

# DIAPERS

## BABIES and BOOMERS



### Diaper Parts:

Griffon Corporation	(GFF - \$12.20 – NYSE)
Tredegar Corporation	(TG - \$14.93 – " )

### Diaper Producers

Kimberly Clark Corp.	(KMB - \$63.02 – NYSE)
National Presto Industries, Inc.	(NPK - \$110.97 – " )
Procter & Gamble Co.	(PG - \$60.89 – " )
Paul Hartmann AG	(PHH2 - €170.50 – Frankfurt)
SCA Corporation	(SCAA- 99.45 SEK – Sweden)
Kao Corporation	(4452 - ¥2195 – Tokyo)
Unicharm	(8113 - ¥9080 – " )

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*-Please Refer To Important Disclosures On The Last Page Of This Report-*

**Babies and Boomers**  
*Time for a Change*

**Diaper and Incontinence Industry**

Herein, we provide an update to our 2006 *Babies and Boomers* report to reflect the latest industry statistics and to highlight the demographic changes occurring in the United States and worldwide, particularly the impact of the aging population on the adult and baby diaper markets. Baby diaper growth is driven by market penetration and increased per capita usage among consumers in developing markets. The adult diaper market is growing rapidly as the number of baby boomers in the 65+ age group grows at the fastest rate in history. The growth of these two markets should benefit diaper manufacturers, as well as component suppliers.

**DEMOGRAPHICS**

While the overall worldwide population is growing at a compounded annual rate of 0.7%, the number of 65-79 year-olds is growing at 2.4%, more than three times the overall level. The number of 80+ year-olds is growing at 3.6%, five times the overall level (see Table 1 and Appendix 1 for additional details).

**Table 1** **World Population**

	2000	2010E	2020E	2030E	2040E	2050E	'10-'50 CAGR
(millions)							
World population	6,073	6,857	7,584	8,228	8,774	9,227	0.7%
0-4	609	621	635	626	631	648	0.1
65-79	348	428	580	785	984	1,102	2.4
80+	71	107	147	205	309	438	3.6

Source: U.S. Census Bureau, International Data Base

Disposable diapers are no longer just for infants. It is estimated that approximately 5% of the world population, or 340 million individuals, is affected by incontinence. After age 65, nearly one-third of the population, mostly women who have had children, will suffer from incontinence. As the global population of 65+ year-olds increases, the incontinence market is well positioned to grow rapidly. Greater market penetration, increased acceptance, and product awareness are also important market drivers.

Demographics may be a more positive trend for adult diapers than for baby diapers. There are approximately 135 million births per year, worldwide (see Table 2). In North America, the annual birth rate has remained stable at about 4.5 million births per year. Going forward, however, the demographic trends indicate a potential drop in birth rates. The worldwide birth rate is projected to decline 0.2% over the next 45 years.

**Table 2** Births per year (in millions)

	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2050E</u>
North America	4.3	4.5	4.4	4.5	5.0
Europe	9.8	8.3	7.4	7.4	6.8
Asia	86	83.2	79.4	76.3	63.7
Latin America	<u>11.8</u>	<u>11.7</u>	<u>11.6</u>	<u>11.4</u>	<u>8.2</u>
World	134.2	136.0	133.2	133.9	121.7

*Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision*

Despite this decline in birth rate, the global baby diaper market has tremendous potential to grow by increasing usage in developing markets. In 2050, newborns in developed countries will account for only 13 million of the 122 million global births. Yet despite a heavy concentration of babies in developing markets, per capita consumption of diapers in those markets is significantly lower than in developed countries. According to Svenska Cellulosa Aktiebolaget (SCA) Corp. more than 75% of children in the world under the age of two do not use disposable diapers.

For example, China has nearly 90 million children under the age of four compared to the United States with 13 million. Based on data provided by Proctor & Gamble, we estimate Chinese per capita diaper spending to be about \$0.70 versus \$16.00 in the United States, nearly 23 times less. As income levels grow in the developing markets, consumers realize the convenience and hygienic benefits of disposable diapers and consumption increases. This dynamic provides the underpinning for our belief that the diaper industry has a tremendous potential for growth.

**Table 3** Global Retail Diaper Market

(\$ in millions)	2005		2008		2013E		05'-08'	08'-13'
	U.S.	Global	U.S.	Global	U.S.	Global	Global CAGR	Global CAGR
Baby diapers	\$4,550	\$22,500	\$4,950	\$30,000	\$5,200	\$38,000	10 %	5 %
Adult incontinence (a)	1,900	5,900	2,400	6,800	3,200	9,500	5	7
Total	\$6,450	\$28,100	\$7,350	\$36,800	\$8,400	\$47,500	9 %	5 %

(a) Includes institutional market sales estimates

Source: Gabelli & Company, Inc. estimates, EuroMonitor estimates

**BABY DIAPERS**

The global retail baby diaper market is valued at approximately \$30 billion (Table 3). The two largest diaper manufacturers are Procter & Gamble and Kimberly, which hold 27% and 15% respective market share. In addition two Japanese companies Unicharm and Kao Corporation cumulatively account for approximately 7% of the global market, while SCA Corp., a Stockholm-based consumer goods and paper products company, has about 3% share. We estimate that First Quality, a private company based in Great Neck, NY, became the largest manufacturer of private label diapers in the US after it purchased Covidien’s diaper and incontinence business in 2008. Regional diaper manufacturers control the \$13.5 billion remaining global market. (Table 4).

