7 Rivers Region: An Economic Update

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- ***Economic Indicators and Trends***
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- ***7 Rivers Equity Index***
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Seven Rivers Equity Index Update: High Past Index Returns Fall Due to Flexsteel and HMN Financial

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Introduction

Tracking of the Seven Rivers Equity Index (SREI) began in 2000 as a way to provide information concerning publicly-traded firms headquartered in the 7 Rivers Region to investors and the business community. The benefit of tracking the index is that it provides a measure of the economic health of the region as several of the businesses within the index have a significant impact on the region. These firms affect the economy of the region in two important ways. First, ownership of the firms is concentrated at higher levels within the area of the firm's headquarters due to the stock ownership of the founders, management, and employees of the firm. As stock returns increase, wealth is imported into the region. Second--to the degree to which the firms' operations occur within the region--profits, cash flows, and investments of the firms are a measure of economic activity and health of the region.

This report covers the performance of the index and its components for the past five years (ending February 2, 2015). During this time period, three firms in the index were acquired by firms outside of the region, one firm was added due to moving their headquarters into the region, and one was added as a result of a spinoff from its corporate parent. During the most recent year, the index has underperformed the S&P 500 and S&P 400 indices and outperformed the Russell Micro-Cap Index.

In this issue, I describe the performance of the index and examine the fundamental financial ratios for the index components.

Construction of the Index and Index Components

The SREI consists of the exchange-traded stocks of firms that are headquartered within 100 miles of La Crosse, WI. *ReferenceUSA* was used to identify the firms that fulfill the criteria to be included in the index. The firms identified using these criteria are as follows:

Non-Financial Firms:

- Fastenal Company
- Flexsteel Industries, Inc.
- Hormel Foods Corporation
- Lands' End, Inc.
- Marten Transport Ltd.
- National Presto Industries, Inc.
- Spectrum Brands Holding, Inc.

Financial Services Firms:

Citizens Community Bancorp, Inc.
Heartland Financial USA, Inc.
HMN Financial, Inc.

A brief profile of each of the firms in the index is provided in the Appendix. Of the ten firms that currently make up the index, seven of the firms are traded on the NASDAQ and three are traded on the NYSE. Using Standard and Poors' guidelines, two of the firms (Fastenal and Hormel) are large-cap firms, one (Spectrum Brands) is a mid-cap firm, one (Lands' End) is a small-cap firm, and the remaining six are micro-cap firms. In the past four years, three firms (Great Wolf Resorts, Rochester Medical, and Renaissance Learning) exited the index due to being acquired by firms that are headquartered outside of the 7 Rivers Region. Spectrum Brands was added to the index due to the move of its headquarters to within 100 miles of the 54601 ZIP code. Lands' End was added due to it being spun off from Sears Holding Corporation in late March 2014 and retaining its pre-Sears headquarters in Dodgeville, WI.

Stock Performance

Calculation of Returns

The SREI is an equally-weighted index, meaning that it is assumed that an equal dollar amount is invested in each of the firms' stocks at the beginning of the measurement period. The returns for the index were calculated on a monthly basis for a five-year period beginning on February 1, 2010 and ending February 2, 2015. The monthly returns are calculated as the percentage change in the adjusted price on *Yahoo! Finance* from one month to the next. The adjusted price incorporates cash dividends paid, stock splits, reverse stock splits, and stock dividends into the price of the stock. The return calculated assumes that any dividends paid were reinvested back into the firm. As a result, the use of the adjusted price provides a measurement of the total return to the investor.

Benchmarks

For comparison purposes, I chose five benchmarks for the index, three for the total index and two for the financial firms.

The three benchmarks chosen for the total index are the S&P 500 Index (Ticker: ^GSPC), the S&P 400 Index (Ticker: ^MID), and the iShares Russell Micro-Cap Index (Ticker: IWC). The S&P 500 Index is a value-weighted index consisting of 500 US exchange-traded companies that have a market capitalization of $5.3 billion or more. The S&P 400 Index is a value-weighted index consisting of 400 US exchange-traded companies that have a market capitalization of between $1.4 billion and $5.9 billion.[1] The iShares Russell Micro-Cap Index seeks to replicate the returns of the Russell Micro-Cap Index and currently consists of 1,421 micro-cap exchange-traded firms. The average market capitalization of a firm in the index is $560 million.[2]

The average market capitalization for the firms in the SREI is approximately $3.59 billion, which falls in the mid-cap range of $1.4 billion to $5.9 billion. The median market capitalization for firms in the SREI is approximately $666 million, which falls in the small-cap range of between $400 million and $1.8 billion.[3]

The financial services industry is unique from other industries due to its high level of regulation and often divergent responses to market events. As such, firms in this industry are often analyzed separately from firms in other industries. Because of the regional nature of the three financial companies in the index, the benchmarks chosen are funds that hold equities of regional financial institutions. The benchmarks used for this subsection of the index are the iShares Dow Jones Regional Banks Index (Ticker: IAT) and the SPDR KBW Regional Banking Exchange Traded Fund (Ticker: KRE). The iShares Dow Jones Regional Banks Index consists of 53 equities that are representative of the Dow Jones Regional Banks Index.[4] The SPDR KBW Regional Banking Exchange Traded Fund seeks to replicate the returns of the S&P Regional Banks Select Industry Index and currently invests in 84 equities that are representative of that index.[5]

Index Performance

Table 1 provides the returns for each firm in the SREI, the average and median return for the index components, and the returns for the S&P 400 and micro-cap indices for each of the past five years ending February 1.

