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Clayton Industries: Peter Arnell, Country Manager for Italy

In late September 2009, Peter Arnell, country manager of Clayton SpA, the Italian subsidiary of U.S.-based Clayton Industries, faced some daunting challenges as the global recession took its toll. Sales were down 19%, and after decades of solid returns, Clayton SpA was in its third year of losses, now accumulating at more than $1 million a month.

Arnell's attention was sharpened by the imminent visit of Dan Briggs, Clayton's recently appointed CEO, and Simonne Buis, Arnell's direct boss and President of Clayton Europe. Both expected him to turn around Clayton SpA and position it for future growth. And although he had only been in Italy for just over two months, Arnell knew that Briggs and Buis would want to know exactly what action he intended to take.

The Parent Company: Clayton Industries

Founded in Milwaukee in 1938, Clayton Industries Inc. had built a successful business around window-mounted room air conditioners which it sold for residential and light-commercial applications. In the early 1980s, management perceived two important growth opportunities—one in the North American commercial sector, and the other in residential and commercial markets in Europe—and took steps to exploit both.

As it expanded abroad, Clayton established its position in Europe by acquiring four companies:

- Corliss, a U.K.-based manufacturer of home heating, ventilation, and air conditioning (HVAC) systems.
- Fontaire, a Brussels-based manufacturer of fans and ventilating equipment.

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- Control del Clima, a Barcelona-based manufacturer of climate control products for industrial and commercial applications.

- AeroPuro, a Brescia, Italy-based manufacturer of compression chillers for large commercial, public, and institutional installations. (Chillers are the units at the core of most industrial air conditioners.)

To manage international expansion, Clayton restructured its organization in 1988. All operations in the United States and Canada were placed under Clayton North America, while the European acquisitions reported to a newly created Clayton Europe. Each of these entities was headed by a regional company president. (See **Exhibit 1** for the organizational chart.)

Clayton Europe

In 1989, Clayton Europe adopted the Brussels offices formerly occupied by Fontaire as its headquarters. Recognizing the need for strong management in each country where it had a presence, the new president of Clayton Europe appointed four country managers. They were given responsibility for sales of the full line of Clayton products in their home country and their allocated export markets in Europe.

Early progress was slow. While the European market for air conditioning began to grow in the 1990s, it was from a low base. Even in 1998, air-conditioning was in only 7% of homes in Italy, and 11% in Spain, compared with U.S. penetration of 71%. Many Europeans saw air conditioning as an expensive American luxury that harmed the environment.

Clayton's slow market penetration also reflected Europeans' different needs and national brand preferences. For example, Clayton's window units (assembled in Belgium from components shipped from the United States) did not sell as well as familiar local brands that Europeans seemed to prefer. And its central AC units also struggled in Europe where few buildings had duct work required for such systems. But a couple of Asian producers had been able to gain penetration in Europe, largely on the basis of price.

As a result of Europeans' strong national brand preferences, the Corliss-sourced HVAC systems and the Fontaire line of fans both sold much better in their home markets than elsewhere in Europe. But no product represented this geographic concentration more strongly than the chiller line built in Italy. A decade after it had been offered to all Clayton's European companies, sales outside Italy accounted for only 12% of the total.

In 2001, Simonne Buis, previously the hard-driving head of the Belgian company, was named president of Clayton Europe. Determined to create a more integrated European organization, her first priority was to increase the operational efficiency of Clayton's diverse portfolio of inherited plants. She set tough targets that required them to slash costs, build scale, or both. Then, to encourage Europe-wide penetration of the entire product line, she informed country managers that in addition to their national sales responsibility, they would now be held responsible for Europe-wide profitability of products produced in their plants. She encouraged them to emerge from their country subsidiary silos and collaborate. The simple geographic-based structure was evolving toward a product-overlaid matrix.

Over the next seven years, Europe became a major growth engine for Clayton, increasing its share of the company's global revenue from 33% in 2000 to 45% by 2009. During this period, Belgium/France overtook Italy as Clayton Europe's lead market, its 38% of 2009 revenues ahead of Italy's 30%. Spain accounted for 20%, and the U.K. for 12%.

But the European growth engine stalled when the global recession of 2008-09 hit. (**Exhibit 2** summarizes Clayton's financial statements.) It was a crisis that triggered strategic adjustments and management changes in both the U.S. and European operations.

Crisis Response in the United States and Europe

As the economic crisis deepened in 2009, the Clayton Industries board convinced its 63-year-old, long-time CEO to step aside in favor of Dan Briggs, a 16-year company veteran who, along with Buis, had been groomed as a potential CEO successor. Briggs was a no-nonsense manager who was previously EVP of Clayton North America.

