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American Standard NYSE:ASD

Buy

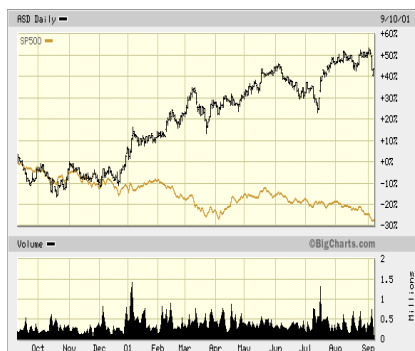
September 10th, 2001

S&P Sector - Industrials

Industry - Capital Goods

MARKET DATA

Price	\$66.30
52 wk range	\$38.50-\$70.90
Price Target	100
Shares Out:	71.9 million
Market Cap:	4.7 billion
Beta	0.58
Book Value	N/A
P/S (ttm)	0.64
P/E (ttm)	14.6
P/FCF (ttm)	8.7



COMPANY OVERVIEW— FROM MARKET GUIDE

American Standard Companies Inc. is a global, diversified manufacturer of brand-name products in three major product groups, air conditioning systems and services, bathroom and kitchen fixtures and fittings, and vehicle control systems for heavy and medium-sized trucks, buses, trailers, luxury cars and sport utility vehicles. The Company's brand names include Trane and American Standard for air conditioning systems, American Standard, Ideal Standard, Standard, Porcher, Jado, Armitage Shanks and Dolomite for plumbing products, and Wabco for vehicle control systems.

Operating Profit Breakdown: AC systems (70%), Plumbing (16%), Vehicle (14%)
56% of revenues in U.S.A, 44% overseas (30% Europe)

INVESTMENT CONCLUSION

- ☐ Buy 150 shares of ASD with a price target of \$100 / share.
- ☐ Sell 100 shares of TYC and 150 shares of GE (see p.2 for explanation)

SUMMARY

- ☐ DCF valuation of \$100 / share: Based on management achieving stated goal of \$500 MM in 2003 FCF, assuming no cash flow growth after 2003 (see page 4 for details)
- ☐ Strategy focused on increasing cash flow including paying down debt, buying back stock, outsourcing manufacturing to low price areas, consolidating purchasing power, and six sigma quality improvement
- ☐ Turnaround play as Frederic Poses (30 year Allied Signal veteran) took over company 20 months ago. So far he has improved quality of earnings and remains on track for cash flow improvement goals.

INDUSTRY INSIGHT

News & Trends

Air conditioning division revenue grew at 5% (excluding foreign currency effects) in the most recent quarter. This compares favorably with the top competitor, Carrier, which showed negative organic revenue growth. Slowing economy has hurt results, but strong housing sector has offset this to some degree as demand for Air Conditioning systems remains strong.

INVESTMENT HIGHLIGHTS

Overall Effect on Wright Fund

The Wright Fund currently owns two other companies (GE, TYC) in the capital equipment segment of Industrials. ASD will provide diversification as it is more of a value stock (price/cash flow: ASD=8.7, GE = 19.6, TYC = 12.1) and is also negatively correlated to both GE and TYC.

Combination	Correlation Coefficient (1 year daily close)
GE/TYC	0.29
GE/ASD	-0.64
TYC/ASD	-0.11

Selling 100 shares of TYC and 150 shares of GE & Buying 150 shares of ASD

Stock	Amount Before	Amount After
GE	\$24,960	\$18,720
TYC	\$14,658	\$ 9,772
ASD	\$ 0	\$ 9,750
TOTAL	\$39,618	\$38,242

Rationale & Risks

Prior to bringing in a new CEO (Frederic Poses) 20 months ago, American Standard was known as a very poorly managed company. One time charges and write-offs were the norm. The company developed negative equity due to mismanagement and a high debt load from a 1988 leveraged buyout.

ASD is focused on increasing free cash flow to \$500 MM by 2003 by reducing capital expenditures, consolidating purchasing, outsourcing manufacturing, paying down debt, lowering the tax rate, and instituting a six sigma quality program. Company is on track with the plan so far with \$100 MM FCF in 2000, and \$70 MM FCF in 1st half of 2001 (a \$47 MM improvement over 1st half of 2000).

Key Risks:

1. Management is unable to meet plan for improving free cash flow.
2. Global economic slowdown continues to worsen.

Recent Results & Guidance

Recent Quarter (7/18/2001):

- EPS of \$1.63 beat consensus by \$0.02, up 11% yoy
- Revenue flat yoy, core revenue up 3% excluding M&A, currency
- 50 bp margin expansion
- mgmt reiterated 13% EPS growth for 2001, implies faster 17% growth in 2nd half but could be achievable as ASD faces easier comps in 2nd half
- Air Conditioning : operating profit up 11% yoy (70% of total)
5% revenue growth w/o FX vs. negative organic growth for competitor Carrier
- Plumbing: operating profit down 14% yoy (16% of total)
1% revenue growth w/o FX
higher ad spending, Home Depot reducing inventories, lower prices in Europe
- Vehicle: operating profits down 8% yoy (14% of total), revenue down 8%