[1] "S&P U.S. Indices *Methodology," S&P Dow Jones Indices,* March 2015, http://us.spindices.com/indices/equity/sp-500, downloaded on March 5, 2015.
[2] Number of firms included in the iShares Russell Micro-Cap Index as of March 2, 2015. *iShares*, http://www.ishares.com/us/products/239716/ishares-microcap-etf, downloaded on March 5, 2015.
[3] "S&P U.S. Indices *Methodology," S&P Dow Jones Indices,* March 2015.
[4] "iShares U.S. Regional Banks ETF," *iShares*, http://www.ishares.com/us/products/239521/ishares-us-regional-banks-etf, downloaded on March 5, 2015.
[5] "SPDR S&P Regional Banking ETF," *SPDR*, https://www.spdrs.com/product/fund.seam?ticker=KRE downloaded on March 5, 2015.

Table 1. Stock Returns for the Twelve Months Ending February 1,

SREI Components	2015	2014	2013	2012	2011
Citizens Community	12.67%	22.90%	14.19%	26.08%	16.88%
Fastenal	-2.51%	-6.75%	0.65%	72.21%	43.49%
Flexsteel	-14.93%	65.56%	38.43%	19.64%	25.85%
Great Wolf Resorts[a]			93.83%	47.27%	10.89%
Heartland Financial	7.14%	15.94%	52.27%	-4.76%	19.86%
HMN Financial	-4.00%	137.62%	190.27%	-24.80%	-50.70%
Hormel Foods	10.93%	28.95%	34.16%	5.81%	35.97%
Lands' End[b]	16.39%				
Marten Transport	6.13%	41.92%	3.88%	-1.94%	13.63%
National Presto	-17.16%	7.92%	-4.27%	-21.84%	7.08%
Renaissance Learning[c]				55.72%	-8.34%
Rochester Medical[d]		35.50%	57.36%	-11.26%	-18.25%
Spectrum Brands[e]	18.30%	46.54%	96.44%	-0.96%	22.15%
Average	**3.30%**	**39.61%**	**52.47%**	**13.43%**	**9.87%**
Median	**6.64%**	**32.22%**	**38.43%**	**2.42%**	**15.25%**
S&P 500 Large-Cap Index	8.68%	22.76%	10.91%	2.90%	20.17%
S&P 400 Mid-Cap Index	5.22%	24.73%	12.82%	1.11%	30.91%
Russell Micro-Cap Index	-4.07%	41.87%	14.86%	-3.40%	31.65%

[a] Great Wolf Resorts was purchased by the Apollo Group during 2012.
[b] Lands' End was spun off from Sears Holding Corporation in April, 2014 and has its headquarters located in Dodgeville, WI.
[c] Renaissance Learning was purchased by Permira Funds during 2011.
[d] Rochester Medical was acquired by C.R. Bard in late 2013.
[e] Spectrum Brands moved its headquarters to Middleton, WI in late 2013, meeting the requirements of being included in the SREI.

The returns for firms in the SREI have generally followed the trend of two strong years of outperforming the S&P 500 and S&P 400 for the previous two years. Results for the firms for the last 12 months have been mixed, with four firms having negative returns and four firms outperforming both the S&P 500 and S&P 400 indices.

Fastenal's weak returns relative to the market for the previous twelve months are attributable to slowing sales growth and a deteriorating gross profit margin. Per the firm's 10-Q statement for the six months ending June 30, slow sales growth and lower profit margins for the first six months of 2014 compared to the same period in 2013 were driven by weak performance in the manufacturing and non-residential construction sectors, a 14.4% increase in personnel costs between the two time periods, and an abnormally cold and snowy winter, which not only affected the aforementioned market segments that Fastenal serves, but also increased transportation expenses for Fastenal.[6] Revenues and earnings for the past three quarters have fallen below investor expectations, resulting in falling stock prices for each at the time of each of those announcements. Management attributed the disappointing results in the latter half of the year partially to increasing personnel expenses.[7]

Flexsteel's poor performance in the past twelve months is attributable to a decrease in commercial sales for the previous twelve months and a congestion at west coast ports during the fourth quarter of 2014 per the company's 10-Q filed 2/9/2015.

Marten Transport's decreased return for the past twelve months compared to the previous twelve months has been driven by higher operating costs as a percent of revenues. Per the company's 10-Q filed 11/7/2014, the higher operating costs are attributable to the severe winter weather that affected the Midwest US in the first three months of 2014.

Hormel's returns have followed a pattern similar to those of Marten Transport over the past two years. Strong returns for the period ending February 1, 2013 were attributed to strong sales growth. While lower, the returns for the firm still outperformed the benchmarks for the twelve month period ending 2/2/15. Hormel's management attributes its strong performance to sales growth of 6.5% and net earnings growth of 14.5% in 2014 over the previous year. The growth for both metrics was attributable to Hormel's Refrigerated Foods, Jennie-O Turkey Store, and International & Other segments per the firm's 2014 annual report.

National Presto's negative returns for the past twelve months have been driven by sales and/or operating issues in each of its major segments. Budget cutbacks for the US military resulted in a decline in sales of cartridge cases for the FY 2013. Defense net sales had increased by less than 1% year-over-year for the first nine months of FY 2014. Sales for the firm's Houseware/Small Appliances division were down 4% year-over-year for the first nine months of FY 2014 due to a decrease in shipments. Sales for the Absorbent Products division were down 23% for the first nine months of 2014 compared to the same period for 2013. Management attributes the decrease in sales in the Absorbent Products division due to a "shift in the segment's customer base."[8]

[6] Fastenal Company 10-Q dated July 16, 2014.
[7] Fastenal Company 10-K dated February 5, 2015.
[8] National Presto 10-Q dated November 11, 2014.

