Economic Indicators and Trends

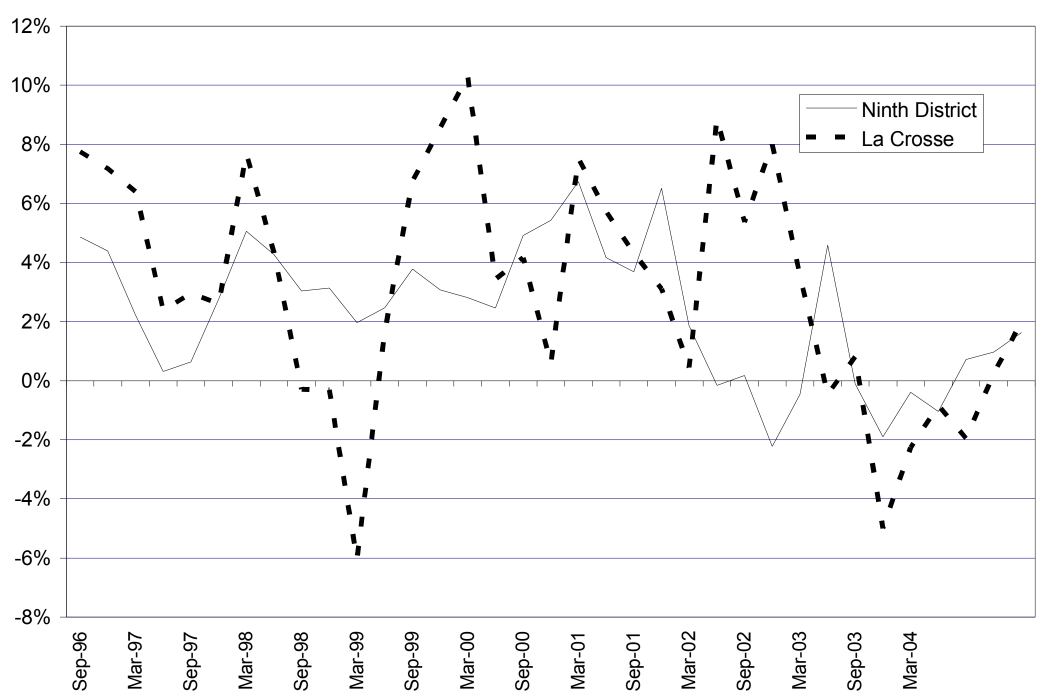
Taggert J. Brooks, Ph.D., UW-La Crosse Department of Economics

Core economic indicators have been tracked since 2001 to have objective measures for our 7 Rivers Region economy. Dr. Brooks begins with some observations on the region's economy and then turns to some macroeconomic observations for the nation and the state.

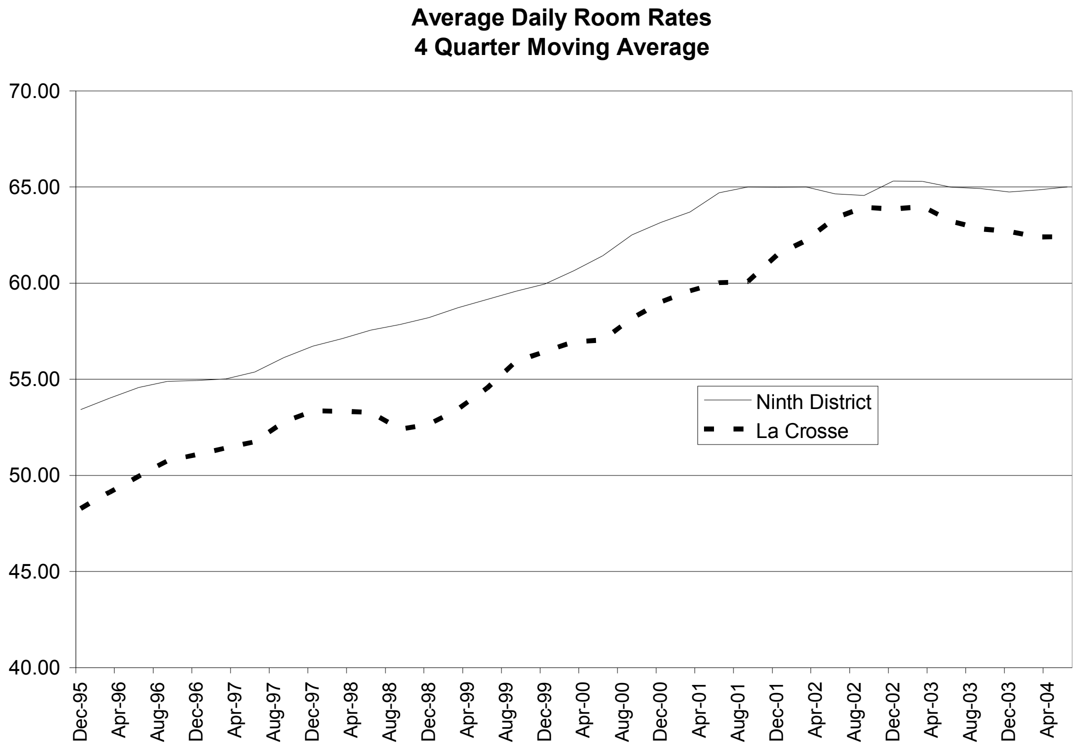
Tourism

Last year, in preparation for the Grand Excursion, Economic Indicators: An Update for the 7 Rivers Region focused on the tourism industry as an important sector of the economy. This report begins with an update of some regional statistics which reflect the recent performance of that sector. The graph below depicts the percentage change in hotel daily room rates from the previous year. The data includes the La Crosse metropolitan statistical area (MSA) and the entire ninth district of the Federal Reserve System, which includes northwestern Wisconsin, Minnesota, Michigan's Upper Peninsula, North and South Dakota, and Montana. The graph gives some measure of pricing power. Clearly as demand for hotel space rises, the expectation is to see price rise as well. Given a fixed supply of hotel units, the interpretation may be that any price increases are a reflection of an increased demand for hotel rooms. Of course supply is not necessarily fixed forever as is evidenced by the recent hotel construction in Onalaska.

Percent Change in Daily Room Rate from Previous Year

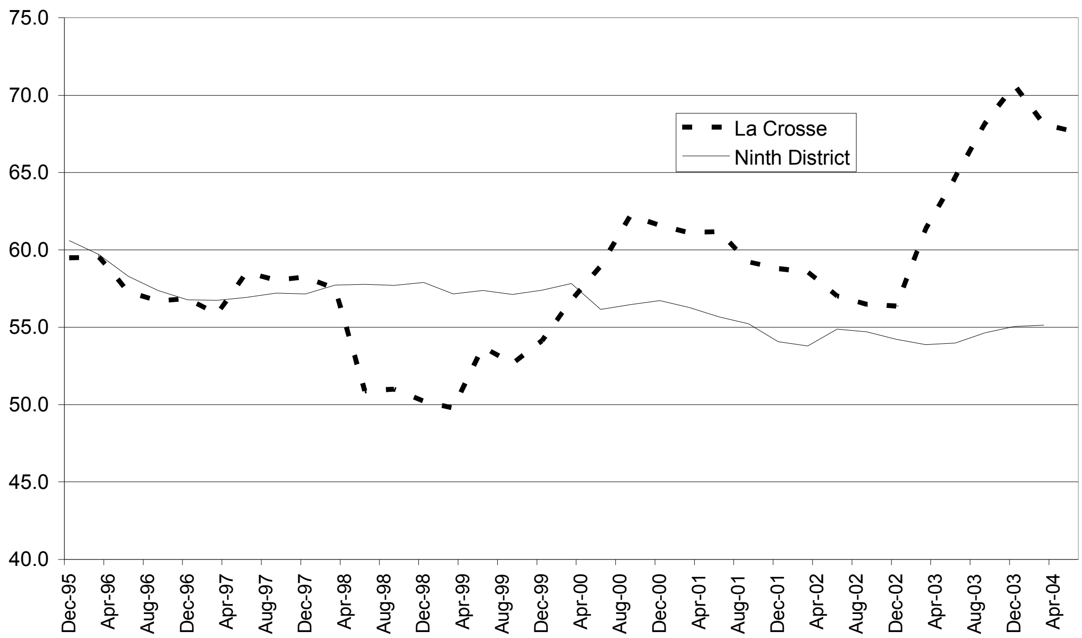


While at times it appears La Crosse has had a more rapid increase in pricing of hotel rooms, the average daily room rate is still below the rest of the ninth district. It is important to note that these numbers include the major metropolitan area of Minneapolis and St. Paul, where one would expect room rates to average much more than La Crosse. Despite this fact, La Crosse has come a long way towards closing the gap. However there is an expectation with the increase in the supply of rooms in the region, this trend may reverse over the next few years.



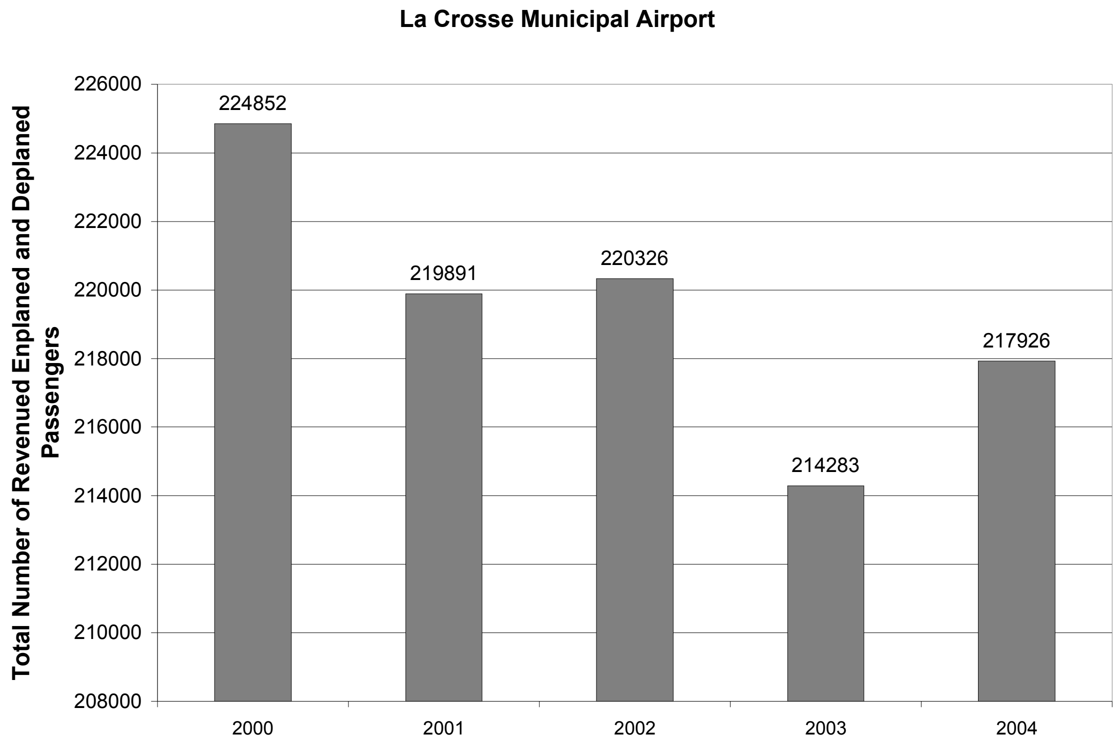
Another measure of demand is hotel occupancy rates. Below is the data for the La Crosse MSA and the ninth district. The data is quarterly so a 4-period moving average is used to smooth the series. This is effectively an annual average occupancy rate over the preceding 4 quarters. The data end with the summer of 2004, and it can be clearly seen that occupancy rates in this area began climbing in late 2002, and continued rising through 2004. This trend continues the recovery that began in late 1998, resulting in substantially higher occupancy rates then seen on average in the ninth district.