Long Term Targets:

- \$300 MM free cash flow in 2002, \$500 MM in 2003
- 5-6% annual revenue growth, 50 bp annual margin expansion
- 15% annual EPS growth

Recent Annual Financials (from MSN Investor)

Annual Income Statement (\$MM)	Dec-00	Dec-99	Dec-98	Dec-97	Dec-96
Sales	7,598.40	7,189.50	6,653.90	6,007.50	5,804.60
Cost of Sales	5,514.30	5,204.60	4,812.80	4,318.00	4,234.20
Gross Operating Profit	2,084.10	1,984.90	1,841.10	1,689.50	1,570.40
Selling, General & Admin. Expense	1,167.90	1,146.30	1,293.20	979	905.4
Other Taxes	0	0	0	0	0
EBITDA	916.2	838.6	547.9	710.5	665
Depreciation & Amortization	213.4	202	190	164	145.6
EBIT	702.8	636.6	357.9	546.5	519.4
Other Income, Net	17.6	17.4	-4.1	-27.3	-28.3
Total Income Avail for Interest Exp.	708.1	639.3	353.8	428.9	255.9
Interest Expense	198.7	187.8	188.4	192.2	198.2
Minority Interest	0	0	0	0	0
Pre-tax Income	509.4	451.5	165.4	236.7	57.7
Income Taxes	194.2	187.4	131.8	116.9	104.3
Special Income/Charges	-12.3	-14.7	0	-90.3	-235.2
Net Income from Cont. Operations	315.2	264	33.6	119.9	-46.7
Net Income from Discont. Oper.	0	-125.8	0	0	0
Net Income from Total Operations	315.2	138.2	33.6	119.9	-46.7
Normalized Income	327.5	278.7	33.6	210.2	188.5
Other Gains (Losses)	0	0	-49.9	-23.6	0
Total Net Income	315.2	138.2	-16.3	96.3	-46.7
Annual Cash Flow (in Millions)	Dec-00	Dec-99	Dec-98	Dec-97	Dec-96
Cash Flow from Operating Activities					
Net Income (Loss)	315.2	138.2	33.6	119.9	-46.7
Depreciation and Amortization	213.4	202	190	164	145.6
Deferred Income Taxes	0	0	0	0	0
Operating (Gains) Losses	24.2	125.7	88.7	90.3	328.2
(Increase) Decr. in Receivables	-75.1	-58.5	-94.1	-40.7	-25.5
(Increase) Decr. in Inventories	-116.2	-20.5	-31.6	-22.5	-32.5
(Decrease) Incr. in Payables	115.5	73.7	90	18.7	-21.4
(Decr) Incr. in Other Curr. Liabs.	-40.3	1.5	98.2	-4.1	44.3
Other Non-Cash Items	0	0	37.8	69.8	-39.2
Net Cash from Cont. Operations	475.3	511.6	412.7	395.4	352.8
Net Cash from Discont. Operations	-17.3	-37.8	0	0	0
Net Cash from Oper. Activities	458.1	473.8	412.7	395.4	352.8
Cash Flow from Investing Activities					
Cash Flow Provided by:					
Sale of Property, Plant, Equipment	115.2	17	30.7	19.1	15.1
Cash Used by:					
Purchase of Prop., Plant, Equip.	-218.9	-701.5	-255.3	-245.3	-212.2
Other Investing Changes Net	-107.4	-151.3	-38.9	-250.5	-9
Net Cash from Investing Activities	-211	-835.8	-263.5	-476.7	-206.1
Cash Flow from Financing Activities					
Cash Flow Provided by:					
Issuance of Debt	32.2	556.6	1,017.00	1,032.80	6.9
Issuance of Capital Stock	21.7	7	7.7	7.6	4.1
Cash Used for:					
Repayment of Debt	-127.2	-198.1	-1,020.50	-655.3	-193.3
Repurchase of Capital Stock	-147.5	-4.2	-83.7	-310.7	-10
Other Financing Charges, Net	0.1	0.1	-34	-18.1	17.8
Net Cash from Financing	-220.7	361.4	-113.3	56.3	-174.6
Effect of Exchange Rate Changes	-2.2	-1.2	0.1	-6	-1.1
Net Change in Cash & Cash Equivalents	24.2	-1.8	36.1	-30.9	-29
Cash at Beginning of Period	61.2	63	28.8	59.7	88.7
Free Cash Flow	239.2	-227.7	157.4	150.1	140.6

DCF VALUATION

Summary of Model

2002 Free Cash Flow (based on company target)	\$300 Million
2003 Free Cash Flow (based on company target)	\$500 Million
Growth Rate in Free Cash Flow after 2003	0%
Beta	0.58
Risk Free Rate (5 year T-Bill)	4.3%
Equity Premium	6.0%
Discount Rate	7.8%
DCF "Fair Value" Share Price	\$100
Current Share Price	\$66.30

CHARTS / TECHNICAL