On assuming his new role in March 2009, Briggs quickly established two priorities. Facing a cash crisis, he underlined the urgency of reducing capital use and bringing costs under control. But he also emphasized that "great opportunities always reside inside crisis," and urged managers to use the downturn to rationalize the company's portfolio and focus on products that could position it for post-recession profitable growth.

As he discussed these priorities with Buis, Briggs told her that he saw Europe as a continued source of growth. But he questioned whether the company should continue its attempts to penetrate the commercial air conditioning sector. In Briggs's view, it was a business in which only the top three or four competitors in any market could make money, and he was skeptical that Clayton could get there from its current situation.

Buis argued that several record-breaking hot European summers were changing consumer attitudes and that the market was on the cusp of embracing air-conditioning. She felt that the company should be positioning for a post-recession expansion. Recognizing Buis's successes in Europe, Briggs asked her to prepare a growth plan to review with him.

To translate Briggs's corporate priorities into European actions, Buis met with her country managers and told them she wanted all country operations to achieve a 10/10/10 plan to cut both receivables and inventories by 10 days, and reduce headcount by 10%. She also announced the "Top Four in Four" initiative, and asked each manager to prepare plans showing how the product for which he had Europe-wide responsibility would be in the top four in European market share within four years.

Problems at Clayton SpA

While these new targets would be difficult for all of Clayton's European companies, in Italy they would be a real challenge. Lagging other countries in revenue growth since 2004, Clayton SpA actually recorded a 5.3% sales decline in 2008, followed by a 19.4% drop in the first half of 2009. As a result, receivables and inventories were both above 120 days sales. In addition, headcount reduction faced tough local laws and a tense union relationship. In short, achieving the 10/10/10 plan would be very difficult.

The "Top Four in Four" requirement would also be a challenge for the Italian unit's Europe-wide responsibility for chillers. While this line accounted for 55% of 2009 Italian revenues, it generated only 12% of sales for the rest of Europe. (See **Exhibits 3** and **4** for industry sales and projections). Of the seven companies in the European chiller market, Clayton was in a distant fifth place with a 7% overall market share.

As performance declined, Paolo Lazzaro, president of Clayton SpA since 1998, claimed that the problems were due to the commodity cycle, and suggested that Clayton should "weather the storm." Frustrated by this attitude, Buis terminated Lazzaro in June 2009. As she began thinking about who could take over, her mind turned to Peter Arnell.

Peter Arnell

Peter Arnell was the 42-year-old head of the British subsidiary, Clayton Ltd. Raised in a working-class family on the outskirts of London, Arnell served seven years in the Royal Marines where he rose to the rank of Captain before attending business school in London. A brief stint in management consulting left him missing the sense of impact he had experienced in the Royal Marines. So in 1998 he joined Clayton's Birmingham office in a sales and marketing job that he thought would let him test himself again on the front lines.

An avid weekend footballer, Arnell was a born competitor, quick with both a handshake and a smile. He drove himself hard and expected the same from others. While very outgoing, he expressed opinions bluntly and had alienated a few colleagues during his time at Clayton. Quickly promoted to marketing manager, Arnell had expanded Clayton's distribution network from four distributors in central England to 14 throughout the U.K. and Ireland, positioning Clayton's product line to capitalize on the U.K. real estate boom. In 2002, when the head of Clayton Ltd. retired, Buis promoted Arnell to fill the role.

Within weeks, Arnell took the tough decision of closing the old Corliss boiler plant—a move that was in line with the cost cutting program that Buis had initiated a few months earlier. After enduring months of labor pressure and personal threats over the closure, he set about revitalizing the UK business by replacing the lost revenue. He solicited support from product managers of other Clayton lines to help them understand the UK market.

Buis was impressed by Arnell's military discipline and propensity for bold action and felt he could be the change agent Italy needed. She was also aware that years of summers spent in Italy with his maternal grandparents had given him a good command of Italian. When she asked him to consider taking on Clayton SpA, Arnell saw it as a career advancing opportunity to turn around a larger operation that was key to Clayton's European strategy.

A New Subsidiary Manager Arrives

Arnell arrived in Brescia alone on July 20, 2009, having asked his wife and two children to follow in October so he could focus his energies on work. Buis met him and took him around the offices, personally introducing him to Brescia's 10 senior managers. At a group lunch, she told them that the future of Clayton SpA was in their hands. Reflecting her commitment to empowering country managers and encouraging them to take initiative, she said she would "get out of their way," and returned to Brussels.

That afternoon, Arnell called a management meeting to share his early assessment of Brescia's grave situation and to ask for their support. Emphasizing that this was a time for immediate action, he requested all of them to postpone vacation plans until further notice. August being the Italian vacation month, three managers expressed misgivings—the plant manager, the QC manager, and the company controller. Arnell asked them to meet with him individually before the end of the day. In those meetings, after each manager reiterated an unwillingness to change plans, Arnell dismissed them on the spot.