Hotel Occupancy Rate
4 Quarter Moving Average

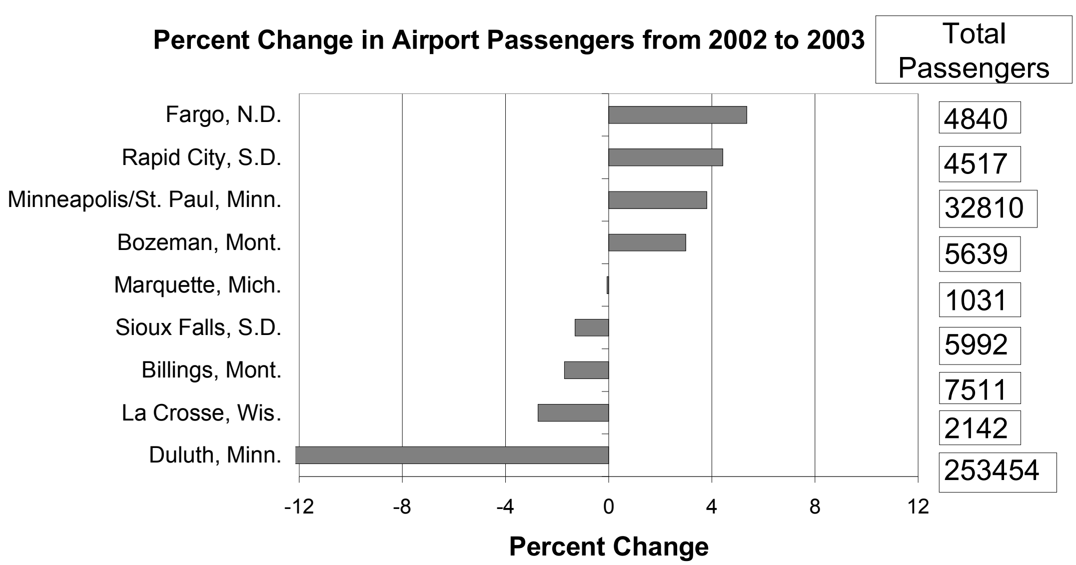


Another useful piece of data collected for the region and other regions in the area is the number of revenued passengers enplaned and deplaned at the La Crosse municipal airport. The airport serves as a regional transportation hub and thus gives one measure of the flow of people into and out of the area. A decline can definitely be seen in the number of passengers passing through the La Crosse airport. It should be noted that the decline isn't substantial at only about 3.2% between 2000 and 2004 whereas the Minneapolis - St Paul airport saw a decrease of 1.5% over the same time period.

Caution should be used when interpreting this data. It may not necessarily indicate fewer people coming to the area, but rather people choosing different modes of transportation. In fact, it could merely be a response to different airline pricing strategies. It could be that fewer people are originating their flights in La Crosse, opting instead to save money and drive to Minneapolis. That might explain why the drop off for Minneapolis/St. Paul was not as large as for La Crosse.



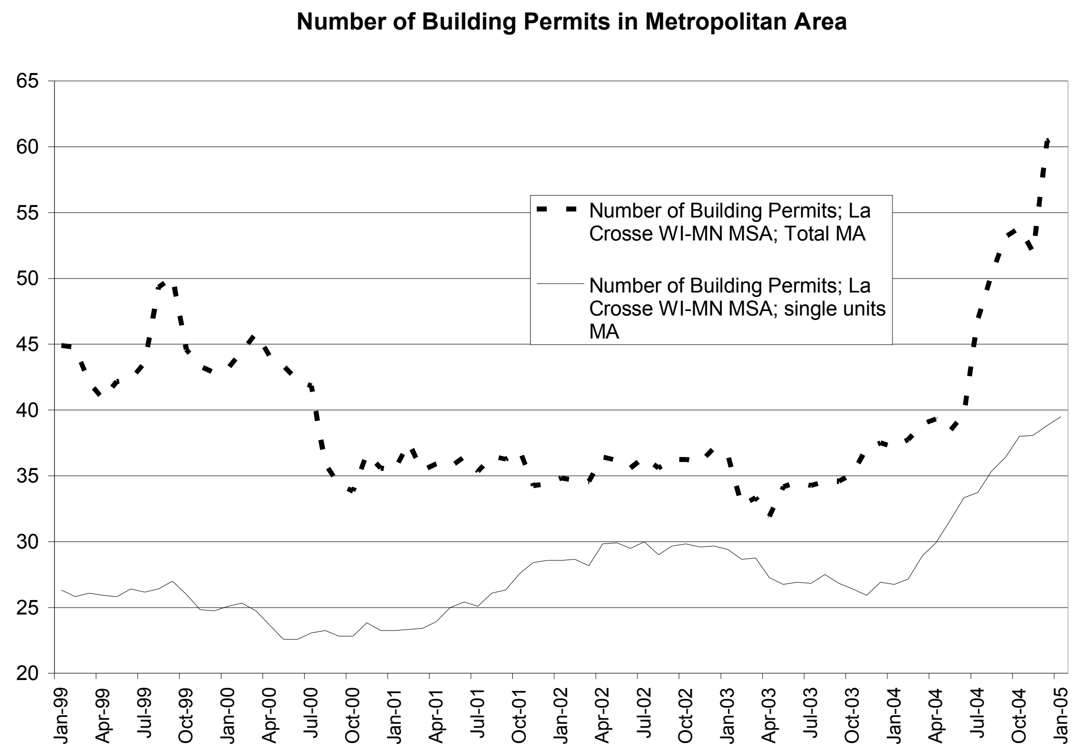
Looking just at the change from 2002 to 2003, the picture appears bleaker for La Crosse than for other regional airports.



Sources: Various local, regional and state airport and transportation authorities.

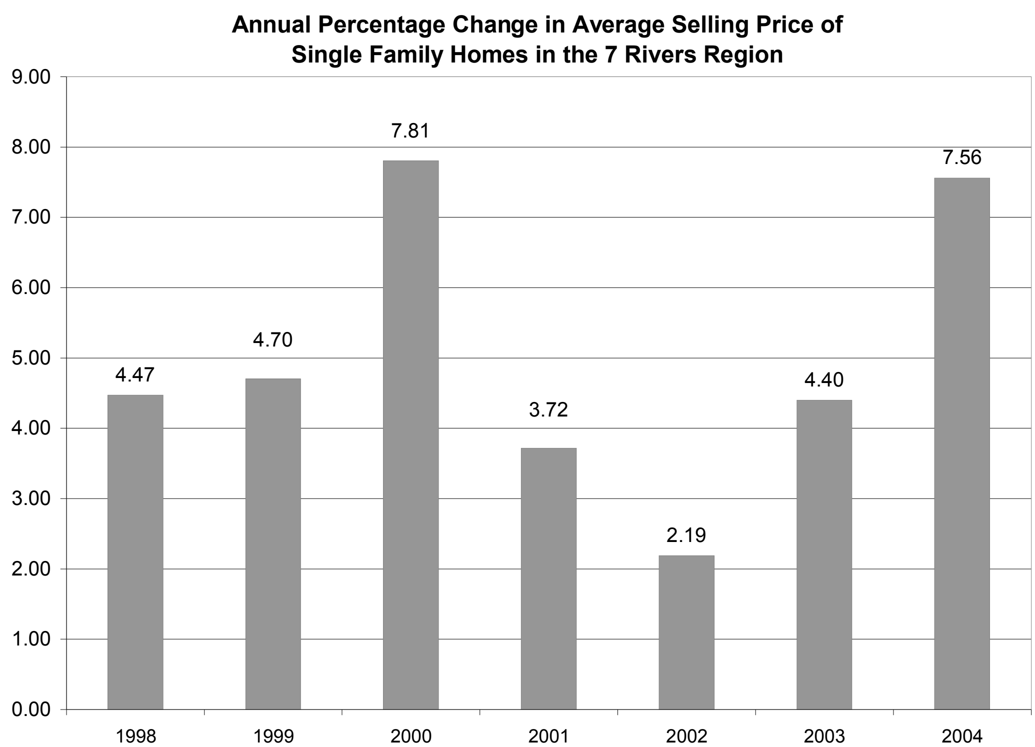
Housing
In previous meetings, the unique role that the housing industry plays in our economy has also been discussed. For most people, the largest source of their net worth is held in the form of equity in their home. Thus stable and rising home values provide the average home owner with a source of financial security. In the last few years, the main source of household savings has been via increases in home equity.

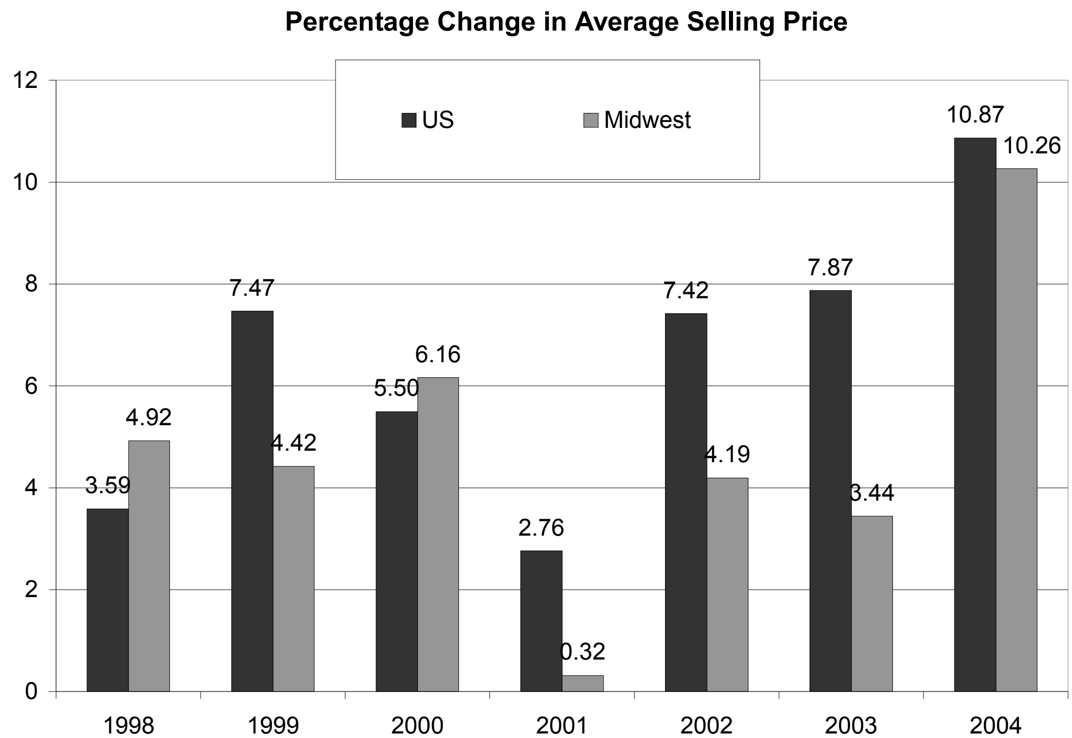
While rising home values are important sources of wealth accumulation for those who already own them, affordable housing is also important for people who want to begin their own wealth accumulation. One of the key factors in preventing home prices from rising too rapidly is the rate of the growth of the supply of homes. Over the last year, the region has experienced a surge in the number of building permits, which usually indicates supply reacting to meet the rising demand. The expectation is to see prices for existing homes rising in the preceding period as they indeed have. Not only has an increase in the number of permits for single family units been seen, but also a return to the construction of multi-family units not seen since late 2000.



