



**FINISHMASTER.**  
Automotive & Industrial Paint

# 2005 Investment Brief

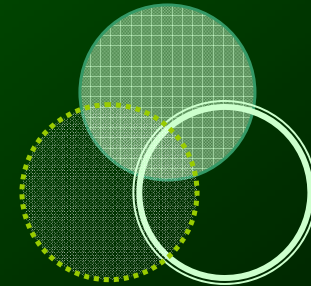


## Overview

Throughout 2005, FinishMaster continued to build on momentum established in 2004. At that time, the FinishMaster leadership team challenged the organization to focus on the following three goals with a multi-year mindset:

1. Take market share and increase sales.
2. Improve fill rate, working capital management and operating margins.
3. Upgrade the technology infrastructure.

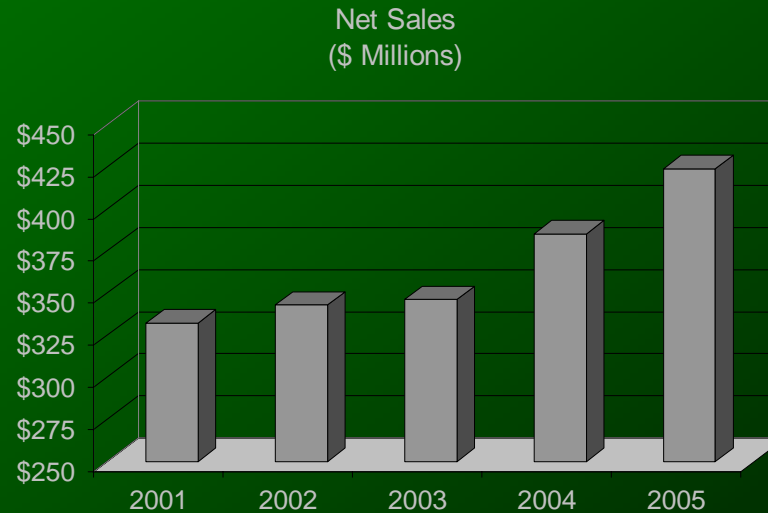
The company continued to generate positive results in all three areas during 2005.





## Sales Growth

Total sales of \$423.8 million increased \$38.6 million or 10% over 2004. Despite declining industry sales trends, all regions of the country exceeded their sales growth targets. Targeted efforts to win new customers in underperforming markets drove same-branch-sales growth of 7.6%. During 2005 FinishMaster was able to pass along vendor price increases to customers which also contributed to sales growth. The overall effectiveness of the sales force was enhanced through consultancy training which was conducted throughout 2005. Finally, acquisitions contributed \$7.9 million to total net sales.





## Operating Initiatives

Increasing raw materials prices, competitive pricing pressures and increasing customer service expectations continue to our drive efforts to improve operating efficiencies.

- A full functioning distribution center in Los Angeles came on-line during the first quarter of 2005 and began fulfilling two goals: customer service improved by having the right product in the right place at the right time and the company improved working capital through more efficient inventory management.
- Lower working capital investment allowed FinishMaster to reduce total debt by \$12.5 million.
- The opening of a third full functioning distribution center in Adel, Georgia during the first quarter of 2006 will complete this process improvement initiative begun in 2003.

When fully implemented, this distribution structure will improve customer service by ensuring that product is available where and when the customer needs it. It will also lower working capital needs and reduce the risk of excess and obsolete inventory.



The combination of growing sales and a more efficient distribution infrastructure fueled FinishMaster's ability to collaborate with vendors in an effort to improve margins and working capital. FinishMaster negotiated numerous vendor contracts throughout the year resulting in additional volume discounts, better payment terms, lower freight charges and increased rebate potential. Continued development of mutually beneficial relationships with vendors will be an important part of the company's future success.

Since customers are demanding lower costs and manufacturers want to do business with distributors that have low cost structures, FinishMaster strives to continue to reduce administrative costs. The company is growing sales and, at the same time, holding expenses as a percent of sales essentially flat. As a result, 2005 operating income was \$31.8 million, an increase of 15% over 2004.

In 2005, FinishMaster launched another major initiative to accelerate growth. An upgrade to the company's technology infrastructure, when completed, will provide FinishMaster with a fully functional, real time system that integrates information across the entire organization.



## Summary

2005 was a good year, but good results can breed complacency and inhibit greatness. Automotive refinishing industry conditions continue to challenge company profitability. Long-term collision repair volume is expected to increase only slightly over the next five years. Over capacity at the distributor and collision repair shop levels is leading to fierce competition between jobbers contributing to margin erosion. Rising expenses due to increasing demand for service by body shops to satisfy insurance company requirements also impact profitability. Rising energy costs are putting additional pressure on profits throughout the supply chain.

We are not complacent. FinishMaster understands the challenges of competing in this industry and has initiated synergistic strategies to drive results higher and faster.



## FINANCIAL HIGHLIGHTS

Year Ended December 31

(in thousands, except per share data)

	<u>2005</u>	<u>% CHG</u>	<u>2004</u>	<u>2003</u>
<b>Statement of Operations Data</b>				
Net Sales	\$ 423,803	10.0%	\$ 385,243	\$ 346,232
Gross Profit	127,171	10.2%	115,368	107,133
Income from Operations	31,866	15.0%	27,702	26,622
Net Income	15,647	17.6%	13,304	11,852
<b>Per Share Data (Diluted)</b>				
Net Income per Share	\$ 2.01	17.5%	\$ 1.71	\$ 1.52
Weighted Average Shares Outstanding	7,795	0.5%	7,759	7,820
<b>Balance Sheet Data (at year-end)</b>				
Net Working Capital	\$ 60,596		\$ 49,226	\$ 45,991
Total Assets	231,772		221,833	223,016
Long-term Debt	52,536		54,462	63,608
Shareholders' Equity	117,938		101,776	87,898
<b>Stock Price per Share (at year-end)</b>	\$ 18.00		\$ 13.65	\$ 9.50