Returns for Spectrum Brands followed the trend of the overall index of higher returns for the two previous 12-month periods and more moderate results for the 12 months ending February 2, 2015. Despite the decrease in return, at 18.30%, the returns for the most recent period more than doubled the returns for each of the benchmarks. Spectrum Brands' strong performance was driven by a 34% increase in sales for the Hardware and Home Improvement segment for FY 2014 over the previous year and an 11% increase in sales for the Home and Garden segment for 2014 over the previous year. The gross profit margin for Spectrum increased to 35.4% for FY 2014 compared to 34.0% for FY 2013 and was attributed to an increase in sales of higher margin products.[9]

Figure 1 shows the growth of $100 invested in the SREI equally across each of the component firms and $100 invested in each of the benchmarks on 2/1/2010 and holding those positions through 2/2/2015.[10] The ending value of the SREI was $259.59, for the S&P 500 it was $182.97, $196.00 for the S&P 400, and $198.79 for the Russell Micro-Cap Index. The strong performance for the index for the five year period was driven by the strong returns for several of the components in the SREI for the twelve month periods ending 2/1/2014 and 2/1/2013.

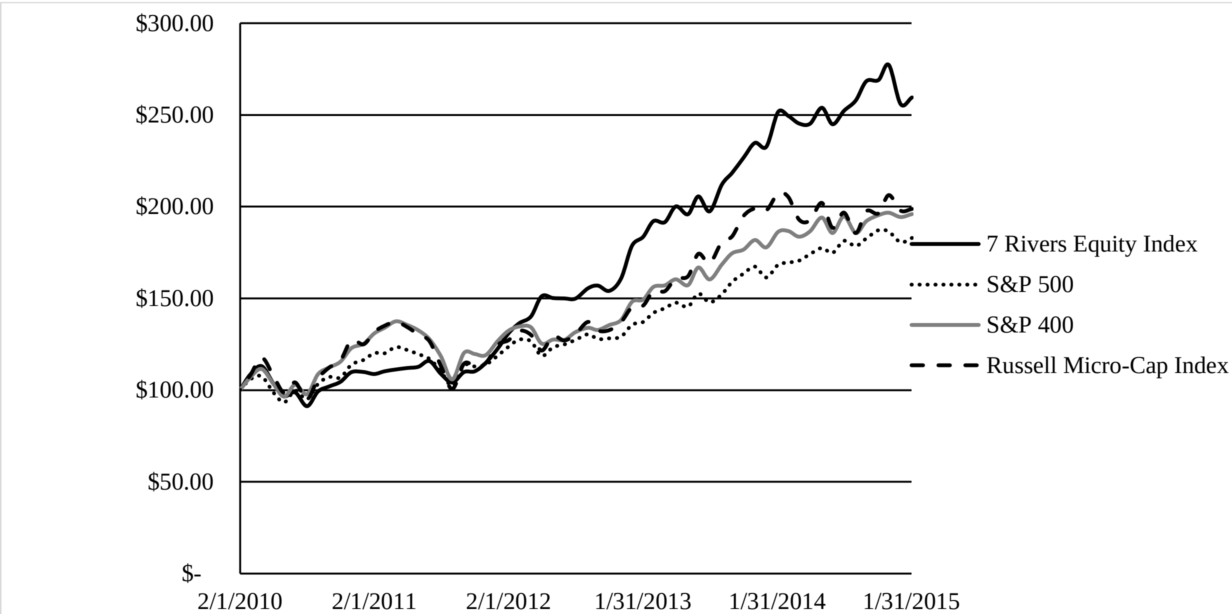
The amount of the index invested in Renaissance Learning was equally distributed across the remaining firms as of November 1, 2011 for the calculation of the index value. The amount invested in Great Wolf Resorts was equally distributed across the remaining firms as of May 1, 2012 for the calculation of the index value. The amount invested in Rochester Medical was equally distributed across the remaining firms as of November 1, 2013. Because of its move from east Madison, WI to Middleton, WI in late October 2013, Spectrum Brands was added to the SREI as of November 1, 2013. Because of its spinoff from Sears Holding Corporation in Early April 2014, Lands' End was added to the SREI as of April 1, 2014.[11] With the addition of each firm, the value of the portfolio was redistributed equally across all of the firms in the index when they were added.

[9] Spectrum Brands 10-K statement dated November 21, 2014.

[10] The results in Table 1 differ from the results presented in Figure 1 because the average returns and medians in Table 1 are based on an equal weighting for each twelve month period, while the graph assumes a 5-year buy and hold strategy.

[11] Lands' End began limited trading under the symbol "LEDMV" on March 20, 2014 and began trading under the symbol "LE" on April 7, 2014.

Figure 1. Growth of $100 Invested in the Seven Rivers Equity Index and Comparative Benchmarks



Financial Firms' Performance

To analyze the performance of the financial services industry firms within the SREI, an equally-weighted portfolio was created using the returns of Citizens Community Bancorp, Heartland Financial USA, and HMN Financial. The average return for the SREI Financial firms was higher than that of the benchmarks because of the strong performance of Citizens Community and Heartland Financial during the previous twelve months. The average (median) return for the SREI Financials was higher than that of the benchmarks at 5.27% (7.14%) compared to -0.58% for the Dow Jones Regional Banks fund and -3.46% for the S&P Regional Banking ETF.