**Table 4 Major Diaper Manufacturers**

<i>(\$ in millions)</i>	<b>2008 Global Market Share</b>	<b>2008 Sales</b>	<b>Brands</b>	<b>Stock Symbol</b>
Procter & Gamble	27 %	\$ 8,000	Pampers, Luvs	PG
Kimberly-Clark	15	4,600	Huggies	KMB
Unicharm	5	1,600	Mamy Poko, Torepanman	8113 JP
SCA Corp. (Svenska Cellulosa)	3	930	Drypers (Asia), Libero, Treasures	SCAA SS
Kao Corporation	2	630	Merries	4452 JP
First Quality	2	600	Private Label	Private
DSG Int’l	< 1	90	Drypers (US), Fitti	DSGT TB
All others	<u>46</u>	<u>13,550</u>		
<b>Total</b>	<b>100%</b>	<b>\$30,000</b>		

Source: Company data and Gabelli & Company, Inc. estimates

**Retail Pricing (U.S.)**

Babies typically use diapers from birth until about age three, with an average of five changes per day. This equates to over 1,800 diapers per year or 5,400 diapers per child. Each infant diaper costs \$0.20-0.45 at retail, for a total cost of about \$1,800 from birth to toilet training.

Diapers are sold in sizes corresponding to a child’s weight. While package prices remain the same at all sizes fewer units result in higher unit costs for larger diapers. Consumers pay a significant premium for purchasing smaller packages (see Table 5).

**Table 5**

**Baby Diaper Retail Pricing**

Costco					Stop & Shop					Wal-Mart					Diapers.com				
Brand	Size	Count	Price	Per/Unit	Brand	Size	Count	Price	Per/Unit	Brand	Size	Count	Price	Per/Unit	Brand	Size	Count	Price	Per/Unit
Huggies (KMB)	2	258	\$49.99	\$0.19	Huggies (KMB)	1	40	\$10.99	\$0.27	Huggies (KMB)	1	152	\$ 34.98	\$ 0.23	Huggies (KMB)	1	152	\$ 34.99	\$ 0.23
	3	224	49.99	0.22		2	36	10.99	0.31		2	132	34.98	0.27		2	132	34.99	0.27
	4	200	49.99	0.25		3	76	21.99	0.29		3	124	34.98	0.28		3	116	34.99	0.30
	5	176	49.99	0.28		4	64	21.99	0.34		4	108	34.98	0.32		4	100	34.99	0.35
	2-3T	88	37.99	0.43		5	56	21.99	0.39		5	96	34.98	0.36		5	88	34.99	0.40
	3-4T	80	37.99	0.47		2-3T	26	10.99	0.42										
					3-4T	23	10.99	0.48											
Kirkland, Private 1-2	216	39.99	0.19	Pampers (PG)	1	36	11.49	0.32	Pampers (PG)	1	216	40.00	0.19	Pampers (PG)	1	216	41.99	0.19	
	3	208	49.99		0.24	2	36	11.49		0.32	1-2	152	32.50		0.21	2	184	41.99	0.23
	4	186	49.99		0.27	3	76	21.49		0.28	3	140	36.50		0.26	3	160	42.99	0.27
	5	168	49.99		0.30	4	64	21.49		0.34	4	120	36.50		0.30	4	140	42.99	0.31
				5	56	21.49	0.38	5	108	36.50	0.34	5	124	42.99	0.35				
				Stop & Shop Private label	56	6.49	0.12												
					2	48	6.49	0.14											
					3	76	15.99	0.21											
					4	64	15.99	0.25											
					5	56	15.99	0.29											

Source: Internet prices, retail outlet price checks

**ADULT INCONTINENCE MARKET**

The global adult incontinence market is estimated to be around \$6.8 billion (approximately 17mn units) and is expected to grow at a rate of about 6-7% over the next five years. There are many small, privately held companies that manufacture diapers for the incontinence market. Publicly-traded firms include: SCA Corp., which controls 27% of the market; German-based Paul-Hartmann AG, which sells primarily in Europe and has 11% share; Kimberly-Clark, the US leader, which has 10% share; and the Japanese company Unicharm, which has 6% global share (see Table 6). Another smaller, public manufacturer is National Presto Industries, Inc, which generates approximately \$73 million in sales from diapers, adult incontinence products and pads for dogs for its customer, Medline Industries.

**Table 6** **Incontinence Diaper Market Share**

*(\$ in millions)*

	<b><u>2008 Global Market Share</u></b>	<b><u>2008 Sales</u></b>	<b><u>Brands</u></b>	<b><u>Stock Symbol</u></b>
SCA Corp.	27%	\$1,800	TENA	SCAA SS
Paul Hartmann AG	11	730	MoliCare	PHH2 GR
Kimberly-Clark	10	680	Poise, Depend	KMB
First Quality	7	480	Prevail	Private
Unicharm	6	400	Lifree	8113 JP
All others	<u>39</u>	<u>2,710</u>		
<b>Total</b>	<b>100%</b>	<b>\$6,800</b>		

*Source: Company Reports, Gabelli & Company, Inc. estimates. Swedish Krona = \$0.137, Euro = \$0.696, Yen \$0.0109*

**Retail Pricing**

In developed regions such as the US, Europe, and Japan, a large portion of incontinence product sales are to institutions. In less-developed areas, products are mainly distributed through retail stores. Outside the U.S., incontinence products may be subsidized by public healthcare or insurance.