Turning attention now to the price of existing homes, the average selling price for homes listed on MLS in the 7 Rivers Region clearly shows that home values have risen considerably in the last year. The increase for 2004 is 7.56% which is up from 4.4% the previous year. Home price appreciation like this has not been seen since 2000. Despite this rapid increase, the region still lagged the Midwest and the US. This may be due to a few areas experiencing extremely rapid increases in home values.

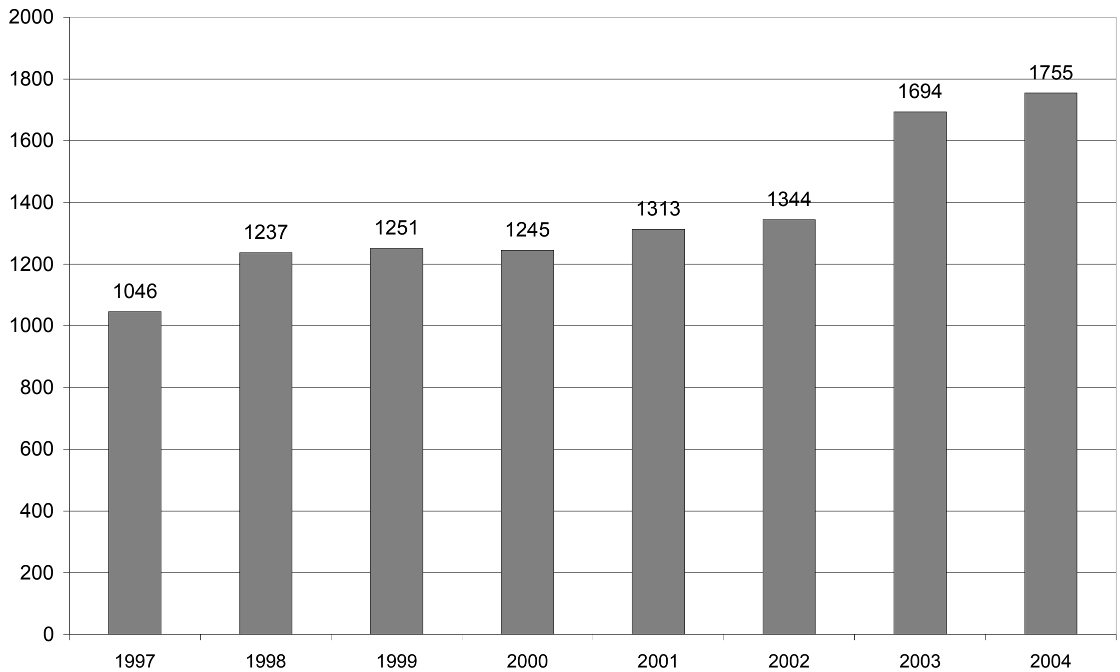
Given the slower rate of home value appreciation in the 7 Rivers Region, if similar savings behavior to the rest of the country is to be maintained , consumption likely has had to be more restrained than it has been in some of these other areas. It may, however, simply be the case that personal savings rates are even lower. A look at mortgage delinquency data suggests that the Midwest is in a much better situation then the rest of the country. In the ninth district, only 38% of mortgage loans were 90 days or more past due in the first quarter of 2004, whereas in the US it was 78%. It may be the case that the Midwest has a higher savings rate then other areas of the country.



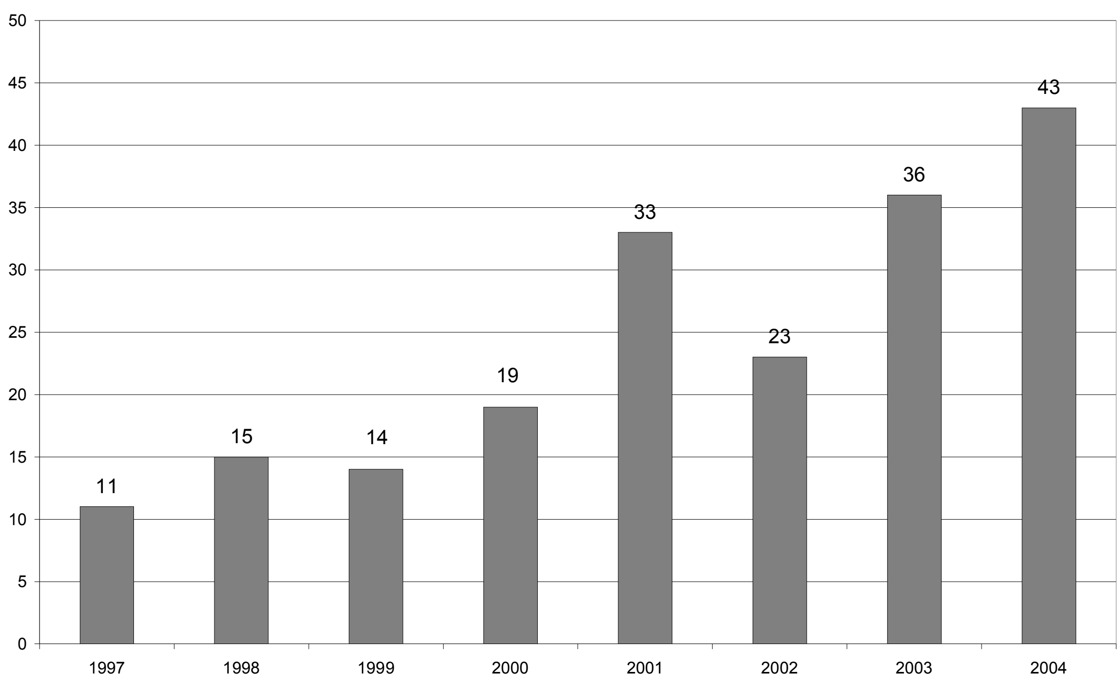


Home prices have risen in a hot market. The region set another record for the total number of listings sold. There were 1,755 single family homes sold in the 7 Rivers Region in the last year, up from 1,694 in the previous year. In the market for large homes with selling prices of $300,000 or above, the region also set a record with 43 homes being sold in this category in 2004 which was up from 36 the previous year.

Total Single Family Listings Sold in the 7 Rivers Region



Number of Homes that Sold for More than $300,000



The continued resilience of the housing market has been the result of relatively low long-term interest rates. Despite the Federal Reserve's recent increases in their target for the short-term Fed Funds rate, long-term rates have remained stubbornly low which has been good for the housing market. This has raised concerns. Alan Greenspan was recently quoted as saying the yield curve represented a bit of a "conundrum". The third chart below shows the spread between long-term and short-term interest rates. Since this past summer, it has begun to fall.

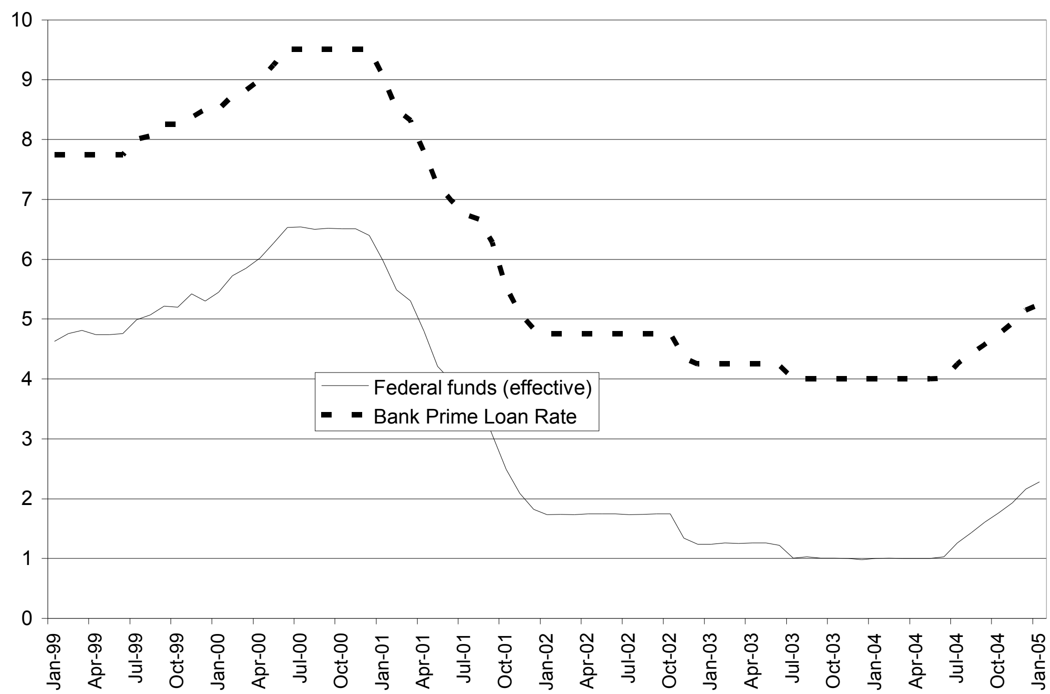
This is contrary to conventional wisdom and presents a "conundrum" for several reasons. First, long-term interest rates tend to rise during an expansion and fall during a recession. Falling long-term rates, or certainly a falling spread, suggests a slowdown in the near future. Since economic growth is not expected to slow in the near future, there is difficulty explaining the low rates.

One reason slow growth is not anticipated in the near future is because most of the other indicators, do not seem to point in that direction. Indicators such as the stock market and the real estate market continue to do well.

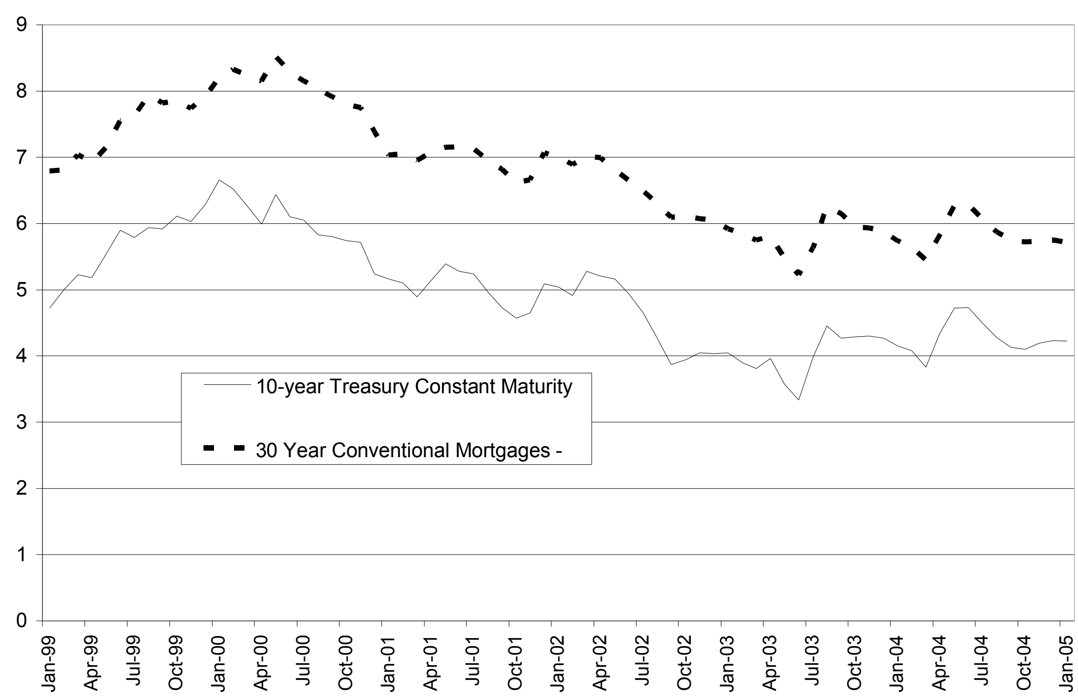
Another puzzle of long-term rates failing to rise is that fiscal deficits usually portend inflation in the future, which should drive long-term interest rates up. Again, it appears as though the market is heavily discounting the likelihood of future inflation because rates have not risen. This could be due to the enormous amount of inflation-fighting credibility the Fed has earned over time.