Table 2. Stock Returns the Twelve Months Ending February 1,

SREI Components	2015	2014	2013	2012	2011
Citizens Community	12.67%	22.90%	14.19%	26.08%	16.88%
Heartland Financial	7.14%	15.94%	52.27%	-4.76%	19.86%
HMN Financial	-4.00%	137.62%	190.27%	-24.80%	-50.70%
Average	**5.27%**	**58.82%**	**85.57%**	**-1.16%**	**-4.65%**
Median	**7.14%**	**22.90%**	**52.27%**	**-4.76%**	**16.88%**
iShares DJ Regional Banks	-0.58%	30.18%	14.86%	-5.54%	11.32%
S&P Regional Banking ETF	-3.46%	33.45%	15.24%	2.61%	10.48%

Strong returns for *Citizens Community Bancorp* for the past twelve months are attributable to increasing net income and improved credit quality. For FY 2014, the firm reported net income $1.78 million compared to a net income of $1.05 million for the prior year. Net loan charge-offs had also declined by 41.51% compared to the prior year. Citizens Community also reported a 13.11% increase in non-interest income for the same period.[12]

Heartland Financial acquired Community Banc-Corp of Sheboygan in October of 2014 for $52 million in stock. For the nine months ending September 30, 2014, ROE and ROA had increased to 11.86% and 0.79%, respectively, from 8.38% and 0.53%, respectively, for the same nine month period the prior year. The improvement in returns was driven by loan growth and the acquisition of Morrill & Janes Bank and Trust the previous year.[13]

The strong returns for *HMN Financial* for the previous two years were due largely to an improvement of the firm's asset quality, specifically an increase in the value of the collateral for commercial real estate loans. The improvement in the asset quality has driven increased profitability because the firm has been able to reverse a heavy provision for loan loss expenses over those two years. The negative return for the past twelve months was driven by a 29% decrease in the stock price between March 12 and April 4, 2014 that coincided with the release of their FY 2013 results. The stock price has largely rebounded from the drop.

[12] Citizens Community Bancorp, 10-K statement dated December 8, 2014.
[13] Heartland Financial USA, Inc. 10-Q statement dated November 7, 2014.

Figure 2. Growth of $100 Invested in the Seven Rivers Index Financials and Comparative Benchmarks

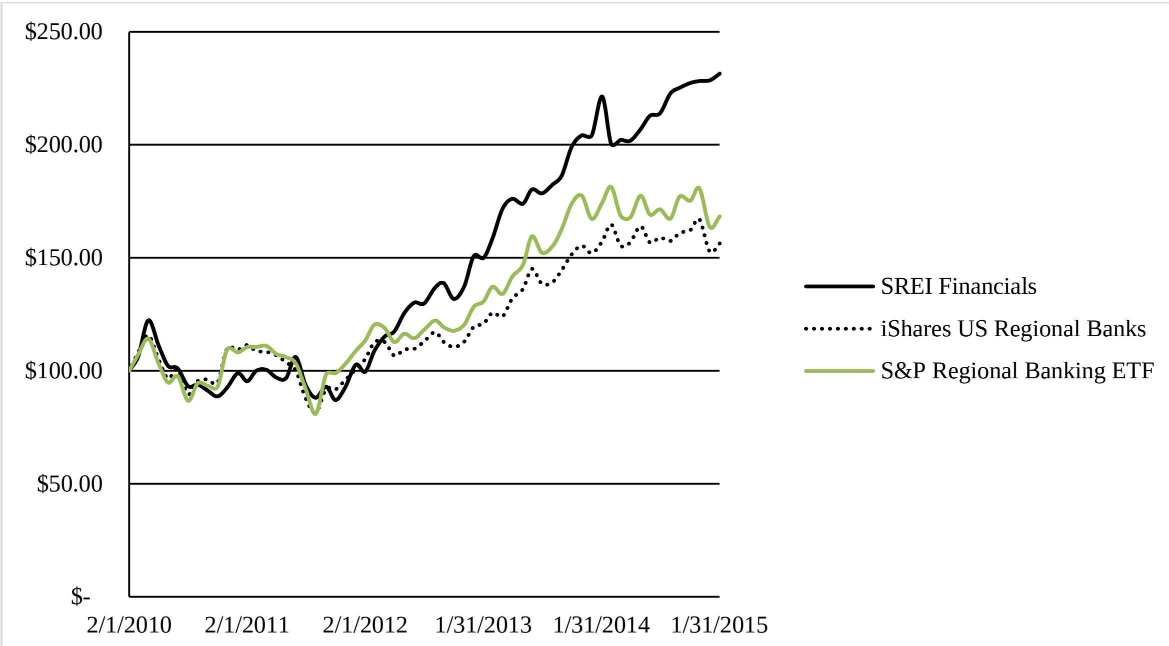


Figure 2 shows the results of investing $100 in the Seven Rivers Financial Index--also equally-weighted across the firms--and into each of the two benchmarks beginning February 1, 2010. The $100 initially invested in the Seven Rivers Financial Index would have been worth $231.46 at the end of the measurement period; the increase largely due to the large returns for HMN Financial. The same $100 would have been worth $156.33 if invested in the iShares Dow Jones Regional Banks Index and $168.29 if invested in the S&P Regional Banking Exchange Traded Fund.

Accounting Measure Performance

Tables 3, 4 and 5 present income statement, balance sheet, and cash flow statement information, respectively, for each of the firms in the index and the median and average results for the non-financial and financial firms separately. Information for the tables was taken from Standard & Poor's Capital IQ™.

Income Statement Performance

For the non-financial firms, revenues rose consistently across the three-year time period for all of the firms except Lands' End and National Presto Industries. During 2013, Lands' End was still owned by Sears Holding Company and the decrease in revenues for the segment was likely driven by the overall trend for Sears. In 2014, revenues for Lands' End rebounded. The falling sales for National Presto for 2014 has been driven by declining sales in its Housewares/Small Appliance and Absorbent Products segments as described above.

All of the financial firms had increasing revenues for the three year period, with Heartland Financial having a slight decrease in 2013 and HMN Financial having a slight decrease for 2014.