The following day, after a meeting with his HR director to identify strong successors, he announced internal replacements for all three positions. He then met individually with his top team, asking each to help him use his first 60 days to understand the situation and develop a strategy for the company. He then scheduled follow-up meetings with each of them to share their perspectives on the operations, and also to review their individual work plans for the next 60 days.

But events at Clayton SpA did not wait for Arnell to complete his 60-day analysis. On his second day, he arrived at work to find four union officials from Federazione dei Lavoratori della Manifatture (FILM) outside his office with a local TV news crew. These officials suggested he was a hatchet man sent to close the Brescia plant and implement a mass layoff. Arnell assured them he had no such directive, that his mind was open, and that all options were on the table. He told them he would keep them informed, and promised to meet with union representatives the following week.

On August 4, Arnell met seven FILM representatives to show them how much money the operations were losing. He explained that in the current economic environment, Clayton's U.S. parent could not subsidize these losses. (It was a presentation he had made earlier that day to Brescia's Mayor who expressed concern about a plant closure and had arrived for his appointment with press photographers in tow.) After hours of acrimonious discussion, FILM agreed to recommend shortened shifts to its Brescia members. But Arnell knew that the concessions were far less than the company needed to break even.

The following week, Arnell made an appointment to meet with Clayton's bank to renegotiate terms on the company's credit line. As a gesture of goodwill, and because he thought it would help his case, he invited a politically connected union representative to accompany him and his finance manager. The three men secured the bank's agreement to postpone large payments due over the coming quarter. Arnell knew that while these few changes would not return the plant to profitability, they might buy the company some time as he completed his assessment of the situation.

Assessing Clayton SpA's Situation

Over the next few weeks, in meetings with his management team, Arnell learned a great deal about the company's current situation as well as the history that brought it there. He learned that despite being given Europe-wide responsibility for compression chiller sales, Lazzaro had continued to focus on building political relationships to support large projects in Italy. As a result, chillers accounted for 55% of Italy's revenues, and its strong position in the public and institutional segments ensured its "top three" competitive position at home. However, it lagged among commercial customers who increasingly favored Asian products that promised lower lifecycle costs through more efficient design.

He also learned that Clayton's other product lines were struggling in Italy. Its central air-conditioning system fit poorly with Italian buildings, many of which lacked the duct work an integrated system required. In room air conditioners and ventilators, the market was split between low-priced foreign imports and familiar Italian brands. Offering neither low-price nor name familiarity, the Clayton and Fontaire brands struggled in Italy's residential climate-control market. And by focusing resources on the chiller line, the company had failed to develop a broader marketing capability needed to sell these other products.

On the production side, Arnell discovered that the unionized work force (which had tried to block Clayton's 1985 acquisition of AeroPuro) still enjoyed very generous benefits. For many years, the plant's high cost position was masked by political relationships that gave it an inside track on government contracts. It was because of these relationships that Lazzaro refused to consider permanent layoffs which were permitted in Italy only for "good cause" in firms with more than 15 employees. He even rejected using the Cassa Ingrazione Guardagni (CIG), a temporary layoff provision that exempted workers coming to work in exchange for a significant pay cut, with costs shared between the companies and the state.

This vulnerable cost position had put Brescia under threat in 2004 when Buis announced the second phase of her plant efficiency drive. Focusing on efficient sourcing, she had insisted that all plants become cost-effective European-scale operations. An early focus of the program was to decide whether Brescia or Barcelona should become Clayton's European source of commercial air conditioning chillers.

In conversations with Carlos Sanchez who headed the Spanish company, Arnell learned that after much political maneuvering, Lazzaro had convinced Buis to make Brescia the European source. Barcelona was smaller and older than the Italian plant, and was able to build only 300 to 1000 kW units compared to the 500 to 2000 kW units Brescia could make. So despite Barcelona's 20% lower labor costs and its more flexible work force, Buis felt that only the Italian operation had the capacity to meet European demand. She committed $18 million to upgrade and expand its operation, which eventually employed 203 people. But Sanchez told Arnell that he felt Brescia's staffing levels were still 20% to 30% too high.

Nonetheless, as Sanchez explained, with the support of labor, he had kept the Barcelona plant open by licensing technology to manufacture specialized absorption chillers suitable for Spain's growing thermal industry.[1] Sanchez was proud that with growing exports, this line contributed $35 million to his company's revenues in 2008, and with a 10% EBITDA, was already far more profitable than compression chillers had ever been.

Arnell also wanted to understand why Brescia's chiller penetration outside Italy was poor. Its 7% European market share (well below the 21% Italy boasted) made Clayton a distant number five behind competitors with shares of 36%, 23%, 16%, and 12% respectively. He spoke with country manager colleagues in other major European markets as well as several major customers who told him that the product was too expensive and also behind competitors in innovative features such as variable speed technology. Furthermore, the Clayton chillers lagged the operating efficiencies of market-leading units by 15%.