So why haven't rates risen as is the normal expectation? It could be partially attributable to the continued increase in the amount of foreign savings flowing into the United States. Long term US government debt is still a benchmark of safety and security and is still the global reserve asset of choice. Despite this fact, it is difficult to believe that the foreign appetite for US debt will continue at its current pace. So at the risk of repetition, long-term rates will probably only go up in the near future.

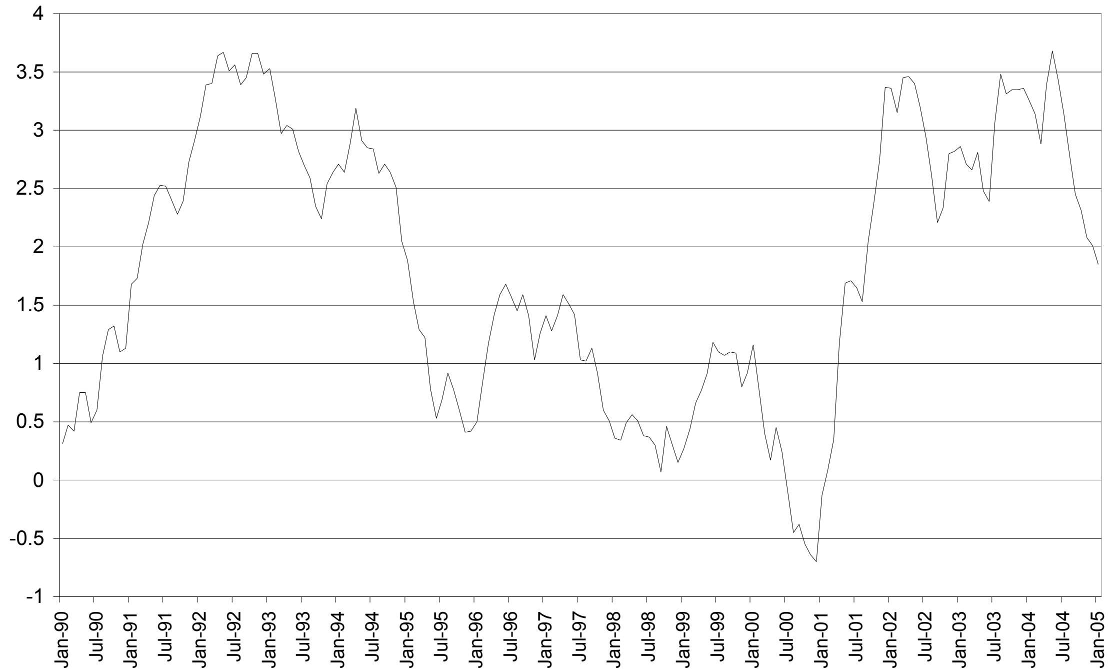
Short Term Interest Rates



Long-Term Interest Rates



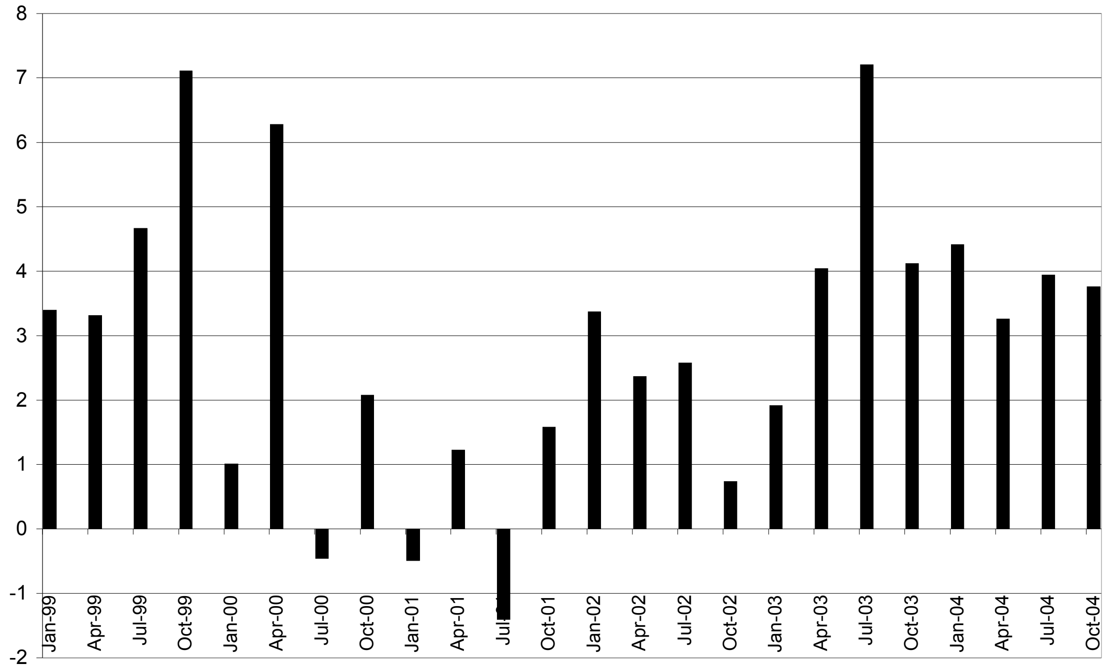
Spread between the 10-Year and 3-Month Treasuries



Gross Domestic Product (GDP)

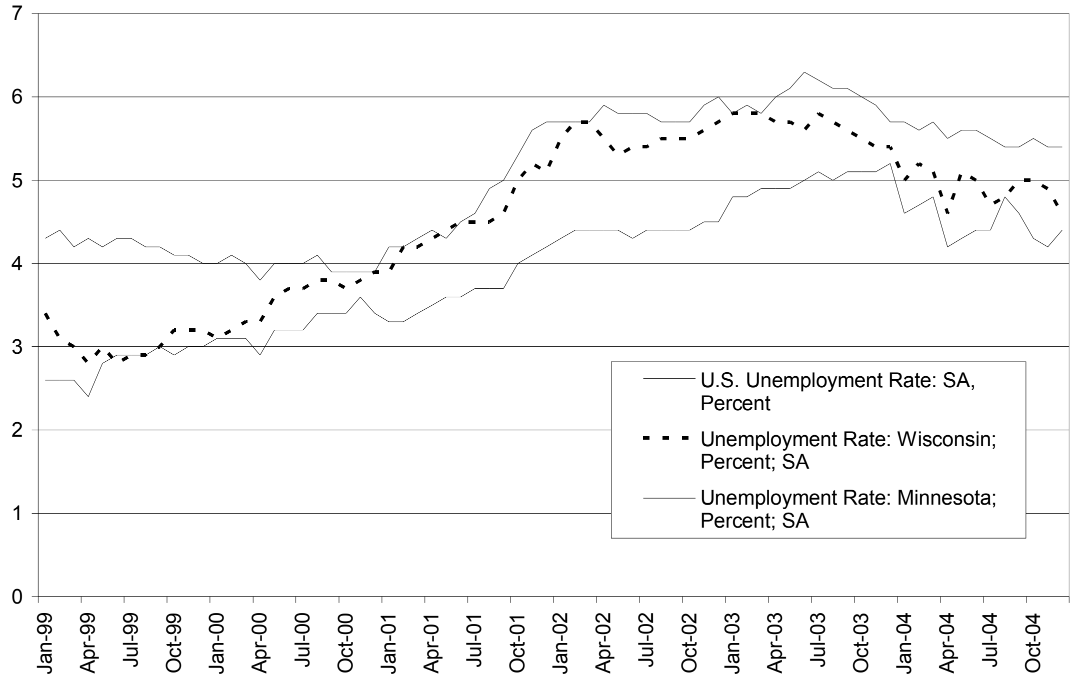
The economy continues to speed along at a robust pace. Recently released revisions to real GDP put the 2004 growth rate at 4.4%, up from 3% in the previous year. Continued increases in productivity have allowed firms to increase production without increasing employment as much as may have been seen coming out of past recessions. Projections for economic growth suggest that the recent trend will continue with many forecasters predicting real GDP growth of 3.5% in 2005.

Real GDP % Change at Annual Rates

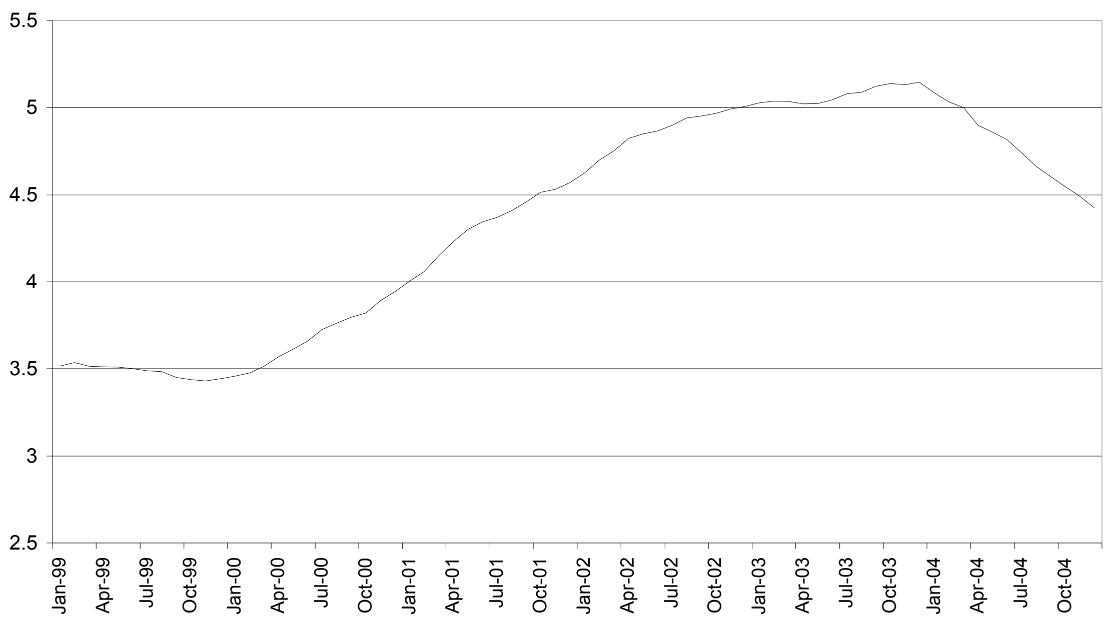


Despite rapidly increasing productivity, the labor markets look like they are finally gaining some ground. The unemployment rates for the entire United States along with Minnesota and Wisconsin have fallen from their highs. However, it is not clear if this trend will continue. The imputed unemployment rate for the 7 Rivers Region has fallen under the seasonally adjusted 4.5% mark, well below the US unemployment rate which was 5.4% for the month of February.