Consumption in North America, which has the highest usage rates, is approximately 400 products annually per user. As 85% of incontinence sufferers are female, and assuming an average female life expectancy of 80 years, a woman rendered incontinent at age 70 will have ten years of product use, totaling an average of 4,000 diapers.

Each adult incontinence product costs \$0.35-1.00 at retail, for an annual average cost of \$270, or a total cost of about \$2,700 per lifetime. Table 7 provides price comparison for adult diapers across various distribution channels.

**Table 7 Incontinence Diaper Retail Pricing**

<u>Store</u>	<u>Brand</u>	<u>Product</u>	<u>Count</u>	<u>Price</u>	<u>Price Per Unit</u>
<b>Costco</b>	Depend (KMB)	Underwear	80	\$49.99	\$0.62
	Poise ( " )	Pads	144	49.99	0.35
<b>Super Stop &amp; Shop</b>	Depend (KMB)	Underwear	18	12.99	0.72
	Poise ( " )	Pads	36	13.99	0.39
	Serenity/TENA (SCA)	Underwear	16	13.99	0.87
	Serenity ( " )	Pads	36	13.99	0.39
	Private Label	Underwear	18	10.99	0.61
<b>Wal-Mart</b>	Depend (KMB)	Underwear	18	12.62	0.70
	Poise ( " )	Pads	36	15.28	0.42
	Serenity/TENA (SCA)	Underwear	16	11.94	0.75
	Private Label	"	16	10.47	0.65
<b>Drugstore.com</b>	Depend (KMB)	Underwear	18	13.99	0.78
	Poise ( " )	Pads	36	15.99	0.44
	Serenity/TENA (SCA)	Underwear	16	15.99	1.00
	Serenity ( " )	"	10	9.99	1.00

Source: Internet prices, retail outlet price checks

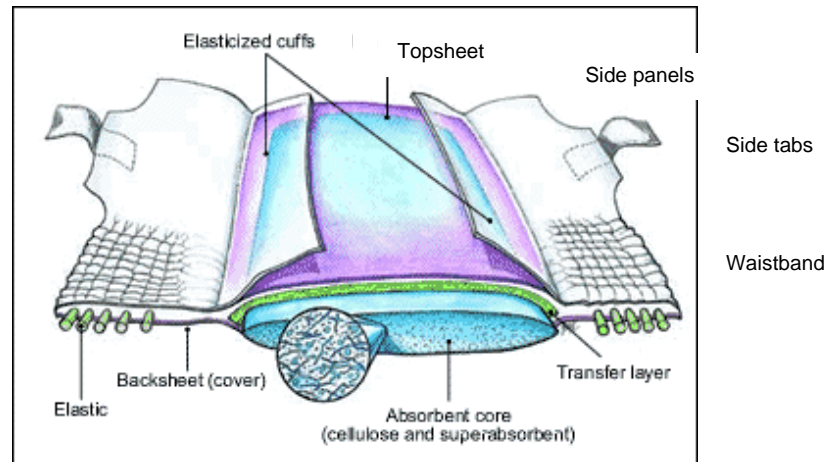
**DIAPER COMPONENTS:**

**Parts Make up the Whole**

A diaper is made up of eight parts:

1. Topsheet
2. Distribution transfer layer
3. Absorbent pad core
4. Backsheet
5. Side tabs
6. Elasticized waistband
7. Side panels
8. Elasticized leg cuffs

**Exhibit 1**



Source: Contemporary Pediatrics

The most critical diaper component is the absorbent pad core, which holds all the moisture, and is typically made of wood pulp and SAPs (superabsorbent polymers). This pad is sandwiched behind a transfer layer and topsheet on one side, and a backsheet on the other, all made of polyethylene. The diaper is finished with side tabs, side panels, an elasticized waistband and elasticized leg cuffs (see Exhibit 1).

While many diaper component manufacturers are subsidiaries of larger companies or are private, a few are publicly traded, including Tredegar Corporation and Griffon Corporation in the U.S. Exhibit 2 and 8 provide product and financial comparisons between the two companies.

Tredegar manufactures five of the eight diaper components: the topsheet for both baby and adult diapers, as well as the transfer layer, waistband, side panel, and elasticized leg cuffs for baby diapers only. Tredegar’s total diaper-related sales were \$172 million in 2008, of which adult incontinence represented 18%. The bulk of TG’s sales are to Procter & Gamble, with smaller amounts to Kimberly-Clark and SCA.

Griffon manufactures the backsheet for both baby and adult products as well as elastic waistbands for baby products. Backsheets for baby and adult diapers represent about 35% of total Griffon sales, of which about \$400 million is for baby diapers and approximately \$40 million for adult. The vast majority of Griffon’s backsheet sales are to Procter & Gamble.