Customers in some markets—particularly Scandinavia and Germany—told Arnell of a trend toward "district energy systems" which produced steam, hot water, or chilled water at a central plant and then piped it to buildings in the district for space heating, hot water, and air conditioning. Such systems favored absorption technology over the compression chillers Brescia produced. While compression chillers still had 85% of the market, environmentalists emphasized that absorption chillers were less carbon-intensive and used water instead of the ozone-depleting refrigerants that compression systems required.

Finally, Arnell's financial director reviewed current results showing that the company was currently losing more than $1 million a month. He felt the losses were primarily due to a 27% increase in steel prices in the past two years—a cost that could not be recouped due to foreign competitors' aggressive pricing. And rather than recognizing the problem, FILM, wielding great influence during a time of high unemployment, had increased its demands.

[1] While compression chillers such as those made in Brescia rely on electricity, absorption chillers are driven by heat, often from waste hot water, and are increasingly solar-powered.

Decision Options

In early September, to help his senior team develop their plans, Arnell organized two internal conferences to expose them to outside input. At a manufacturing conference, production, engineering, and QC managers from Brescia described their situation and tested their emerging ideas with respected counterparts from the Spanish, Belgian, and UK plants. And in the marketing conference, the sales, marketing, and product development managers exchanged views with colleagues invited from other Clayton country organizations.

Not surprisingly, the Italian managers' presentations focused on restoring Brescia's profitability and ensuring its long-term viability. Their emerging plan involved programs to boost plant efficiency, product development initiatives to revitalize the compression chiller line, and a sales and marketing plan to expand market share outside Italy. Early cost estimates were about $5 million, with most of that investment in the first 12 months.

Meanwhile, Arnell had been in ongoing discussions with Sanchez who had raised an alternative option. He explained to Arnell that he had approached Buis several times to fund a major new plant in Spain, but she had told him she was not convinced that absorption chillers would ever be more than a niche market. She had also told them that she had placed her investment bet on Brescia, and wanted to give Italy a chance to prove itself.

"But the absorption chiller is the market of the future, and we have the license for a first-class technology," Sanchez said. "We still can't produce large-scale chillers in Barcelona, and we're site-constrained to grow the plant. Why don't you phase out your compression chiller line and convert capacity to absorption chillers to meet the growing market? Together, we could make Clayton a dominant force in this segment."

It was an intriguing idea, but one that would involve significant costs in layoffs and restructuring, even with the gradual phased changeover process. Arnell estimated the investment would be about $15 million over five years, with most costs starting in the phase-out and re-structuring stages two to three years out.

A third option was proposed by Arnell's finance director who felt that it was too early to make major strategic commitments in an economy that was still unstable. He was skeptical of the government's July draft budget which projected a 2009 contraction of 4.8% in the Italian economy, before a rebound to 0.7% growth in 2010. He argued for a tight focus on efficiency measures to restore profitability while studying the various strategic options for at least another six months or until things became clearer.

In considering these alternatives, Arnell knew that while he did not have all the answers, what he did know was that Briggs and Buis were booked at the Hotel Ambasciatori for two nights the following week. They would expect to hear his analysis, his vision for a healthy Clayton SpA, his plans for a turnaround, and the results he expected to achieve.

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Exhibit 1 Clayton Industries: Organization of Operations, August 2009