The average and median gross profit margins were stable for 2012 and 2013 and saw a slight uptick in 2014. The improvement was driven by increases for Lands' End and Marten Transport. The average and median net profit margin consistently increased over the three year period. The increase was driven by improvements for Flexsteel, Lands' End, and Spectrum Brands. National Presto had declining gross profit and net profit margins for the three year period due to decreasing sales and the inability to scale expenses down at the same rate of revenue shrinkage.

The median net profit margin fell for the financial firms over the three year period, while the average increased. The increasing average net profit margin for the three year period for the financial firms was driven by the increase in the net profit margin for HMN Financial and Citizens Community for the period. The turnaround for HMN Financial is significant and followed increased loan losses for several years following the downturn in the mortgage market in 2008, which resulted in a memorandum of understanding between the firm and the Office of Thrift Supervision in February of 2009 and culminating in a supervisory agreement between the two in February of 2011. The 76.4% net profit margin for 2013 was due to a decrease in the Allowance for Bad Loans, which resulted in a significant negative Provision for Loan Loss for the year and resulted in one-time boost in income. This supervisory agreement required the firm to improve its capital ratios prior to paying dividends in the future. HMN Financial has yet to resume paying dividends.

The net interest margin is calculated as the net interest income (interest income less interest expense) divided by the average interest-earning assets during the period. This is a common evaluation measure for financial institutions as the majority of their income comes from interest on loans and the ability to maintain profitability depends on their ability to loan money out at a higher rate of interest than they have to pay to use the funds. As can be seen in Table 3, the median and median values for the financial firms remained stable for the three year period. The

Net Interest Margin for HMN Financial did fall over the period, which may have been caused by the bank reducing its exposure to riskier loans.

The average and median return on equity increased for the non-financial firms over the three year period. The increase was driven by increased ROE for Lands' End and Spectrum Brands and is consistent with the increase in the net profit margin for these two firms. The ROE for National Presto fell consistently during the period, which is also consistent with the decrease in its net profit margin.

The average and median return on equity for the financial firms fell during the period. This was driven by the decrease in ROE for Heartland Financial in 2013.

Table 3. Income Statement Measures of SREI Component Firms

Non-Financial Firms

	Revenues (in millions)			Gross Profit Margin			Net Profit Margin			Return on Equity		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Fastenal Company	$ 3,133.58	$ 3,326.11	$ 3,733.51	51.5%	51.7%	50.8%	13.4%	13.5%	13.2%	27.9%	26.9%	26.8%
Flexsteel[a]	$ 386.19	$ 438.54	$ 444.71	23.4%	22.9%	23.2%	3.4%	3.4%	4.4%	9.0%	9.4%	11.8%
Hormel Foods[b]	$ 8,230.67	$ 8,751.65	$ 9,316.26	16.2%	16.1%	16.8%	6.1%	6.0%	6.5%	18.4%	17.3%	17.5%
Lands' End[c]	$ 1,585.93	$ 1,562.88	$ 1,581.22	44.4%	45.5%	47.1%	3.1%	5.0%	5.5%	6.0%	9.8%	14.1%
Marten Transport	$ 638.46	$ 659.21	$ 672.93	22.3%	23.6%	24.6%	4.3%	4.6%	4.4%	8.5%	8.7%	8.0%
National Presto[d]	$ 472.49	$ 420.19	$ 405.32	20.1%	18.9%	18.0%	8.2%	9.8%	7.7%	12.4%	13.2%	9.9%
Spectrum Brands[e]	$ 3,252.44	$ 4,085.58	$ 4,429.11	34.6%	35.0%	35.5%	1.5%	(1.4%)	4.8%	4.8%	(5.7%)	21.2%
Median	$ 1,585.93	$ 1,562.88	$ 1,581.22	**23.4%**	**23.6%**	**24.6%**	**4.3%**	**5.0%**	**5.5%**	**9.0%**	**9.8%**	**14.1%**
Average	$ 2,528.53	$ 2,749.17	$ 2,940.44	**30.4%**	**30.5%**	**30.9%**	**5.7%**	**5.9%**	**6.6%**	**12.4%**	**11.4%**	**15.6%**

Financial Firms

	Revenues (in millions)			Net Interest Margin			Net Profit Margin			Return on Equity		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Citizens Community[f]	$17.70	$19.20	$21.30	3.8%	3.9%	3.6%	1.2%	5.5%	8.4%	0.4%	1.9%	3.2%
Heartland Financial	$245.30	$243.20	$266.30	4.0%	3.8%	4.0%	20.3%	15.1%	15.7%	13.2%	8.7%	9.0%
HMN Financial	$29.60	$34.90	$33.70	3.7%	3.5%	3.4%	18.0%	76.4%	21.9%	9.0%	36.4%	9.1%
Median	**$ 245.32**	**$ 243.15**	**$ 266.26**	**4.0%**	**3.9%**	**4.0%**	**18.0%**	**15.1%**	**15.7%**	**12.4%**	**11.4%**	**9.1%**
Average	**$ 966.63**	**$ 1,011.88**	**$ 1,055.13**	**3.8%**	**3.7%**	**3.7%**	**13.2%**	**32.3%**	**15.3%**	**7.5%**	**15.7%**	**7.1%**

Unless otherwise noted, the following notes apply to the remaining tables in the report.

[a] Flexsteel Industries has a FYE of June 30. The 2014 results reflect the LTM ending 12/31/2014.

[b] Hormel Foods has a FYE at the end of October. The 2014 results reflect the FY ending 10/26/2014.

[c] Lands' End has not released their FYE 2014 results (FYE 1/31), so the results for the LTM ending 10/31/2014 are reported for 2014.

[d] National Presto Industries has not released their FYE 2014 results (FYE 12/31), so the results for the LTM ending 9/28/2014 are reported for 2014.

[e] Spectrum Brands has a FYE of 9/30. The 2014 results reflect the FY ending 9/30/2014.