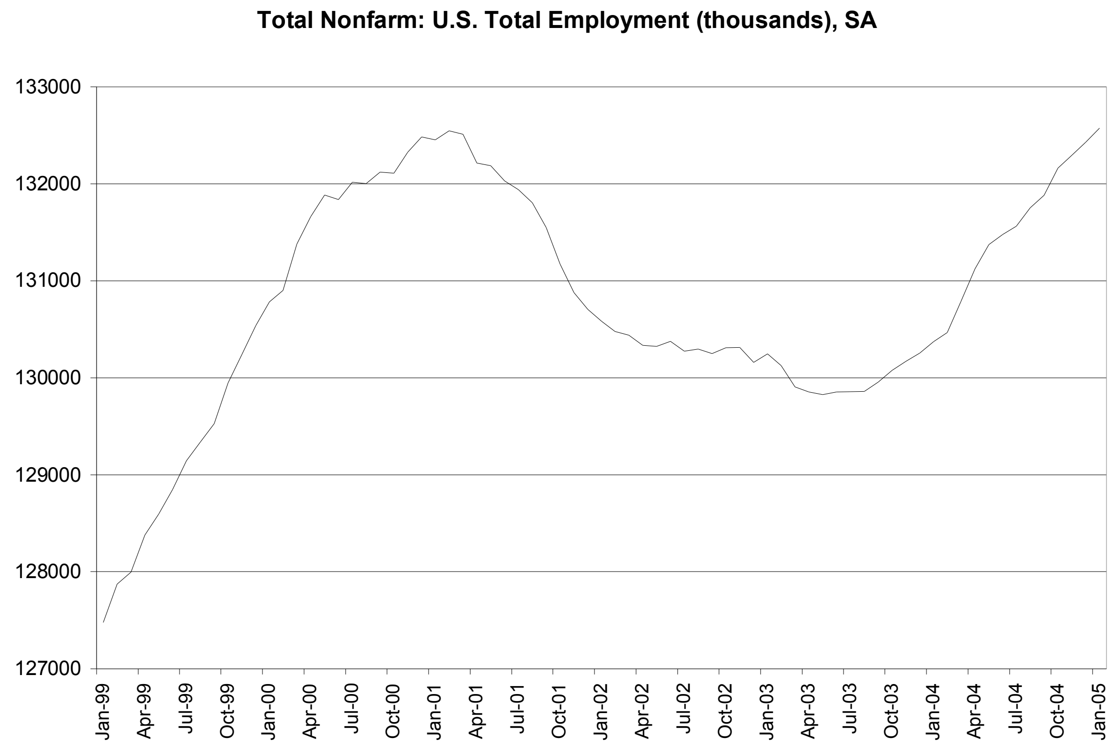
Comparison of National and State Unemployment Rates



Eight County Regional Unemployment Rate (WI- La Crosse, Trempealeau, Jackson, Juneau, Monroe, Vernon MN- Houston, Winona, IA- Allamakee)



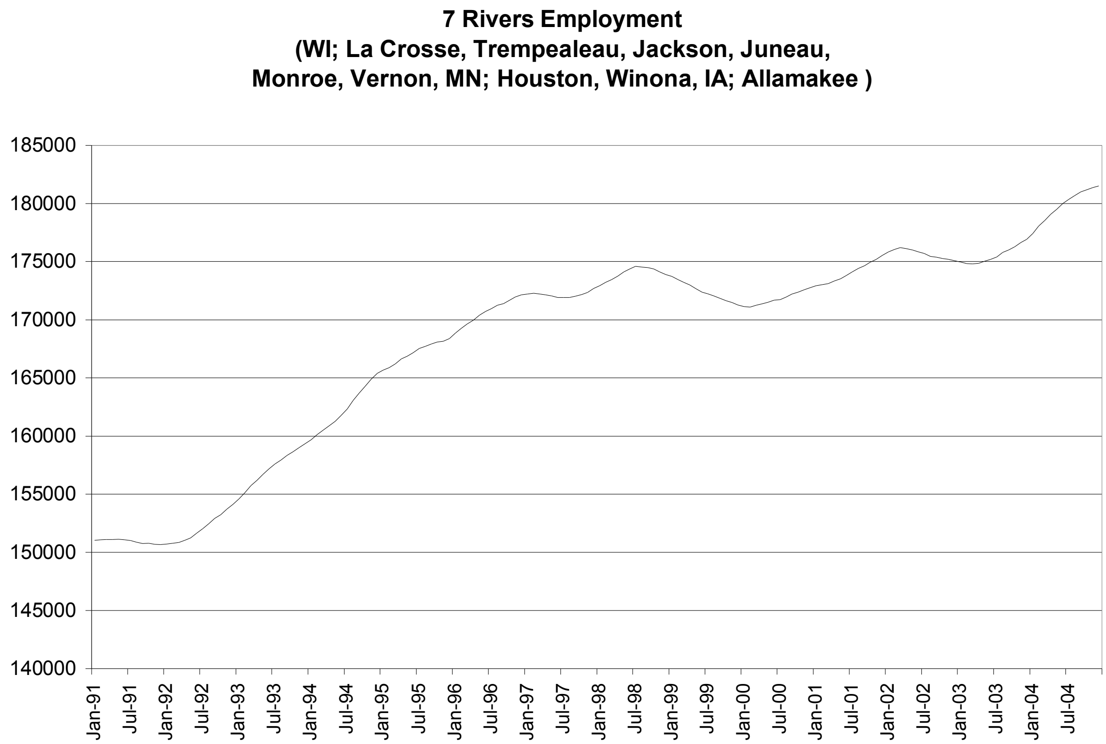
While job growth nationally has not resumed the rapid pace of the late nineties, it has begun to pick up. In the month of February 2005, 262,000 non-farm jobs were added to the US economy. This is the job growth generally believed necessary to keep the unemployment rate from rising.



Wisconsin has finally surpassed the level of employment it was at before the recessions, whereas Minnesota has still failed to achieve a level commensurate with its pre-2001 experience.

Wisconsin: Employment: Total Nonfarm (Thousands); SA

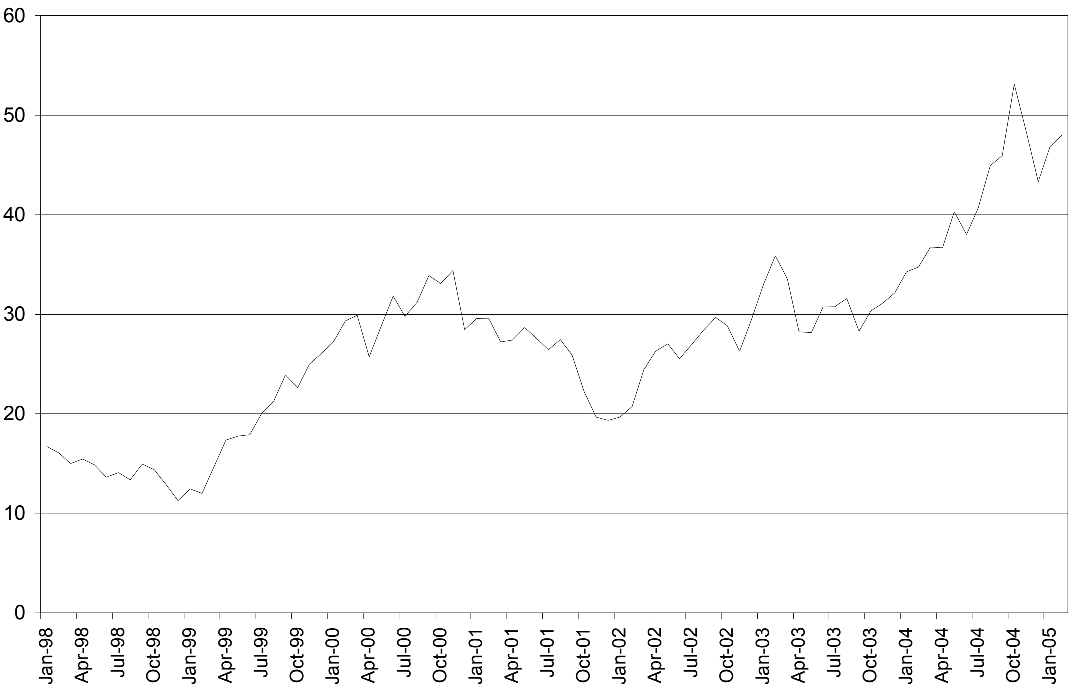
Minnesota: Total Nonfarm; Employment; Thousands; SA



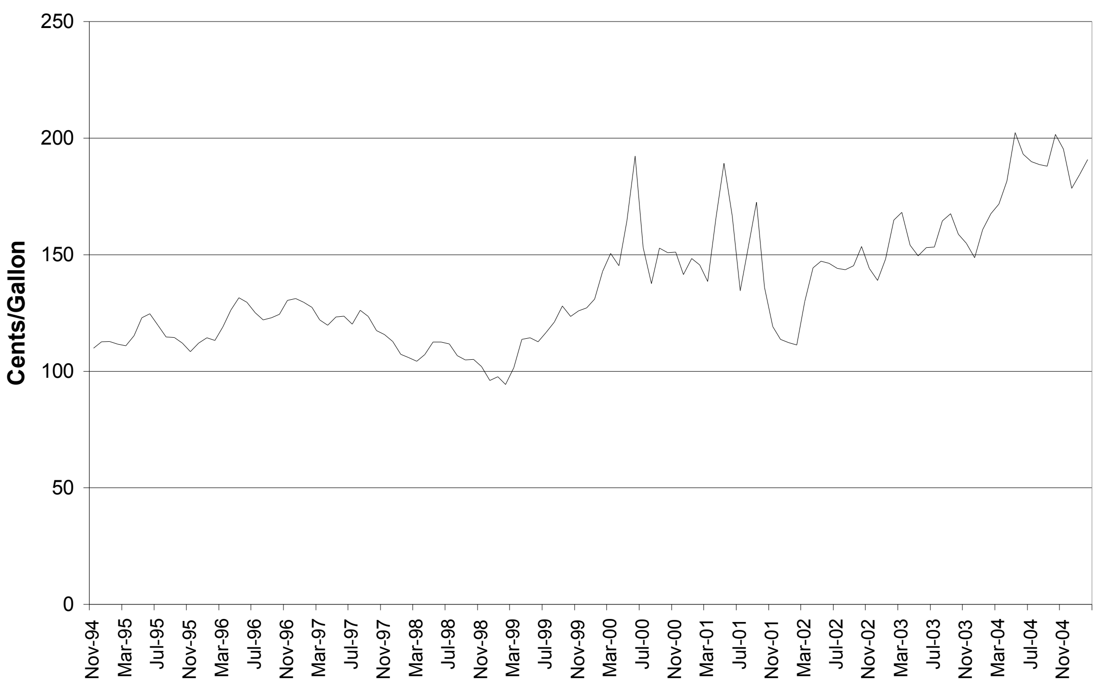
The Economic Headwinds

Oil continues to act as a drag on the economy. However, it is a testament to the economy's flexibility and to the decreased reliance on manufacturing that the economy has been able to post gains even as the price of oil has soared past $50 a barrel. This may be responsible for continued business uncertainty and a hesitancy to hire. Gasoline prices, while falling temporarily in the late fall, have begun to rise again and will likely continue into the summer driving season. Given the global supply and demand conditions, there is an expectation for gas and oil prices to continue to operate as a drag on growth and consumption.