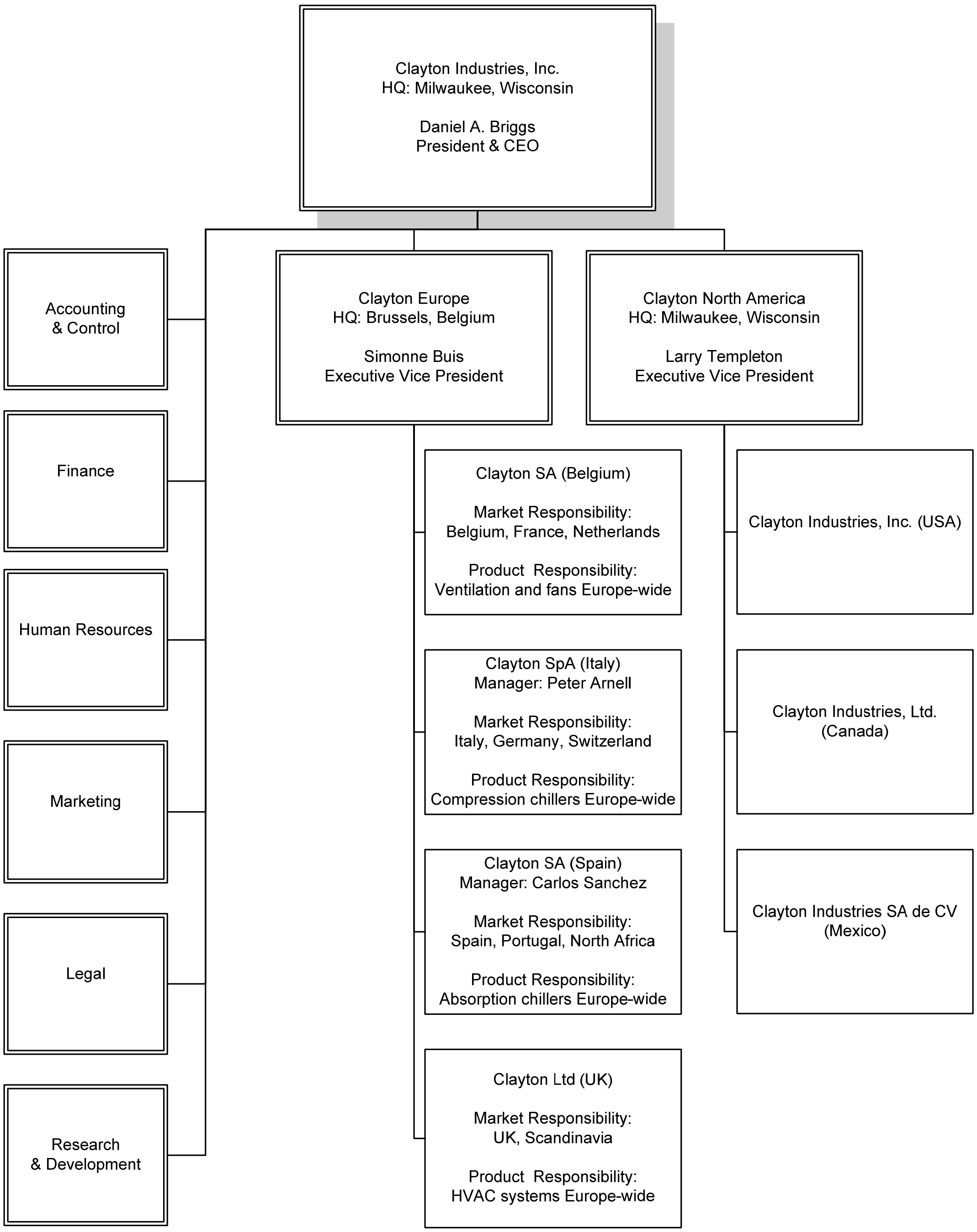

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Exhibit 2 Clayton Industries: Income Statement—Summary, 2004–2009