**Exhibit 2 Diaper Component Companies**

	Topsheet	Transfer Layer	Pad Core	Backsheet	Side tabs	Waist-band	Side panels	Leg Cuffs
<b>Tredegar</b>	Baby & Adult	Baby	-	-	-	Baby	Baby	Baby
<b>Griffon</b>	-	-	-	Baby & Adult	-	Baby	-	-

Source: Company data



Table 8

**Component Manufacturer Comparison  
Capitalization and Income Statement**

Specialty Film Products (in millions, except per share data)	Griffon Corp (NYSE: GFF)		Tredegar (NYSE: TG)		
12-Month High/Low	\$12.75	\$5.85	\$18.89	\$12.61	
<b>CAPITALIZATION:</b>	FYE 09/30		FYE 12/31		
<b>Balance Sheet as of:</b>	9/30/09		9/30/09		
Shares Outstanding	58.8		33.9		
Options/Converts	0.6		-		
Fully Diluted Shares Outstanding	59.4		33.9		
<b>Price @ 1/13/2010</b>	\$ 12.20		\$ 14.93		
Equity Market Capitalization	725		507		
Total Debt and Preferred Stock	280		2		
Cash and Equivalents	421		(82)		
<b>Total Enterprise Value</b>	<b>\$ 584</b>		<b>\$ 427</b>		
<b>Dividend &amp; Current Yield</b>	\$ -	0.0 %	\$ 0.16	1.1 %	
<b>INCOME STATEMENT:</b>					
<b>Net Revenues</b>	2010P	\$ 1,315	6.7 %	\$ 688	4.0 %
(g rowth)	2009E	1,232	3.3	662	-25.1
	2008A	1,193	-6.0	884	-4.3
5-Yr CAGR		6.0%		-0.6%	
<b>EBITDA</b>	2010P	\$ 118	9.0 %	\$ 104	15.1 %
(margin)	2009E	101	8.2	93	14.1
	2008A	69	5.8	98	11.1
5-Yr CAGR		19.2%		8.0%	
<b>EPS - Normalized</b>	2010P	\$ 0.80	30.3 %	\$ 1.28	25.8 %
(growth)	2009E	0.62	67.3	1.02	7.1
	2008A	0.37	-7.8	0.95	-4.8
5-Yr CAGR		28.6%		18.3%	
<b>BUSINESS SEGMENTS:</b>	<u>Garage Doors</u>		<u>Aluminum Extrusions</u>		
<b>1) EBITDA</b>	2010P	\$ 40	9.2 %	\$ 8	4.3 %
(% Margin)	2009E	30	7.3	5	2.8
	2008A	2	0.5	18	5.3
<b>2) EBITDA</b>	2010P	\$ 50	11.0 %		
(% Margin)	2009E	46	10.9		
	2008A	42	10.7		
<b>3) EBITDA</b>	2010P	\$ 47	11.3 %	\$ 107	22.5 %
(% Margin)	2009E	45	11.3	100	22.0
	2008A	46	11.1	89	16.9
<b>LEVERAGE STATISTICS:</b>					
Total Debt/EBITDA		2.8x		0.0x	
EBITDA / Interest Exp.		N/A		84.6	
Net Debt / TEV		-24.2%		-18.8%	
<b>VALUATION:</b>					
<b>Private Market Value</b>	2010P	\$ 21	42.7 %	\$ 31	52.3 %
	2009E	19	33.6	27	44.9
	2008A	15	13.0	24	38.0
<b>EV/EBITDA</b>	2010P	4.9	x	4.1	x
	2009E	5.8		4.6	
	2008A	8.5		4.4	
<b>P/E</b>	2010P	15.2	x	11.6	x
	2009E	19.8		14.7	
	2008A	33.1		15.7	

Source: Company filings and Gabelli & Company, Inc. estimates.

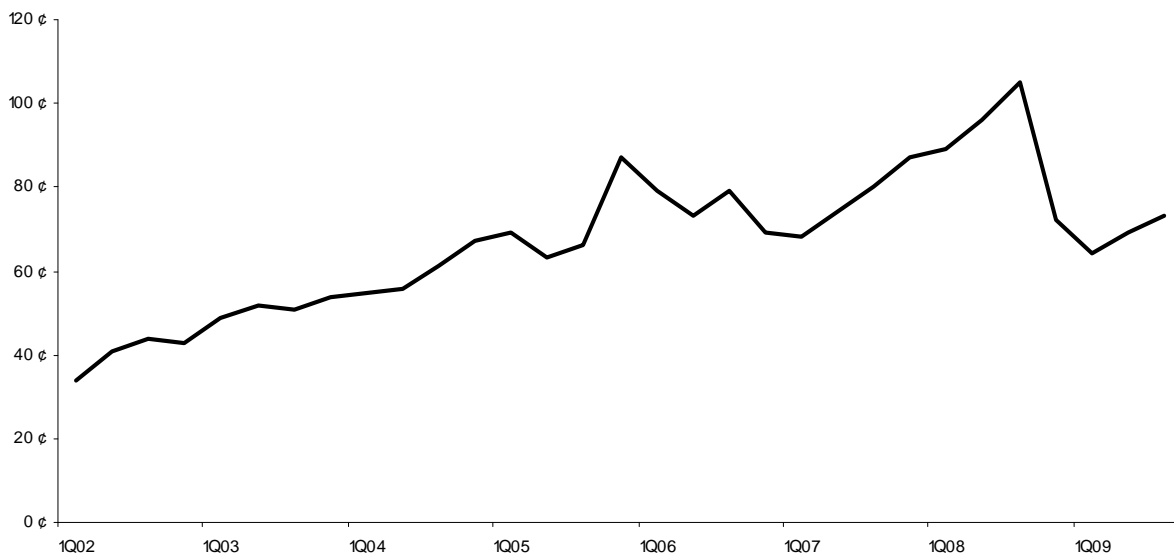
GFF is on a September FY. All 2009 GFF financials are actual results.