Price of West Texas Intermediate Crude; Monthly NSA, Dollars Per Barrel

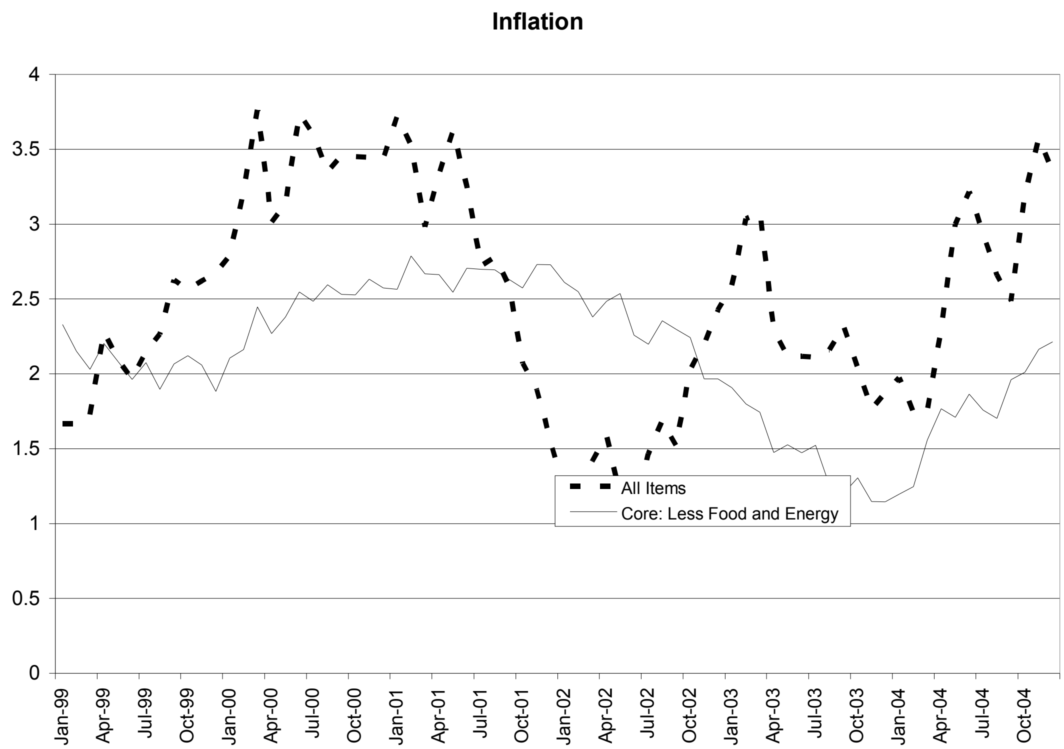


Midwest Regular Reformulated Retail Gasoline Prices (C/gal)



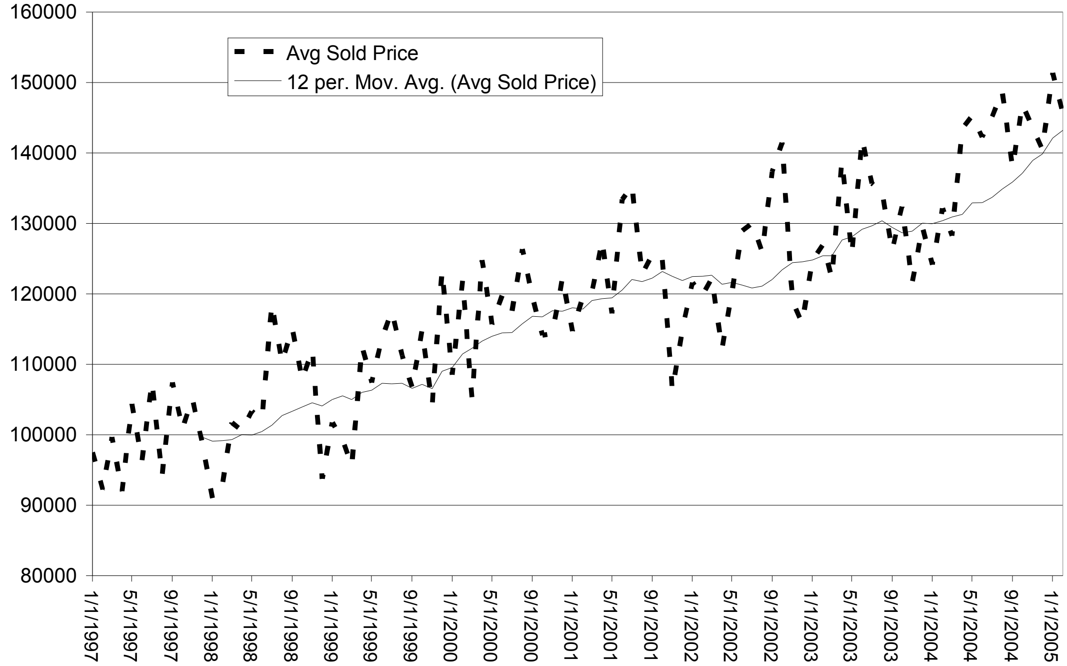
Despite rising energy prices, core inflation has been relatively tame. The Federal Reserve appears satisfied that its current pace of interest rate increases is keeping inflation well contained. Do not expect them to boost the pace at which they increase interest rates unless inflation begins to pick up.

What level of inflation would the Fed not tolerate? The minutes of the latest Federal Open Market Committee meeting include a discussion on formally announcing their target for inflation. The minutes suggest they will tolerate between 1 and 1.5% inflation as measured by the Personal Consumption Expenditures Index. Inflation outside of this range is likely to be met with rapid increases in the fed funds rate, unless doing so would be too painful to the labor markets. That the Fed has not formally adopted and announced a target for inflation indicates a degree of flexibility in their policy targets.

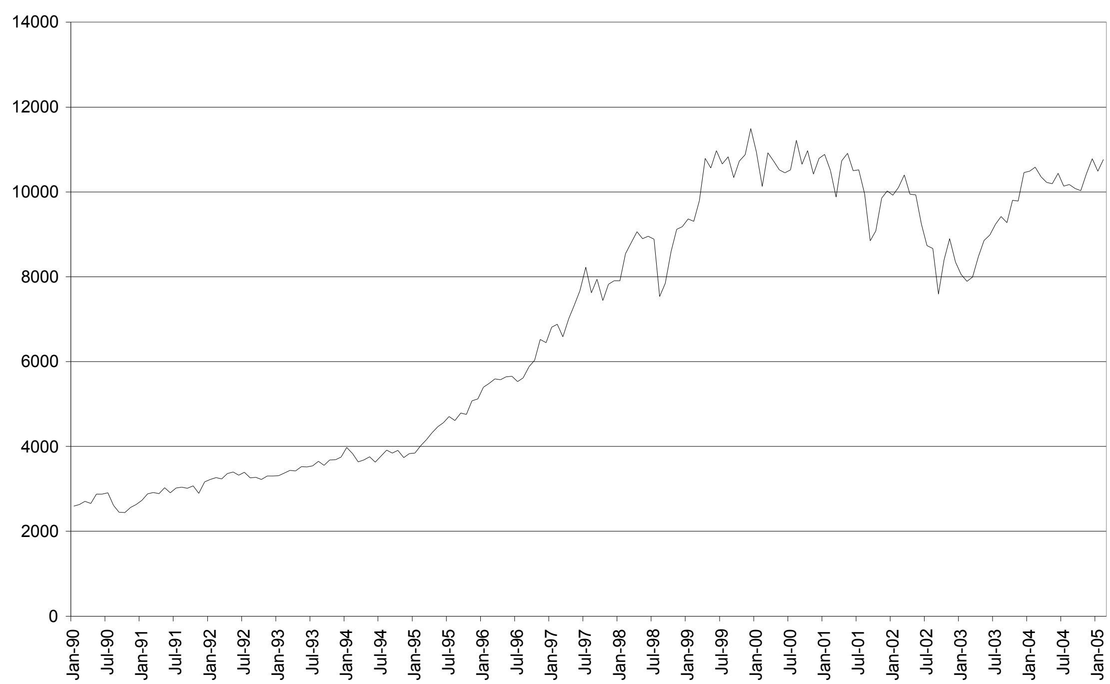


Additional data appendices:

Average Price of Single Family Homes Sold in 7 Rivers Region

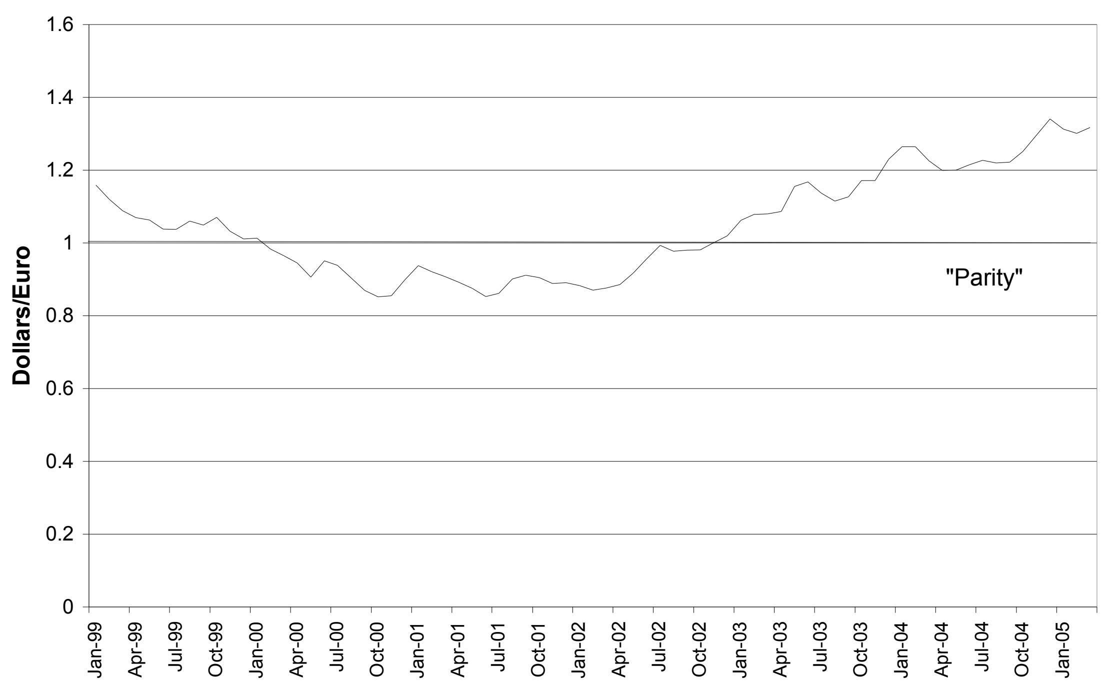


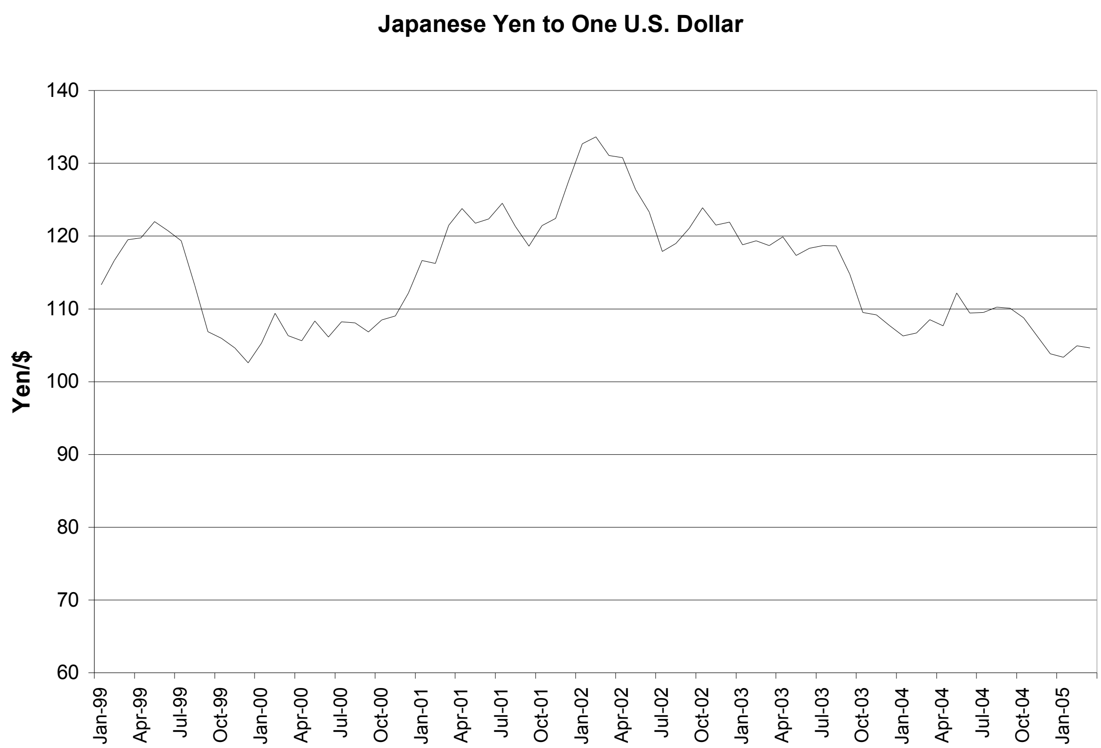
DJ Industrial Average Close



S&P 500 Monthly Close

U.S. Dollars to One Euro




Japanese Yen to One U.S. Dollar
Yen/$
140
130
120
110
100
90
80
70
60
Jan-99
Apr-99
Jul-99
Oct-99
Jan-00
Apr-00
Jul-00
Oct-00
Jan-01
Apr-01
Jul-01
Oct-01
Jan-02
Apr-02
Jul-02
Oct-02
Jan-03
Apr-03
Jul-03
Oct-03
Jan-04
Apr-04
Jul-04
Oct-04
Jan-05

The 7 Rivers Equity Index: Back-to-Back 16%+ Gains

Thomas M. Krueger, D.B.A., Professor, UW-La Crosse Department of Finance

Introduction

Wow! What a fantastic close to 2004! On October 24, all of the major stock market indexes were in negative territory. Then, somewhat suddenly, investors shook off their worries about terrorism, Iraq, the Presidential election, and interest rates. All of the major stock market indexes rose, with the Standard and Poor's 9% gain leading the way.

How about local companies? The 7 Rivers Equity Index posted a 17% gain, nearly twice the Standard & Poor 500 Index. This report will first examine the confidence investors continue to have in local firms. The subsequent section will investigate managerial performance in local companies following the precedent set in prior years. (For the most recent synopsis of stock price valuation and forecast share price performance, please refer to the September 2004 edition of 7 Rivers Region: An Economic Update.) The final section of this report further examines publicly-held local firms in the agriculture/food production industry, which is the special focus of the current "Economic Indicators" forum.

The 7River's Equity Index

Two criteria must be met for inclusion in the 7 Rivers Equity Index. One, the firm must be publicly held with share price data available from any of the print or Internet sites. Two, the company's headquarters must be within 100 miles of La Crosse. Companies are identified on the basis of *ReferenceUSA,* a data service that allows sorting both public and private corporations by state. The fourteen firms currently in the 7 Rivers Index are identified in Table I.

7 Rivers Equity Index membership changes from report to report. As anticipated in the last report, First Federal Capital Corporation was acquired during the most recent reporting period. First Federal's common shares last traded for $33.30 on October 29, 2004. The acquiring firm, Associated Bank, was not added to the 7 Rivers Index because its headquarters is located in Green Bay, Wisconsin, and it conducts a large portion of its business outside the 7 Rivers Region.

Given the agriculture/food products topic of the Spring 2005 seminar, it is worthwhile to note one significant acquisition in that industry that relates to a local private and publicly-held firm. During the reporting period, Hormel acquired Sparta-based Century Foods International for $115 million. The 400-employee firm is a major supplier of ingredients for whey protein powders, ready-to-drink protein beverages, and nutrition bars. Hormel found the acquisition especially favorable in light of the current low-carbohydrate, healthful diet-conscious consumer environment.

Several readers may be wondering why Great Wolf Resorts has not been added to the list. Great Wolf went public in December 2004 with the issue of 14 million shares at a price of $17. Most readers will recognize this firm as the large waterpark on the east side of I-90 in the Wisconsin Dells area. Although that is Great Wolf's original location, it is just one of seven waterparks now operated by the firm. Furthermore, Great Wolf Resorts' corporate headquarters is in Madison, which is outside the 100-mile radius of La Crosse.

There are now six firms either acquired or bankrupt that once were included in the 7 Rivers Equity Index. The performance of these firms during the period that they were part of the 7 Rivers Index is included in the 7 Rivers Index calculations. The comparatively good performance of the 7 Rivers Index is remarkable considering the loss of money invested in Shedahl, which went bankrupt in April 2004.

Performance of the 7 Rivers Equity Index, an equally-weighted index of the local companies, is presented in the first column of Table II. Values in Table II represent the value of $100 invested in local shares on 12/31/1999. For instance, in 2000 the value of the 7 Rivers Index dropped by 9.3% to 90.7. Since then, the 7 Rivers Index recovered most of the 2000 loss in 2001, and essentially held its ground in 2002.

Then came 2003 and 2004, two years during which the 7 Rivers Equity Index roared ahead by an average of 16.5% in each year. As a result, the 7 Rivers Index rose from 98.1, a slight decline from its origin, to 133.4. There was a small decline during January 2005 resulting in a 7 Rivers Index value of 131.8, as shown at the bottom of Table 2 in the first column.

Last year's success was not uniform across local firms. Bone Care International's share price more than doubled, while investment in the two firms in the trucking industry (Marten Transportation and Featherlite) resulted in returns of about 50%. At the other extreme, during 2004, Pemstar's share price dropped by 50% and investors in Renaissance Learning found their share prices dropped by about one third of the December 2003 value.

Two major market indexes are also reported in Table II. The Dow Jones Industrial Average is a price-weighted average of 30 large companies. The Standard & Poor's 500 Index is a value-weighted index of the 500 largest companies in the United States. Although both indexes had returns exceeding the 7 Rivers Equity Index in 2003, prior losses left them in negative territory entering 2004.

As noted in the opening paragraphs of this report, both the Dow Jones Industrial Average and S&P 500 lost ground through most of 2004. Rapid increases in the final months of 2004 helped these indexes post gains for the year. However, a $100 investment in the Dow Jones Industrial Average firms at the end of 1999 was worth $93.8 at the end of 2004. Consequences for investors in the Standard & Poor 500 were even bleaker, with the $100 investment only worth $82.5 at the end of 2004. Like the 7 Rivers Equity Index, these measures fell during January 2005.

Analysis of Local Firm Management Success

Cash Management

A critical aspect of firm success is its ability to manage cash. Cash not invested in fixed assets can be used to fund the operating cycle, which is also known as the cash conversion cycle (CCC). During the CCC, inventory is acquired or manufactured, sold on account, and payments are received from customers. Credit extended by suppliers finances the current assets being used by the firm during part of this time period. Given a fixed level of daily sales, firms have to have sufficient funds on hand to span the period from when they make payments to suppliers to when they receive payments from customers.

Firms typically want the shortest CCC possible. Some good Internet sites for those seeking additional information on financial ratios are published by Brandow Company www.bizminer.com, the Business Development Bank of Canada www.bdc.ca/en/business_tools/calculators/overview.htm?cookie%5Ftest=1, and the Small Business Administration www.onlinewbc.gov/docs/finance/fs_ratio1.html.

As shown in Table 3, Featherlite (10 days) and Hormel (21 days) have the shortest period over which they await customer payment. The longest period over which sales are outstanding exists at Rochester Medical (62 days) and Pemstar (61 days). Martin Transportation (23 days) and Flexsteel (32 days) turn over their inventory quickest, while the longest period that inventory is on hand can be found at Hormel (240 days) and Fastenal (159 days). Payments to suppliers are delayed by over 100 days at Bone Care International (140 days) and Hormel (104 days). Those firms paying bills in the shortest period of time, which is not necessarily a good characteristic, were Featherlite (7 days), Fastenal (24 days), and Rochester Medical (24 days).

The cash conversion cycle is calculated by subtracting days that payables are outstanding from the sum of the days that sales are outstanding and days inventory is on hand. Bone Care International (8 days) and Flexsteel (17 days) registered the shortest CCC durations, while the CCC at Fastenal (183 days) and Rochester Medical (180 days) are about half of one year.

In addition to efficient current asset management, managers have to generate sales from fixed asset utilization. If revenues were funneled into the replacement of fixed assets, Bone Care International could replace these assets in a short twelve-day period, as exhibited in the right column of Table 3. Featherlite and Flexsteel also have fixed asset turnover rates exceeding 12, meaning it takes less than one month to replace fixed assets if that were the sole use of revenues. By contrast, it takes over 200 days of sales dollars to replace the fixed assets at Northland Cranberries (243 days), Rochester Medical (214 days), and Wausau-Mosinee Paper (203 days).

Caution should be exercised when reviewing the values exhibited in Table 3. Evaluation of asset utilization and current liabilities has to take place in light of past performance and industry averages. Many fine web sites provide this information, including finance.yahoo.com, morningstar.com, and my.zacks.com. In a similar fashion, the averages reported at the bottom of Table 3 have to be used with caution. For instance, although it takes 39 days on average for firms in the 7 Rivers Region to collect sales, there is a wide variation across the firms.

<u>Return on Equity</u>

The most recently reported return on equity and its components (something referred to as "Du Pont Analysis") is reported in Table 4. Profitable firms earn returns essentially through high profit margins or quick asset turnover. When multiplied, this equals return on assets. When return on assets is positive, the use of borrowed funds enhances the return to shareholders.

As shown in the first column of Table 4, HMF Financial (26.0%) and Renaissance Learning (21.0%) have profit margins above 20%. Only Pemstar (-1.0%) posted a loss. Flexsteel (2.4 times) and Featherlite (2.3 times) can turn over their assets twice a year.