Millions of USD (except where indicated)	2004	2005	2006	2007	2008	1H09
Revenues						
Clayton N. America (USA/Canada/Mexico)	**565.7**	**577.1**	**590.0**	**598.1**	**557.7**	**216.6**
% Change		*2.0%*	*2.2%*	*1.4%*	*(6.8%)*	*(22.3%)*
% Contribution	*63.2%*	*61.8%*	*60.7%*	*59.6%*	*58.0%*	*54.7%*
Clayton SA (Belgium/France/Netherlands)	**107.5**	**118.6**	**129.7**	**142.3**	**148.7**	**68.0**
% Change		*10.3%*	*9.3%*	*9.8%*	*4.4%*	*(8.5%)*
% Contribution	*12.0%*	*12.7%*	*13.3%*	*14.2%*	*15.5%*	*17.2%*
Clayton SpA (Italy/Germany/Switzerland)	**125.0**	**132.5**	**138.0**	**141.8**	**134.3**	**54.1**
% Change		*6.0%*	*4.2%*	*2.7%*	*(5.3%)*	*(19.4%)*
% Contribution	*14.0%*	*14.2%*	*14.2%*	*14.1%*	*14.0%*	*13.7%*
Clayton SA (Spain/Portugal/N. Africa)	**58.1**	**62.9**	**68.1**	**72.3**	**72.2**	**36.0**
% Change		*8.1%*	*8.4%*	*6.2%*	*(0.1%)*	*(0.3%)*
% Contribution	*6.5%*	*6.7%*	*7.0%*	*7.2%*	*7.5%*	*9.1%*
Clayton Ltd (UK/Scandinavia)	**39.3**	**42.8**	**45.9**	**48.3**	**48.6**	**21.6**
% Change		*8.9%*	*7.2%*	*5.2%*	*0.6%*	*(11.1%)*
% Contribution	*4.4%*	*4.6%*	*4.7%*	*4.8%*	*5.1%*	*5.5%*
Total	**895.7**	**933.8**	**971.7**	**1,002.8**	**961.4**	**396.3**
% Change		*4.3%*	*4.1%*	*3.2%*	*(4.1%)*	*(17.6%)*
EBITDA						
Clayton N. America (USA/Canada/Mexico)	**70.7**	**69.2**	**53.1**	**47.8**	**27.9**	**6.5**
% Margin	*12.5%*	*12.0%*	*9.0%*	*8.0%*	*5.0%*	*3.0%*
Clayton SA (Belgium/France/Netherlands)	**20.2**	**21.3**	**17.5**	**17.1**	**11.1**	**3.1**
% Margin	*18.8%*	*18.0%*	*13.5%*	*12.0%*	*7.5%*	*4.5%*
Clayton SpA (Italy/Germany/Switzerland)	**25.1**	**24.5**	**18.1**	**5.2**	**(12.8)**	**(7.6)**
% Margin	*20.1%*	*18.5%*	*13.1%*	*3.7%*	*(9.5%)*	*(14.1%)*
Clayton SA (Spain/Portugal/N. Africa)	**10.0**	**10.4**	**8.4**	**6.9**	**6.6**	**3.2**
% Margin	*17.2%*	*16.5%*	*12.4%*	*9.5%*	*9.1%*	*8.9%*
Clayton Ltd (UK/Scandinavia)	**7.0**	**7.3**	**5.9**	**4.8**	**2.9**	**0.7**
% Margin	*17.9%*	*17.2%*	*12.9%*	*9.9%*	*6.0%*	*3.4%*
Total	**133.0**	**132.8**	**103.0**	**81.8**	**35.8**	**5.9**
% Margin	*14.8%*	*14.2%*	*10.6%*	*8.2%*	*3.7%*	*1.5%*
Net income (loss)						
Clayton N. America (USA/Canada/Mexico)	**31.1**	**28.9**	**11.8**	**(6.0)**	**(22.3)**	**(17.3)**
% Margin	*5.5%*	*5.0%*	*2.0%*	*(1.0%)*	*(4.0%)*	*(8.0%)*
Clayton SA (Belgium/France/Netherlands)	**8.9**	**9.5**	**10.1**	**10.2**	**5.9**	**0.7**
% Margin	*8.3%*	*8.0%*	*7.8%*	*7.2%*	*4.0%*	*1.0%*
Clayton SpA (Italy/Germany/Switzerland)	**10.8**	**10.5**	**6.0**	**(1.1)**	**(11.9)**	**(6.7)**
% Margin	*8.7%*	*7.9%*	*4.4%*	*(0.8%)*	*(8.8%)*	*(12.3%)*
Clayton SA (Spain/Portugal/N. Africa)	**4.1**	**4.1**	**3.7**	**1.9**	**0.2**	**0.0**
% Margin	*7.1%*	*6.5%*	*5.4%*	*2.6%*	*0.3%*	*0.1%*
Clayton Ltd (UK/Scandinavia)	**2.9**	**2.9**	**2.6**	**1.3**	**(0.3)**	**(0.9)**
% Margin	*7.4%*	*6.8%*	*5.6%*	*2.7%*	*(0.5%)*	*(4.2%)*
Total	**57.9**	**55.8**	**34.2**	**6.4**	**(28.3)**	**(24.2)**
% Margin	*6.5%*	*6.0%*	*3.5%*	*0.6%*	*(2.9)%*	*(6.1)%*

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Exhibit 3 Clayton Industries: Balance Sheet—Summary, 2004–2009