Griffon and Tredegar sell to the diaper manufacturers. Diaper manufacturers that focus on consumer products outsource most component production. Diaper manufacturers whose primary business is forest products such as Kimberly-Clark (historically), or SCA (currently; 45% of SCA’s sales are for forest products and packaging; 34% for tissue) make their own pad cores, and buy the other components. Since Tredegar and Griffon manufacture diaper components except the absorbent pad core, diaper manufacturers needing to outsource the production of pad core rely on private companies such as First Quality and BBA Fiberweb plc.

**Raw Materials**

Prices of HDPE (polyethylene) resin that is the primary raw ingredient for the diaper sheets, increased throughout 2008, rising to over \$1.00 per pound. Today, however, polyethylene is about \$0.73 per pound, providing a significant cost saving that is working its way through these companies’ income statements. In this declining resin-cost environment, companies like Tredegar and Griffon benefit because there is a 90-day lag on their pass-through contracts, allowing them to buy resin cheap on the spot market but not pass through the lower costs for 90 days.

**Exhibit 3 HDPE (Polyethylene) Resin Prices (¢/lb)**



Source: Tredegar company data

In sum, while large, diversified companies dominate the global diaper market, component suppliers can offer an alternative where diapers represent a meaningful percentage of the company’s sales. Griffon and Tredegar are examples of such “diaper plays” and as demographics shift towards an aging population, increasing demand for incontinence products, GFF and TG are poised to capitalize on the trend for the foreseeable future.

**Griffon Corp (GFF - \$12.20 - NYSE)**

**Ready to Rise - BUY**

<u>FYE (09/30)</u>	<u>EPS</u>	<u>P/E</u>	<u>PMV</u>		
2012P	\$1.00	12.5x	\$24	Dividend: None	Current Return: Nil
2011P	0.85	15.0	21	Shares O/S: 59.0 million	
2010E	0.65	19.8	19	52-Week High/Low: \$12.75 - \$5.85	
2009A	0.37	33.1	15		

**SUMMARY AND OPINION**

Griffon Corporation, based in Jericho, NY, operates three businesses: Clopay Garage Doors, which manufactures residential garage doors; Specialty Plastic Films, which develops embossed, laminated, and printed plastic films, used as moisture barriers in baby diapers and adult incontinence products; and Telephonics, which manufactures a variety of electronic systems used in defense and commercial markets worldwide. For fiscal year ended September 30, 2009, Griffon generated revenues of \$1.2 billion and EBITDA of \$69 million. Table 9 outlines the historical revenue and EBITDA results for the company and our EPS projections through FY 2014.

**Table 9 Griffon Corp Income Statement  
2005A-2014P**

<u>FYE September 30,</u> <i>(\$ in millions, except per share amounts)</i>	<u>2005A</u>	<u>2006A</u>	<u>2007A</u>	<u>2008A</u>	<u>2009A</u>	<u>2010E</u>	<u>2011P</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>CAGR</u> <u>'09A-'14P</u>
Revenue (1)											
Specialty Plastic Films	\$370	\$381	\$407	\$468	\$413	\$402	\$418	\$435	\$453	\$471	3%
Telephonics	221	387	473	366	388	421	455	491	531	573	8%
Clopay Garage Doors	532	550	487	435	393	409	441	477	515	556	7%
Installation Services	300	339	-	-	-	-	-	-	-	-	NM
Total	\$1,402	\$1,636	\$1,366	\$1,269	\$1,193	\$1,232	\$1,315	\$1,403	\$1,498	\$1,600	6%
Operating Income (1) (3)											
Specialty Plastic Films	\$32	\$15	\$17	\$20	\$24	\$23	\$25	\$28	\$32	\$35	11%
Telephonics	18	40	46	33	35	39	43	47	52	57	10%
Clopay Garage Doors	38	41	10	(4)	(11)	16	26	33	39	44	28%
Installation Services	9	9	-	-	-	-	-	-	-	-	NM
Total	\$81	\$87	\$54	\$27	\$27	\$62	\$78	\$93	\$106	\$121	18%
Net Income	\$49	\$52	\$26	\$16	\$17	\$43	\$55	\$67	\$77	\$88	
F/D Shares Outstanding (2)	31.4	31.0	33.4	59.0	59.0	65.5	65.5	65.5	65.5	65.5	
Earnings Per Share (Adjusted)	\$1.50	\$1.65	\$0.79	\$0.40	\$0.37	\$0.65	\$0.85	\$1.00	\$1.15	\$1.35	29%
PMV Per Share	\$26	\$27	\$21	\$14	\$15	\$19	\$21	\$24	\$27	\$30	
EBITDA	114	122	93	70	69	105	122	139	153	170	20%
Capex	39	41	30	53	33	34	34	34	34	34	

Source: Company filings and Gabelli & Company, Inc. estimates.

(1) Revenue numbers may not add up due to intersegment eliminations. Operating income numbers may not add up due to corporate eliminations.