As one would expect, revenues are a small proportion of the total asset financing at banks in the 7 Rivers Equity Index, hence there are some extremely large leverage values for HMF Financial and Heartland Financial. Excluding the banks, the greatest level of debt financing is found at Featherlite ($3.70 assets per $1.00 of shareholder investment), Pemstar ($2.40/$1) and Wausau-Mosinee Paper ($2.40/$1).

Return on equity values are given in the right hand column of Table 4. Renaissance Learning (29.3%) and Northland Cranberries (24.5%) reported the preferred, highest return on equity during the most recent reporting period. Due to its negative profit margin, Pemstar's return on equity implies that its shareholders lost 4.6 cents per dollar invested.

The bottom row of Table 4 presents the average for each ROE component, excluding the two banks. The typical local firm earned 6.6% and turned over its assets 1.3 times, resulting in a return on assets of 8.6%. Excluding the two banks, the local firms had 1.8 dollars of assets per dollar invested by stockholders. Stated another way, local non-financial companies have 80 cents in debt per every dollar invested by shareholders. Finally, average return on equity was 11.4% or 11.4 cents per dollar.

Analysis of the Agriculture/Food Industry

The Spring 2005 "Economic Indictors" forum, at which this 7 Rivers Region update is distributed, focuses on the Agriculture/Food industry. Two of the firms in the 7 Rivers Equity Index, Northland Cranberries and Hormel, are in this industry. In order to shed addition light on the seminar's topic, a comparison was made between these firms, their industry, and the Standard & Poor 500 Index (SP500).

Table 5 expands upon the return on equity (ROE) analysis found in Table 4 by including industry and SP500 values. Over the most recently reported twelve months, Hormel only outperformed its industry in terms of asset turnover. Hence, it is not surprising that Hormel's ROE is less than the meat products industry average and SP500.

By contrast, Northland Cranberries' profit margin exceeds that of the agriculture/food industry and SP500. Due to the higher profit margin, Northland Cranberries has a higher ROE, despite an asset turnover is only half that of the agriculture/food industry and use of debt financing that is less than the industry benchmarks.

Both of the industries covered in Table 5 have a profit margin noticeably less than that of the SP500. None of the firms or industries has as much debt financing as found in the typical SP500 firm. However, asset turnover in the agriculture/food industry is twice that of the typical SP500 firm.

Table 6 examines the growth of revenue, earnings, and dividends. Hormel and Northland Cranberries have not experienced revenue growth that matches their respective industry or the SP500. In fact, Northland Cranberries' revenues have fallen by 22.5% over the 2002-2004 period.

The meat products industry has experienced earnings growth that is about twice the pace of the S&P500 and six times that of Hormel. However, the meat products industry has posted a negative dividend growth rate. In fact, the agriculture/food industry has cut dividends by 19.1% over the past five years. The negative 100% dividend growth rate for Northland Cranberries reflects that fact that this company stopped paying a dividend.

Table 7 represents the annualized holding period return that would have been earned over the identified periods. Over the three-year period 2002-2004, investors would have done the best by buying shares issued by firms in the agriculture/food industry. However, in the 7 River Region Northland Cranberries experienced a loss in this and all periods. Returns on the larger agriculture/food industry also exceeded those earned by the 7 Rivers firms and SP500 over the five-year period 2000-2004. Over the ten-year period 1995-2004, Hormel has provided the best return to investors, while the meat products and agriculture/food industries have lagged the SP500. Although the meat products industry has had higher return on equity and earnings growth rate, its asset turnover and revenue growth rate lags that of the agriculture/food industry.

Summary

This report covers 7 Rivers Equity Index, a measure of the share price performance of firms located in the local area. Due primarily to two, back-to-back years with returns exceeding 16%, the annualized rate of change in the 7 Rivers Index was 5.9% during the 2000-2004 period. Meanwhile the annualized return on the Dow Jones Industrial Average over these five years was –1.3 %, and the Standard & Poor's 500's annualized return was –3.8%.

Perhaps one reason for the good performance was that only one of the 14 firms in the 7 Rivers Index had a negative return on equity during 2004. Investor behavior suggests that they believe that 7 Rivers Region firms will continue to outperform the typical firm in these broader indexes.

Table 1. 7 Rivers Equity Index

The headquarters of each of these firms is within 100 miles of La Crosse

Wisconsin		
Bone Care International (BCII)	Middleton	Pharmaceuticals
Marten Transportation (MRTN)	Mondovi	Trucking
National Presto (NPK)	Eau Claire	Cookware
Northland Cranberries (NRCNA)	Wisconsin Rapids	Juice drinks
Renaissance Learning (RLRN)	Wisconsin Rapids	Educational software
Wausau-Mosinee Paper (WWP)	Mosinee	Paper products
Minnesota		
Fastenal (FAST)	Winona	Threaded fasteners
HMN Financial (HMNF)	Spring Valley	Savings & loan
Hormel (HRL)	Austin	Pork and turkey processing
Pemstar (PMTRE)	Rochester	Electronics manufacturer
Rochester Medical (ROCM)	Stewartville	Urinary treatment products
Iowa		
Featherlite (FTHR)	Cresco	Aluminum trailers
Flexsteel Industries (F LXS)	Dubuque	Home furnishings
Heartland Financial USA (HTLF)	Dubuque	Commercial banking

Firms included in the La Crosse Equity Index that are no longer publicly held:
- Ag Services of America – acquired by Rabobank (1/2004)
- First Federal Capital Corporation – acquired by Associated Banc-Corp (10/29/04)
- La Crosse Footwear – relocated to Oregon (3/2001)
- Land's End – acquired by Sears (6/2002)
- Sheldahl – bankrupt (4/2002)
- State Bank La Crosse – privatized (2/2003)

Table 2. Comparative Index Performance

Since 12/31/1999 Index Value of 100
Year-to-Year Change in Parentheses

	7 Rivers Equity Index	Dow Jones Industrial Average	Standard & Poor's 500
12/1999	100.0 (n/a)	100.0 (n/a)	100.0 (n/a)
12/2000	90.7 (-9.3%)	93.8 (-6.2%)	89.9 (-10.1%)
12/2001	98.6 (+8.7%)	87.2 (-7.0%)	78.2 (-13.0%)
12/2002	98.1 (-0.4%)	72.6 (-16.7%)	59.9 (-23.4%)
12/2003	114.1 (+16.2%)	91.0 (+25.3%)	75.7 (+26.4%)
January 2004	119.1 (+4.4%)	91.2 (0.3%)	77.0 (+1.7%)
February 2004	118.9 (+4.2%)	92.1 (1.2%)	77.9 (+3.0%)
March 2004	122.2 (+7.1%)	90.1 (-0.9%)	76.9 (+1.3%)
April 2004	123.8 (+8.5%)	88.9 (-2.2%)	75.4 (-0.4%)
May 2004	121.3 (+6.3%)	88.6 (-2.5%)	76.3 (+0.8%)
June 2004	130.6 (+14.4%)	90.8 (-1.8%)	77.7 (+2.6%)
July 2004	130.1 (+14.0%)	88.2 (-3.1%)	75.0 (-0.9%)
August 2004	127.1 (+11.4%)	88.5 (-2.8%)	75.2 (-0.7%)
September 2004	125.4 (+9.9%)	87.7 (-3.6%)	75.9 (+0.3%)
October 2004	124.9 (+9.5%)	87.2 (-4.2%)	76.9 (+1.6%)
November 2004	133.2 (+15.9%)	91.8 (+0.9%)	79.9 (+5.6%)
December 2004	133.4 (+16.9%)	93.8 (+3.1%)	82.5 (+9.0%)
January 2005	131.8 (-1.2%)	91.2 (-1.0%)	80.4 (-2.6%)

Table 3. 7 Rivers Index Firm Efficiency

Source: Morningstar.com

7 Rivers Index Firm[a]	Days Sales Outstanding	Days Inventory Outstanding	Days Payables Outstanding	Cash Conversion Cycle	Days Needed for Total Asset Turnover
Bone Care International	38	110	140	8	12
Fastenal	48	159	24	183	54
Featherlite	10	121	7	124	29
Flexsteel	44	32	59	17	25
Hormel	21	240	104	157	54
Martin Transportation	38	23	40	21	182
National Presto	50	139	48	141	53
Northland Cranberries	24	148	59	114	243
Pemstar	61	45	50	56	45
Renaissance Learning	40	49	73	16	62
Rochester Medical	62	142	24	180	214
Wausau-Mosinee Paper	33	48	26	55	203
Average	39	105	54	89	98

a Values for financial firms, including MNHF and MTLF, would be misleading and are excluded from this analysis

Table 4. Return on Equity Analysis

Most Recently Reported Twelve Months as of February 2005

Source: Morningstar.com

7 Rivers Index Firm	Profit Margin (%)	Asset Turnover (Times/year)	Financial Leverage (TA/Equity)	Return on Equity (NI/Equity)
Bone Care International	3.4	0.4	1.1	1.5
Fastenal	10.0	1.6	1.2	19.2
Featherlite	1.8	2.3	3.7	15.3
Flexsteel	2.2	2.4	1.7	9.2
HMN Financial	26.0	0.04	11.5	11.2
Heartland Financial	16.3	0.04	15.1	10.2
Hormel	5.0	1.8	1.8	17.0
Martin Transportation	4.4	1.3	1.7	9.8
National Presto	9.1	0.5	1.2	5.8
Northland Cranberries	16.1	0.9	1.7	24.5
Pemstar	-1.0	1.8	2.4	-4.6
Renaissance Learning	21.0	1.0	1.3	29.3
Rochester Medical	5.0	0.7	1.1	4.0
Wausau-Mosinee Paper	2.0	1.2	2.4	5.8
Average (excluding banks)	6.6	1.3	1.8	11.4

Table 5. Return on Equity Analysis
Most Recently Reported Twelve Months as of February 2005

7 Rivers Firm & Industry	Profit Margin (%)	Asset Turnover (Times/year)	Financial Leverage (TA/Equity)	Return on Equity (NI / Equity)
Hormel	5.0	1.8	1.8	17.0
Meat Products Industry	7.1	1.5	3.5	23.9
Northland Cranberries	16.1	0.9	1.7	24.5
Agriculture/Food Industry	3.0	1.8	2.2	10.0
Standard & Poor's 500	12.9	0.8	5.3	18.8

Table 6. Revenues, Earnings, and Dividends Growth Rates
All Numbers are in Percentages

7 Rivers Firm & Industry	Revenues 2002 to 2004	Earnings 2002 to 2004	Dividends 2000 to2005
Hormel	4.6	2.3	6.2
Meat Products Industry	9.8	13.3	-7.3
Northland Cranberries	-22.5	Not available	-100.0
Agriculture/Food Industry	10.8	9.0	-19.1
Standard & Poor's 500	4.8	7.0	8.0

Table 7. Annualized Rates of Return
Including Dividends and Share Price Changes

All Numbers are in Percentages

7 Rivers Firm & Industry	2002-2004	2000-2004	1995-2004
Hormel	9.7	14.4	11.8
Meat Products Industry	9.7	13.2	10.8
Northland Cranberries	-3.5	-48.9	-27.8
Agriculture/Food Industry	26.9	21.9	7.2
Standard & Poor's 500	5.0	-1.8	11.5