Millions of USD	2004	2005	2006	2007	2008	1H09
Current assets	**$ 277.0**	**$ 291.6**	**$ 303.8**	**$ 308.8**	**$ 284.2**	**$ 254.4**
Clayton SpA	*$ 9.0*	*$ 54.1*	*$ 58.7*	*$ 62.6*	*$ 61.6*	*$ 59.6*
Other Europe	*$ 60.6*	*$ 66.5*	*$ 71.7*	*$ 75.2*	*$ 72.5*	*$ 71.5*
North America	*$ 167.4*	*$ 171.0*	*$ 173.5*	*$ 171.0*	*$ 150.1*	*$ 123.3*
Facilities	**$ 417.6**	**$ 400.4**	**$ 385.5**	**$ 371.1**	**$ 354.4**	**$ 336.6**
Clayton SpA	*$ 50.4*	*$ 54.6*	*$ 48.9*	*$ 44.7*	*$ 40.7*	*$ 38.0*
Other Europe	*$ 139.4*	*$ 129.4*	*$ 124.9*	*$ 118.7*	*$ 112.6*	*$ 109.6*
North America	*$ 227.9*	*$ 216.4*	*$ 211.6*	*$ 207.8*	*$ 201.1*	*$ 189.1*
Other assets	**$ 88.0**	**$ 118.7**	**$ 124.1**	**$ 141.3**	**$ 125.2**	**$ 140.2**
Clayton SpA	*$ 12.3*	*$ 16.8*	*$ 17.6*	*$ 20.0*	*$ 17.5*	*$ 19.1*
Other Europe	*$ 20.1*	*$ 28.5*	*$ 31.1*	*$ 37.0*	*$ 35.1*	*$ 44.4*
North America	*$ 55.6*	*$ 73.4*	*$ 75.4*	*$ 84.3*	*$ 72.6*	*$ 76.6*
Total assets	**$ 782.7**	**$ 810.7**	**$ 813.4**	**$ 821.2**	**$ 763.8**	**$ 731.2**
Clayton SpA	*$ 111.6*	*$ 125.5*	*$ 125.2*	*$ 127.2*	*$ 119.7*	*$ 116.7*
Other Europe	*$ 220.2*	*$ 224.4*	*$ 227.7*	*$ 230.9*	*$ 220.2*	*$ 225.5*
North America	*$ 450.9*	*$ 460.8*	*$ 460.5*	*$ 463.1*	*$ 423.8*	*$ 389.0*
Current liabilities	**$ 204.3**	**$ 224.3**	**$ 238.6**	**$ 255.3**	**$ 251.7**	**$ 255.4**
Clayton SpA	*$ 28.5*	*$ 32.9*	*$ 36.7*	*$ 41.2*	*$ 42.7*	*$ 45.5*
Other Europe	*$ 46.7*	*$ 51.3*	*$ 54.6*	*$ 58.4*	*$ 57.6*	*$ 58.4*
North America	*$ 129.0*	*$ 140.1*	*$ 147.3*	*$ 155.6*	*$ 151.4*	*$ 151.5*
Long-term debt	**$ 310.5**	**$ 340.9**	**$ 362.6**	**$ 388.0**	**$ 382.5**	**$ 388.2**
Clayton SpA	*$ 43.3*	*$ 50.0*	*$ 55.8*	*$ 62.7*	*$ 64.9*	*$ 69.1*
Other Europe	*$ 71.1*	*$ 81.9*	*$ 91.5*	*$ 102.8*	*$ 106.4*	*$ 113.4*
North America	*$ 196.1*	*$ 209.0*	*$ 215.3*	*$ 222.5*	*$ 211.3*	*$ 205.7*
Stockholders' equity	**$ 267.9**	**$ 245.5**	**$ 212.3**	**$ 177.9**	**$ 129.6**	**$ 87.6**
Clayton SpA	*$ 37.4*	*$ 32.2*	*$ 23.1*	*$ 12.2*	*$ (0.9)*	*$ (14.8)*
Other Europe	*$ 61.3*	*$ 61.5*	*$ 57.9*	*$ 54.1*	*$ 50.1*	*$ 59.9*
North America	*$ 169.2*	*$ 151.8*	*$ 131.3*	*$ 111.6*	*$ 80.4*	*$ 42.5*
Total liabilities and equity	**$ 782.7**	**$ 810.7**	**$ 813.4**	**$ 821.2**	**$ 763.8**	**$ 731.2**
Clayton SpA	*$ 109.2*	*$ 115.0*	*$ 115.6*	*$ 116.1*	*$ 106.7*	*$ 99.8*
Other Europe	*$ 179.1*	*$ 194.7*	*$ 204.0*	*$ 215.3*	*$ 214.1*	*$ 231.7*
North America	*$ 494.4*	*$ 501.0*	*$ 493.9*	*$ 489.8*	*$ 443.0*	*$ 399.6*

[redacted]

Exhibit 4 Industry Sales of Air Treatment Products (including Chillers) 2003–2008