(2) In our Pro Forma FY 2010 PMV and EPS calculation, we assume the \$79 million old convert is put and the \$100 million new convert is converted to 6.7 million shares.

(3) Installation Services segment was closed in FY 2007, and classified as a discontinued operation.

We continue to recommend shares of Griffon Corp:

- **Strong, Diverse Brands:** Griffon serves fragmented and diverse markets, and has very strong brands. GFF's Clopay brand dominates the residential garage door market. Likewise, its Telephonics segment provides sophisticated electronic and communication systems to the defense industry. Finally, Specialty Films is one of two dominant suppliers to the diaper industry.

- Solid Balance Sheet: Griffon's annual cash flow has averaged around \$100 million over the past five years, and is projected to grow at nearly 20% over the next five years, as the housing market and the overall economy recover over time. Notably, the company currently has net cash of about \$140 million. The strong cash position should enable Griffon to make acquisitions, win potential contracts and gain customer credibility (e.g. with Proctor & Gamble).
- Management Initiatives: Ron Kramer, who became CEO in 2008, plans to double Griffon's revenues to \$2.5 billion over the next three to four years, mainly through acquisitions. Acquisitions would likely focus on properties within the Garage Door and Telephonics markets. We note that GFF recently appointed Douglas Wetmore as CFO, to add depth to its management team and help grow the company. Mr. Wetmore came from International Flavors and Fragrances, where he gained experience in finance, strategy and planning.
- Attractive Valuation: We expect Griffon to earn \$0.85 per share in FY 2011 and generate EBITDA of \$122 million. The stock is currently trading at 4.9x FY 2011 EBITDA and 15.0x FY 2011 earnings. Based upon our projections, we calculate a fiscal 2011 PMV for Griffon of \$21 per share, using an 8 EBITDA multiple to value Specialty Plastic Films segment, a 7 EBITDA multiple to value Garage Doors, and an 8 EBITDA multiple to value Telephonics. We also assume a 6% revenue growth rate over the next five years (see Tables 9 and 10).

**Table 10** **Griffon Corp Private Market Value**  
**2005A-2014P**

FYE September 30, <i>(\$ in millions, except per share amounts)</i>		2005A	2006A	2007A	2008A	2009A	2010E	2011P	2012P	2013P	2014P	CAGR '09A-'14P
<u>Specialty Plastic Films</u>	Total Revenues	\$370	\$381	\$407	\$468	\$413	\$402	\$418	\$435	\$453	\$471	2.7 %
	EBITDA	47	32	38	43	46	45	47	51	55	59	5.3
	Valuation Multiple	8	8	8	8	8	8	8	8	8	8	
	Segment Value	\$376	\$257	\$305	\$340	\$367	\$362	\$377	\$410	\$437	\$474	
<u>Telephonics</u>	Total Revenues	\$221	\$387	\$473	\$366	\$388	\$421	\$455	\$491	\$531	\$573	8.1 %
	EBITDA	23	45	52	39	42	46	50	55	60	66	9.8
	Valuation Multiple	8	8	8	8	8	8	8	8	8	8	
	Segment Value	\$184	\$359	\$413	\$315	\$332	\$366	\$402	\$441	\$484	\$530	
<u>Clopay Garage Doors</u>	Total Revenues	\$532	\$550	\$487	\$435	\$393	\$409	\$441	\$477	\$515	\$556	7.2 %
	EBITDA	46	50	21	8	2	30	40	48	54	60	98.6
	Valuation Multiple	7	7	7	7	7	7	7	7	7	7	
	Segment Value	\$321	\$348	\$144	\$54	\$14	\$209	\$283	\$335	\$375	\$420	
<u>Installation Services (3)</u>	Total Revenues	\$300	\$339	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
	EBITDA	11	11	-	-	-	-	-	-	-	-	
	Valuation Multiple	4	4	-	-	-	-	-	-	-	-	
	Segment Value	\$44	\$44	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Total Private Market Value		\$924	\$1,009	\$862	\$709	\$713	\$937	\$1,062	\$1,187	\$1,297	\$1,425	
Less Net Debt (plus Net Cash) (2)		(153)	(195)	(150)	104	141	278	327	388	459	542	
Less: Option Payments <sup>(1)</sup>		(2)	(4)	(3)	(1)	(1)	(2)	(2)	(3)	(4)	(4)	
<b>EQUITY PRIVATE MARKET VALUE</b>		<b>\$770</b>	<b>\$810</b>	<b>\$710</b>	<b>\$813</b>	<b>\$853</b>	<b>\$1,213</b>	<b>\$1,386</b>	<b>\$1,571</b>	<b>\$1,752</b>	<b>\$1,962</b>	
Shares Outstanding (Basic)		29.8	29.9	33.4	58.8	58.8	65.5	65.5	65.5	65.5	65.5	
<b>PMV PER SHARE</b>		<b>\$26</b>	<b>\$27</b>	<b>\$21</b>	<b>\$14</b>	<b>\$15</b>	<b>\$19</b>	<b>\$21</b>	<b>\$24</b>	<b>\$27</b>	<b>\$30</b>	
<i>Discount to Private Market Value</i>							16%	34%	42%	49%	54%	59%

Source: Company filings and Gabelli & Company, Inc. estimates.

Note: (1) Includes after-tax payments to buy out option holders at the Private Market Value.