[f] Citizens Community has a fiscal year end of 9/30. The 2014 results reflect the FY ending 9/30/2014.

Balance Sheet Analysis

Table 4 provides the balance sheet ratios for the years 2012-2014 for the firms that comprise the SREI. The current ratio is a measure of the liquidity of the firm and is calculated as current assets divided by current liabilities. The current ratio measures how easily a firm can pay its liabilities that are expected to come due in the next year with assets that are expected to be liquidated in the next year. While having an increasing current ratio may sound beneficial and generally does reduce risk, it also reduces the returns to shareholders as liquid assets typically provide little, if any, return. The debt ratio is calculated as total liabilities divided by the total assets of the firm. An increasing debt ratio may result in an increased risk of default and bankruptcy. Conversely, a greater amount of debt in the capital structure concentrates the earnings of the firm to fewer equity holders and increases the return on equity for the firm. Total asset turnover is calculated as sales divided by total assets and is used as a measure of how well management is utilizing assets to generate sales.

The average current ratio among the non-financial firms declined between 2012 and 2014. The only firms that saw an increase in the current ratio during the period were Lands' End and National Presto. The decrease for Hormel was driven by an increase in Accounts Payable of $170 million between 2013 and 2014.

The median debt ratio for the non-financial firms was stable for the period, while the average increased from 32.8% to 39.9% between 2012 and 2014, which was driven by the increase in debt for Lands' End. The balance sheets for Lands' End for 2012 and 2013 reflect the financial position of the firm while it was still a part of Sears Holding Corporation. With its spinoff from Sears, Lands' End took on $515 million in debt to make a required payment of $500 million to Sears.

Flexsteel, Fastenal, and National have no long-term debt. Hormel has maintained $250 million in long-term debt for the past several years with the decrease in the long-term debt ratio coming from the increased value of assets. In 2013, the amount of long-term debt almost doubled for Spectrum Brands to $3.116 billion in long-term debt from $1.653 billion in 2012. The increase in long-term debt was used to finance the $1.4 billion cash acquisition of Stanley Black & Decker Hardware and Home Improvement group during fiscal year 2013.[14]

The total asset turnover ratios for the non-financial firms have been stable for the three year period.

For the financial firms, the loans-to-deposits ratio, provision for loan loss-to-total loans and the equity-to-assets ratio of the firms are presented. The loan-to-deposit (LTD) ratio measures liquidity and earning power of the bank. A high LTD ratio may indicate that the bank does not have sufficient

[14] Per Spectrum Brands' press release dated October 9, 2012.

liquidity to fund unexpected fund requirements. A low LTD ratio may indicate that the bank is not maximizing its earning potential by making too few loans relative to its deposits. The provision for loan loss is an income statement account that shows how much the firm is setting aside for future anticipated loan losses. This ratio provides insight into the quality and safety of the loans that the firm has made. The equity-to-assets ratio is a measure of the safety of the firm as a higher ratio gives the firm a larger cushion that can absorb future losses. However, a higher ratio also decreases return on equity and may be the result of regulatory action due to poor loan quality.

Table 4. Balance Sheet Ratios of SREI Component Firms

Non-Financial Firms

	Current Ratio			Debt Ratio			Total Asset Turnover		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Fastenal Company	6.3x	5.9x	4.2x	14.1%	14.6%	18.8%	1.8x	1.7x	1.7x
Flexsteel Industries	4.2x	4.5x	3.6x	21.5%	20.7%	26.0%	2.1x	2.2x	2.0x
Hormel Foods Corp	3.0x	2.6x	2.2x	38.1%	32.5%	33.8%	1.9x	1.8x	1.8x
Lands' End	2.4x	2.2x	2.1x	32.4%	33.7%	72.4%	1.3x	1.3x	1.2x
Marten Transport	2.0x	2.0x	2.5x	32.3%	31.7%	33.1%	1.3x	1.3x	1.2x
National Presto Industries	4.8x	4.9x	5.0x	17.9%	15.5%	14.9%	1.2x	1.1x	1.1x
Spectrum Brands	1.7x	1.6x	1.6x	73.6%	83.3%	80.3%	0.9x	0.9x	0.8x
Median	**3.0x**	**2.6x**	**2.5x**	**32.3%**	**31.7%**	**33.1%**	**1.3x**	**1.3x**	**1.2x**
Average	**3.5x**	**3.4x**	**3.0x**	**32.8%**	**33.1%**	**39.9%**	**1.5x**	**1.5x**	**1.4x**

Financial Firms

	Net Loans-to-Deposits			Provision for Loan Loss-to-Average Loans			Average Total Equity-to-Average Assets		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Citizens Community	100.0%	97.2%	103.1%	1.3%	1.0%	0.7%	10.1%	10.1%	9.9%
Heartland Financial	72.6%	74.2%	80.5%	0.3%	0.3%	0.4%	6.3%	6.2%	6.4%
HMN Financial	88.2%	69.4%	73.5%	0.5%	(1.9%)	(1.8%)	8.2%	11.3%	13.2%
Median	**88.2%**	**74.2%**	**80.5%**	**0.5%**	**0.3%**	**0.4%**	**8.2%**	**10.1%**	**9.9%**
Average	**86.9%**	**80.3%**	**85.7%**	**0.7%**	**(0.2%)**	**(0.3%)**	**8.2%**	**9.2%**	**9.9%**

The loans-to-deposit ratio has remained relatively stable for Citizens Community and Heartland Financial for the three year period; although the difference in the ratio between the two is significant.

The ratio for HMN Financial has fallen significantly in 2013 likely due to the regulatory action taken against the firm in 2011.