Millions of USD (except where indicated)	2003	2004	2005	2006	2007	2008
Units ('000)						
United States	**61,263.4**	**64,104.4**	**67,137.1**	**70,380.4**	**71,142.0**	**71,410.2**
% Change		*4.6%*	*4.7%*	*4.8%*	*1.1%*	*0.4%*
Europe	**15,315.9**	**16,667.1**	**18,127.0**	**19,706.5**	**20,986.9**	**22,137.2**
% Change		*8.8%*	*8.8%*	*8.7%*	*6.5%*	*5.5%*
Italy	**2,718.9**	**2,832.2**	**2,940.5**	**3,074.6**	**3,273.6**	**3,482.5**
% Change		*4.2%*	*3.8%*	*4.6%*	*6.5%*	*6.4%*
Millions of USD - current prices						
United States	**5,794.7**	**6,012.4**	**6,386.9**	**6,862.9**	**6,886.9**	**6,921.7**
% Change		*3.8%*	*6.2%*	*7.5%*	*0.3%*	*0.5%*
Europe[a]	**1,997.4**	**2,386.8**	**2,519.8**	**2,683.3**	**3,502.2**	**4,274.1**
% Change		*19.5%*	*5.6%*	*6.5%*	*30.5%*	*22.0%*
Italy[a]	**755.7**	**861.0**	**887.8**	**934.5**	**1,149.3**	**1,336.4**
% Change		*13.9%*	*3.1%*	*5.3%*	*23.0%*	*16.3%*
Millions of USD - constant prices						
United States	**5,794.7**	**5,855.6**	**6,016.2**	**6,262.6**	**6,107.3**	**5,959.4**
% Change		*1.1%*	*2.7%*	*4.1%*	*(2.5%)*	*(2.4%)*
Europe[a]	**1,945.4**	**2,335.5**	**2,499.8**	**2,691.4**	**3,540.2**	**NA**
% Change		*20.0%*	*7.0%*	*7.7%*	*31.5%*	
Italy[a]	**736.1**	**820.5**	**829.7**	**855.3**	**1,030.2**	**NA**
% Change		*11.5%*	*1.1%*	*3.1%*	*20.5%*	
[a] Converted annually at following exchange rates:						
EUR / US$	**0.8854**	**0.8051**	**0.8045**	**0.7970**	**0.7308**	**0.6834**

Source: Euromonitor International and casewriter estimates.

Exhibit 5 Forecast Sales of Air Treatment Products (including Chillers), 2009–2013

Millions of USD (except where indicated)	2009	2010	2011	2012	2013
Units ('000)					
United States	**72,391.6**	**73,911.5**	**75,532.5**	**77,253.8**	**79,130.0**
% Change	*1.4%*	*2.1%*	*2.2%*	*2.3%*	*2.4%*
Europe	**22,441.4**	**23,651.7**	**24,925.7**	**26,266.3**	**27,695.5**
% Change		*5.4%*	*5.4%*	*5.4%*	*5.4%*
Italy	**3,692.2**	**3,910.4**	**4,128.6**	**4,347.9**	**NA**
% Change	*6.0%*	*5.9%*	*5.6%*	*5.3%*	
Millions of USD - current prices					
United States	**7,013.6**	**7,139.2**	**7,287.8**	**7,462.0**	**7,632.0**
% Change	*1.3%*	*1.8%*	*2.1%*	*2.4%*	*2.3%*
Europe[a]	**4,249.4**	**4,687.6**	**5,106.9**	**5,486.5**	**NA**
% Change		*10.3%*	*8.9%*	*7.4%*	
Italy[a]	**1,328.1**	**1,414.9**	**1,493.2**	**1,558.7**	**NA**
% Change	*(0.6%)*	*6.5%*	*5.5%*	*4.4%*	
[a]Converted annually at following exchange rates:					
EUR / US$	**0.7389**	**0.7389**	**0.7389**	**0.7389**	**0.7389**

Source: Euromonitor International and casewriter estimates.

Exhibit 6 Brescia Plant Economics

Millions of USD (except where indicated)		2004	2005	2006	2007	2008	1H09
Units		**348.0**	**372.0**	**382.0**	**386.0**	**375.0**	**155.0**
Revenue	**Italy[a]**	**67.1**	**73.2**	**76.7**	**79.0**	**76.0**	**29.9**
	Contribution to Clayton SpA	*53.7%*	*55.3%*	*55.6%*	*55.7%*	*56.6%*	*55.2%*
	Other[a]	**10.9**	**11.3**	**11.1**	**11.3**	**11.5**	**4.1**
	Total	**75.2**	**82.4**	**86.7**	**89.6**	**86.7**	**34.0**
Operating Expense							
	Direct materials	**19.7**	**23.7**	**29.2**	**37.5**	**50.1**	**18.5**
	Labor	**16.1**	**16.6**	**16.9**	**15.3**	**15.7**	**7.2**
	Overhead - Fixed	**29.0**	**31.3**	**32.2**	**34.9**	**33.6**	**15.7**
	Total	**64.8**	**71.5**	**78.3**	**87.6**	**99.4**	**41.3**
EBITDA		**10.4**	**10.9**	**8.4**	**2.0**	**(12.8)**	**(7.3)**
	EBITDA Margin	*13.8%*	*13.2%*	*9.7%*	*2.3%*	*(14.7%)*	*(21.5%)*
Capital Expenditures		**10.8**	**11.2**	**2.3**	**2.8**	**3.0**	**0.8**
	Capex Margin	*14.4%*	*13.6%*	*2.7%*	*3.1%*	*3.5%*	*2.3%*
Headcount		**190**	**196**	**204**	**208**	**204**	**203**
[a]Converted annually at following exchange rates:							
	EUR / US$	**0.8051**	**0.8045**	**0.7970**	**0.7308**	**0.6834**	**0.7389**