(2) GFF has a 4% \$79 million convertible bond due 07/18/2023, callable and puttable after 7/26/2010, convertible to 41,4422 shares or \$24.13 per share. Further, GFF recently issued a \$100 million 4% convertible note due 2017 (Conversion price is \$14.91, or 67.0799 shares.) For FY 2010 net debt calculation, we assume the \$79 million old convert is put and the new \$100 million convert is converted to 6.7 million shares.

(3) Installation Services segment was closed in FY 2007, and classified as a discontinued operation.

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## Gabelli & Company, Inc.

### Tredegar Corporation (TG - \$14.93 - NYSE)

### Demographics Play- BUY

Year	EPS	P/E	PMV	Dividend: \$0.16	Current Return: 1.1%
2011P	\$1.60	9.2x	\$37	Shares O/S: 33.9 million	
2010P	1.30	11.7	31	52-Week High/Low: \$18.89 - \$12.61	
2009E	1.00	14.7	27		
2008A	0.95	15.7	24		

### SUMMARY AND OPINION

Tredegar Corporation, based in Richmond, VA, manufactures plastic films and aluminum extrusions. The Film Products segment, which accounts for roughly two-thirds of revenues and nearly 85% of EBITDA, manufactures plastic films, elastics, and nonwovens primarily for personal and household care products, and packaging and surface protection applications. The Aluminum Extrusions segment produces aluminum extrusions primarily for building and construction, distribution, transportation, machinery, electrical and consumer durables markets. In 2008, Tredegar generated revenues of \$885 million and EBITDA of approximately \$100 million. Table 11 outlines the historical revenue and EBITDA results for the company and our projections through 2013.

**Table 11** **Tredegar Corporation Income Statement**  
**2004A-2013P**

FYE December 31, (\$ in millions, except per share amounts)	2004	2005A	2006A	2007A	2008A	2009E	2010P	2011P	2012P	2013P	CAGR '09E-'13P
Revenue	\$877	\$876	\$955	\$924	\$884	\$662	\$689	\$740	\$796	\$857	6.6%
Cost of Goods Sold	740	835	805	768	748	530	551	588	633	684	
Gross Profit	\$137	\$54	\$149	\$155	\$136	\$132	\$137	\$152	\$162	\$173	
SG&A	75	74	75	79	70	68	65	67	68	69	
Operating Income	\$46	(\$30)	\$63	\$65	\$55	\$52	\$61	\$74	\$84	\$93	
Interest Expense (Income)	3	5	5	3	2	(1)	(6)	(10)	(16)	(22)	
Pre-Tax Income	\$35	(\$54)	\$55	\$59	\$48	\$52	\$67	\$84	\$99	\$115	
Income Tax Expense	9	10	20	25	17	18	23	30	35	40	
Net Income (Adjusted)	\$34	(\$49)	\$35	\$34	\$31	\$34	\$43	\$55	\$65	\$75	22.1%
F/D Shares Outstanding	38.5	38.6	38.9	38.7	34.1	33.9	33.9	33.9	33.9	33.9	
Earnings Per Share (Adjusted)	\$0.88	-\$1.26	\$0.91	\$1.00	\$0.95	\$1.00	\$1.30	\$1.60	\$1.90	\$2.20	21.9%
EBITDA	\$81	\$91	\$103	\$108	\$98	\$93	\$105	\$120	\$133	\$144	
Capex	\$55	\$62	\$40	\$20	\$21	\$39	\$30	\$30	\$30	\$30	

Source: Company filings and Gabelli & Company, Inc. estimates.

We recommend shares of Tredegar:

- **New Management:** In November 2009, Tredegar appointed Nancy Taylor to succeed John Gottwald as CEO, effective January 31, 2010. Ms. Taylor, 49, currently is the president of Tredegar Film Products, and was instrumental in improving the financial performance of the division. More recently, Tredegar appointed Kevin O'Leary as CFO. Prior to Tredegar, Mr. O'Leary held several financial, strategic, and advisory roles at Avery

Dennison, General Electric and The Berkshire Group, a private equity firm based in Boston.

- Expanding Film Portfolio: Revenues and operating income for the Film Products segment continue to improve, due to sales of higher value elastics for adult incontinence markets; apertured topsheets for feminine hygiene products (including a new feminine pad topsheet for Proctor & Gamble); and surface protection films, which had a CAGR of 31% over the past five years.
- Robust Cash Flow Generation: On average, Tredegar has generated nearly \$100 million in EBITDA in each of the past ten years, and we expect the company to generate approximately \$105 million in EBITDA in 2010. Capital expenditures are expected to be about \$30 million in 2010.
- Stronger Balance Sheet: As a result of strong cash flow, the company currently (as of 09/30/09) has net cash of \$80 million compared with net debt of \$90 million in 2005. To make use of its available cash flow, the company repurchased 106,000 shares for \$1.5 million in 2009 (as of 09/30/09), 1.1 million shares for \$16 million in 2008, and 4.8 million shares for \$77 million in 2007. Tredegar currently has 3.8 million shares remaining for repurchase under its current buyback program.
- Attractive Valuation: Our 2010 PMV for Tredegar is \$31 per share, growing to \$37 per share in 2011. We use an 8 EBITDA multiple to value Film Products and a 5 EBITDA multiple to value Aluminum Extrusions (see Table 12). We also assume a 7% annual revenue growth rate and 40 basis points margin improvement, on average, per year.