The significant decline in the provision for loan loss-to-total loans is a positive sign for Citizens Community and HMN Financial. The decrease represents improving loan quality, which results in fewer funds being set aside to cover expected loan losses. The negative provision for loan loss-to-loans for 2013 and 2014 for HMN Financial was due to an increase in the value of the collateral for commercial real estate mortgages during 2013 and a net reduction in loans outstanding of $80 million during the year, including many underperforming loans. Following this improved performance, on February 14, 2014 the Office of the Comptroller of the Currency ended the supervisory agreement with HMN Financial. The end of the supervisory agreement will allow HMN to begin paying dividends again, if it chooses, and may result in an increase in the loan-to-deposit ratio in the next few years.

The increasing average equity-to-assets ratio for the finance firms was driven by the increase in the ratio for Citizens Community Bancorp in 2012 and the increase in the ratio for HMN Financial in 2013. The significant increase in the ratio for HMN Financial comes as a result of the improved asset quality, resulting in an increased equity value relative to the liabilities of the firm.

Cash Flow Analysis

The amounts of operating cash flows, capital expenditures, and free cash flows are provided in Table 5. Operating cash flows and capital expenditures are reported from the firms' statements of cash flows and represent the cash flows generated by the firms' operations and the amounts spent on fixed assets, respectively. The free cash flows for this table are calculated as cash flows from operations less capital expenditures. If not used for paying down debt or held for future investment purposes, free cash flows are cash flows that are available for distribution to stockholders through dividends or stock repurchases. Consistent and growing free cash flows increase the value of the firm's equity to shareholders.

Average and median operating cash flows increased for the non-financial firms during the three year period. The increase was driven by the increase in operating cash flows for Spectrum Brands in 2014, which was due to the increase in net income for the year. The decline in operating cash flows for National Presto in 2013 was due to a significant increase in inventory during the prior twelve months. Management for the firm stated that sales weakened in each of their three product categories during 2013, which likely resulted in the increase in inventory.[15]

Average capital expenditures increased over the three year period. The increase in capital expenditures for Flexsteel in 2014 ($28.7 million) was due to the firm purchasing a 500,000 square foot distribution

[15] Per National Presto Press Release dated October 28, 2013.

facility in Edgerton, KS.[16] The increase of $38.56 million for Marten Transport in 2014 was largely an investment into tractor trailer equipment. Fastenal, National Presto, and Spectrum Brands increased their capital expenditures for 2013.[17] The large increase for Fastenal ($68.1 million) was due to an expanded vending rollout and distribution automation.[18] The increase for National Presto was due to an increase in spending for their Defense Products division.[19]

The increases in operating cash flows for the Seven Rivers firms over the three year period resulted in the increased average and median free cash flows for the firms between 2012 and 2014.

For the financial firms, median operating and free cash flows have remained relatively stable over the three year period. The significant increase in the average of these measures in 2013 was due to the increase a significant increase in Proceeds from Loans Held for Sale for Heartland Financial in 2013. Heartland reduced their loans held for sale as the value of this asset fell from $96.2 million at the end of 2012 to $46.6 million at the end of 2013.

Capital expenditures for financial firms in general, and for the three financial firms in the Seven Rivers Equity Index specifically, are a small part of their overall cash flows due to the nature of the industry. As a result, the resulting free cash flows are driven by the operating cash flows of the firms and follow the same trends.

Concluding Remarks

Following two years of strong returns for the SREI for the years ending February 1, 2013 and 2014, the return for the most recent twelve months was moderated by negative returns for Flexsteel and HMN Financial.

The non-financial firms in the SREI have enjoyed steady growth in profitability and returns on equity for the past three years, while the financial firms have faced volatility, primarily due to continued recovery from the last recession. Free cash flows have also been increasing steadily for the non-financial firms, with significant increases for Lands' End and Spectrum Brands in the past year.

[16] "Flexsteel pays $24.1M for Logistics Park Spec Building," *Kansas City Business Journal,* Oct. 3, 2014, http://www.bizjournals.com/kansascity/news/2014/10/03/flexsteel-buys-500-000-square-foot-building-in.html, downloaded on March 6, 2015.
[17] Per Marten Transport 10-Q statement dated November 7, 2014.
[18] Per Fastenal Company Press Release dated January 15, 2014.
[19] Per National Presto 10-Q statement dated November 8, 2013.

Table 5. Cash Flow Analysis of SREI Component Firms

Non-Financial Firms

	Operating Cash Flows (in millions)			Capital Expenditures (in millions)			Free Cash Flow (in millions)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Fastenal	$ 396.29	$ 416.12	$ 499.39	$ 138.40	$ 206.50	$ 189.50	$ 257.89	$ 209.62	$ 309.89
Flexsteel Industries	$ 5.91	$ 16.24	$ 9.41	$ 6.20	$ 4.20	$ 32.90	$ (0.30)	$ 12.04	$ (23.49)
Hormel Foods Corp	$ 517.78	$ 637.81	$ 746.88	$ 106.80	$ 159.10	$ 144.10	$ 410.98	$ 478.71	$ 602.78
Lands' End	$ 96.25	$ 114.92	$ 211.42	$ 15.00	$ 9.90	$ 17.40	$ 81.25	$ 105.02	$ 194.02
Marten Transport	$ 85.54	$ 89.19	$ 81.67	$ 135.40	$ 120.80	$ 159.36	$ (49.86)	$ (31.61)	$ (77.69)
National Presto Industries	$ 62.34	$ 24.22	$ 47.98	$ 13.60	$ 36.30	$ 26.40	$ 48.74	$ (12.08)	$ 21.58
Spectrum Brands	$ 258.75	$ 256.51	$ 432.69	$ 46.80	$ 82.00	$ 73.30	$ 211.95	$ 174.51	$ 359.39
Median	**$ 96.25**	**$ 114.92**	**$ 211.42**	**$ 46.80**	**$ 82.00**	**$ 73.30**	**$ 81.25**	**$ 105.02**	**$ 194.02**
Average	**$ 203.27**	**$ 222.14**	**$ 289.92**	**$ 66.03**	**$ 88.40**	**$ 91.85**	**$ 137.24**	**$ 133.74**	**$ 198.07**

