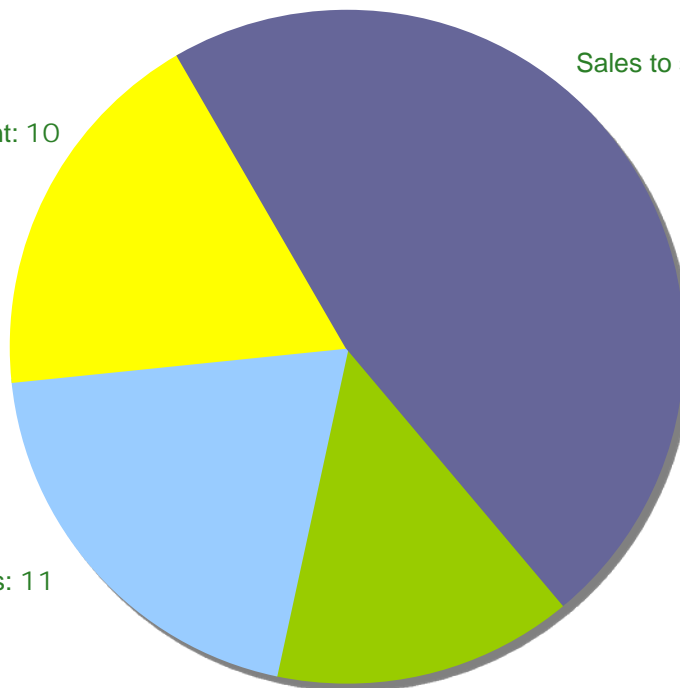
Full realizations
as of 12.31.05

Recapitalizations /
sales to management: 10

Initial public offerings: 11

Sales to strategic buyers: 26

Sales to financial buyers: 8



Berkshire Partners Portfolio Companies



carter's®



ELECTRO-MOTIVE



Holmes



U.S. CAN CORPORATION
Your Global Packaging Solution

savers®

MD
BEAUTY™



Avery Weigh-Tronix

Vi-Jon®