**Table 12** **Tredegar Corporation Private Market Value**  
**2004A-2013P**

FYE December 31, <i>(\$ in millions, except per share amounts)</i>		2004	2005A	2006A	2007A	2008A	2009E	2010P	2011P	2012P	2013P	CAGR '09E-'13P
<u>Film Products</u>	Total Revenues	\$413	\$460	\$511	\$531	\$523	\$454	\$477	\$510	\$546	\$584	6.5 %
	<b>EBITDA</b>	65	72	89	94	89	100	107	116	127	137	8.3
	Valuation Multiple	8	8	8	8	8	8	8	8	8	8	
	Segment Value	\$522	\$573	\$715	\$748	\$708	\$799	\$857	\$930	\$1,016	\$1,099	
<u>Aluminum Extrusions</u>	Total Revenues	\$425	\$312	\$416	\$372	\$340	\$184	\$184	\$203	\$223	\$245	7.4 %
	<b>EBITDA</b>	34	35	27	25	18	5	8	15	17	18	36.8
	Valuation Multiple	5	5	5	5	5	5	5	5	5	5	
	Segment Value	\$168	\$174	\$134	\$125	\$91	\$26	\$40	\$73	\$84	\$89	
Total Private Market Value	\$755	\$812	\$849	\$873	\$799	\$825	\$897	\$1,002	\$1,100	\$1,189		
Less Net Debt (Plus Net Cash)	(80)	(90)	(22)	(34)	23	100	174	263	371	496		
Less: Option Payments <sup>(1)</sup>	(1)	(1)	(2)	(4)	(4)	(5)	(7)	(10)	(12)	(15)		
<b>EQUITY PRIVATE MARKET VALUE</b>	\$673	\$721	\$825	\$836	\$818	\$920	\$1,063	\$1,256	\$1,458	\$1,669		
Shares Outstanding (Basic)	38.6	38.7	39.3	34.8	33.9	33.9	33.9	33.9	33.9	33.9	33.9	
<b>PMV PER SHARE</b>	<b>\$17</b>	<b>\$19</b>	<b>\$21</b>	<b>\$24</b>	<b>\$24</b>	<b>\$27</b>	<b>\$31</b>	<b>\$37</b>	<b>\$43</b>	<b>\$49</b>		
<i>Discount to Private Market Value</i>						38%	45%	52%	60%	65%	70%	

Source: Company filings and Gabelli & Company, Inc. estimates.

Note:(1) Includes after-tax payments to buy out option holders at the Private Market Value.

Risks to our valuation include continued slowdown in commercial construction, a significant escalation of resin or energy prices, and loss of P&G business (TG's largest customer).

**Appendix 1: Population forecast by Region**

	<b>2000</b>	<b>2010</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>	<b>'10-'50 CAGR</b>
<b><u>North America</u></b>							
Total	485	539	595	649	698	743	0.81%
0-4	41	42	43	44	45	47	0.28
65-79	36	42	61	80	88	95	2.06
80+	12	16	19	28	40	50	2.89
<b><u>Europe</u></b>							
Total	731	727	718	701	677	648	-0.29%
0-4	37	37	34	31	30	29	-0.61
65-79	86	88	100	119	121	118	2.69
80+	22	31	39	45	59	68	4.32
<b><u>Asia</u></b>							
Total	3,686	4,120	4,509	4,811	5,015	5,131	0.55%
0-4	363	348	345	321	310	302	-0.35
65-79	185	240	338	472	627	694	2.69
80+	28	48	73	107	169	261	4.32
<b><u>South America</u></b>							
Total	348	396	440	477	504	520	0.68%
0-4	36	36	35	33	32	30	-0.45
65-79	17	22	32	46	59	70	2.94
80+	3	5	8	12	19	27	4.31
<b><u>All Other</u></b>							
Total	803	1,048	1,294	1,563	1,854	2,161	1.83%
0-4	129	157	176	195	213	228	-0.94
65-79	22	32	45	63	85	122	3.40
80+	3	5	8	12	19	29	4.49
<b><u>World</u></b>							
Total	6,073	6,857	7,584	8,228	8,897	9,404	0.74%
0-4	609	621	635	626	631	648	0.11
65-79	348	428	580	758	984	1,102	2.39
80+	71	107	147	205	309	436	3.59

Source: U.S. Census Bureau, International Data Base

**COMPANIES MENTIONED:**

Avery Dennison	(AVY	- NYSE)
Costco	(COST	- NASDAQ)
Covidien	(COV	- NYSE)
Drugstore.com	(DSCM	- NASDAQ)
DSG International	(DSGT	-Thailand)
General Electric	(GE	- NYSE)
Griffon Corp	(GFF	- " )
International Flavors & Fragrances	(IFF	- " )
Kao Corp	(4452	- Japan)
Kimberly-Clark	(KMB	- NYSE)
National Presto Industries	(NPK	- " )
Paul Hartmann AG	(PHH2	- Germany)
Proctor & Gamble	(PG	-NYSE)
SCA Corp	(SCAA	-Sweden)
Tredegar Corp	(TG	- NYSE)
Unicharm	(8113	- JP)
Wal-Mart	(WMT	- NYSE)

I, **Zahid Siddique**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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**Important Disclosures**

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