Financial Firms

	Operating Cash Flows (in millions)			Capital Expenditures (in millions)			Free Cash Flow (in millions)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Citizens Community	$ 9.08	$ 6.64	$ 7.94	$ 0.47	$ 0.55	$ 0.49	$8.61	$6.09	$7.46
Heartland Financial†	$ 48.70	$ 135.59	$ 68.77	$ 19.80	$ 10.50	$ 7.78	$28.90	$125.09	$60.99
HMN Financial†	$ 16.84	$ 18.99	$ 18.73	$ 0.30	$ 0.43	$ 0.65	$16.54	$18.57	$18.08
Median	**$ 16.84**	**$ 18.99**	**$ 18.73**	**$ 0.47**	**$ 0.55**	**$ 0.65**	**$ 16.54**	**$ 18.57**	**$ 18.08**
Average	**$ 24.87**	**$ 53.74**	**$ 31.82**	**$ 6.86**	**$ 3.82**	**$ 2.97**	**$ 18.02**	**$ 49.91**	**$ 28.84**

†The cash flow measurements for Heartland Financial and HMN Financial for 2014 are for the LTM ending 9/31/14 and were calculated from the firm's 10-q and 10-k statements.

APPENDIX

Non-Financial Firms[20]

Company: **Fastenal Corporation**
Ticker: FAST
Exchange: NasdaqGS
Market Cap: $12.24 Billion
Description: Wholesaler and retailer of industrial and construction supplies. Product lines include fasteners, hydraulic and pneumatic tools, janitorial supplies, and welding equipment.
Institutional Ownership: 82%
Year Founded: 1967

Company: **Flexsteel Industries, Inc.**
Ticker: FLXS
Exchange: NasdaqGS
Market Cap: $221.19 Million
Description: Manufacturer, importer, and marketer of residential and commercial furniture. Product lines include upholstered and wood furniture, desks, dining tables and chairs, and bedroom furniture.
Institutional Ownership: 46%
Year Founded: 1929

Company: **Hormel Foods Corporation**
Ticker: HRL
Exchange: NYSE
Market Cap: $15.35 Billion
Description: Producer and marketer of meat and food products worldwide. Business segments include: grocery products, refrigerated foods, Jennie-O Turkey Stores, and specialty foods.
Institutional Ownership: 33%
Year Founded: 1891

Company: **Lands' End, Inc**
Ticker: LE
Exchange: NasdaqCM
Market Cap: $1.18 Billion
Description: Multi-channel retailer of apparel and home products. The firm's channels of distribution are: standalone stores, stores within Sears' stores, internet, phone, and catalog. Lands' End has operations in the US, Europe, and Asia.
Institutional Ownership: 20%
Year Founded: 1963

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[20] Data presented is from Capital IQ, Morningstar, NASDAQ, and Thomson Reuters. Market Cap and Institutional Ownership are as of 3/3/2015.

Company: **Marten Transport Ltd.**
Ticker: MRTN
Exchange: NasdaqGS
Market Cap: $762.93 Million
Description: Truckload carrier that specializes in transporting consumer goods that require a temperature-controlled or insulated environment across North America and Mexico. Business segments are trucking and logistics.
Institutional Ownership: 66%
Year Founded: 1946

Company: **National Presto Industries, Inc.**
Ticker: NPK
Exchange: NYSE
Market Cap: $411.73 Million
Description: Manufacturer of housewares and electrical appliances; defense-related products, such as: training ammunition, fuses, firing devices, and initiators; and diapers and adult incontinence products.
Institutional Ownership: 49%
Year Founded: 1905

Company: **Spectrum Brands Holdings, Inc.**
Ticker: SPB
Exchange: NYSE
Market Cap: $5.05 Billion
Description: International consumer products company that sells products under the brand names Rayovac, Kwikset, Weiser, Baldwin, National Hardware, Pfister, Remington, VARTA, George Foreman, Black & Decker, Toastmaster, Farberware, Tetra, Marineland, Nature's Miracle, Dingo, 8-in-1, Russell Hobbs, FURminator, Littermaid, Spectracide, Cutter, Repel, Hot Shot, and Black Flag.
Institutional Ownership: 37%
Year Founded: 1906

Financial Services Firms[21]

Company: **Citizens Community Bancorp Inc.**
Ticker: CZWI
Exchange: NasdaqGM
Market Cap: $48.55 Million
Description: Provider of consumer banking services through 18 in-store Wal-Mart Supercenter locations and eight branches in Wisconsin, Minnesota, and Michigan.
Institutional Ownership: 20%
Year Founded: 1938

Company: **Heartland Financial USA Inc.**
Ticker: HTLF
Exchange: NasdaqGS
Market Cap: $569.15 Million
Description: A multi-bank holding company that has subsidiaries in Iowa, Illinois, Wisconsin, New Mexico, Arizona, Montana, Colorado, and Minnesota.
Institutional Ownership: 38%
Year Founded: 1981

Company: **HMN Financial, Inc.**
Ticker: HMNF
Exchange: NasdaqGM
Market Cap: $48.88 Million
Description: Operator of retail banking and loan production facilities in Minnesota and Iowa.
Institutional Ownership: 29%
Year Founded: 1933

[21] Data presented is from Capital IQ, Morningstar, and Thomson Reuters. Market Cap and Institutional Ownership are as of 3/3/2015.

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