

WOODHEAD INDUSTRIES

Well-connected

BY HARLAN S. BYRNE • About a year ago, stodgy Woodhead Industries hooked up with a Silicon Valley startup with the alluring name of Symphony Systems. The result, both companies hope, will be sweet music for their businesses. The linkup came about, Woodhead CEO Mark DeWinter recalls, when a group of his engineers at a trade show on the West Coast stumbled on to a

small booth manned by one of Symphony's dozen or so employees. The engineers were impressed by what they saw. Soon, Woodhead had invested \$2 million for just under 20% of Symphony, to help finance development of software that could be tied to a Woodhead system for long-distance monitoring and troubleshooting of semiconductor-production equipment.

The aim was to come up with a way for a semiconductor outfit in, say, Chicago to monitor via the Internet machinery used to make its products in, say, Taiwan and to detect potential sources of breakdowns before problems occur.

The new system is to be introduced next fall. If it works, it would go a long way toward capping DeWinter's struggle, under way since 1997, to transform Woodhead into a new-technology company, potentially opening up other opportunities down the line.

A few savvy investors have been impressed by the changes taking place at Woodhead. They've pushed up the stock from a depressed price of 10 earlier this year to around 17 recently. The rise began after DeWinter huddled in New York last December with institutional money managers — many of whom knew little about the company, which is followed by only a handful of sell-side analysts.

"Portfolio managers in New York told us the stock ought to be selling in the high 20s," DeWinter says. They based that estimate on the \$34 million in EBITDA (earnings before interest, taxes, depreciation and amortization) that the

company chalked up in its last fiscal year, ended October 2.

Net income for that year came to \$10.9 million, or 96 cents a share, flat with 1998's results (before special charges). Sales in fiscal 1999 were \$169 million, up 14.3% from \$148 million in fiscal '98. Weakness in a number of industrial-auto-

mation markets and acquisition problems contributed to the unimpressive results.

But the softness seems to be past now, and DeWinter sees annual earnings growth starting to approach the 17% target set by the company. In fact, in the current fiscal year, earnings are likely to jump around 15%-16%, to about \$12.5 million, or

VIEW FROM THE TOP

From Humdrum to High-Tech



Mark DeWinter
CEO

► Dragging a formerly humdrum company like Woodhead Industries into the high-tech New Economy hasn't been easy, observes Chairman and CEO Mark DeWinter. "It was disruptive to a lot of people here, who thought it was a mistake to transform the company," he adds. But Woodhead's leader believes that most of its managers increasingly see the benefits ahead. To underscore his determination to transform the company, DeWinter, after a couple of years of wooing, persuaded Philippe Lemaitre to join Woodhead last October as president and chief operating officer. Coming from AMP Inc., which was acquired by Tyco in a nasty fight, Lemaitre has a strong engineering background. That was just what DeWinter thinks is needed to push Woodhead's newer ventures to success.

YEAR(a)	EARNINGS Per Share	RECENT HISTORY		
		REVENUES (millions)	NET INCOME (millions)	BOOK VALUE Per Share
1999	\$0.96	\$168.7	\$10.9	\$7.34
1998	0.97(b)	147.6	10.9(b)	6.76
1997	1.10	136.9	12.3	6.38
1996	0.98	123.7	10.7	5.55

a-Ending last week in September. b-Excluding special charges.

(over please)

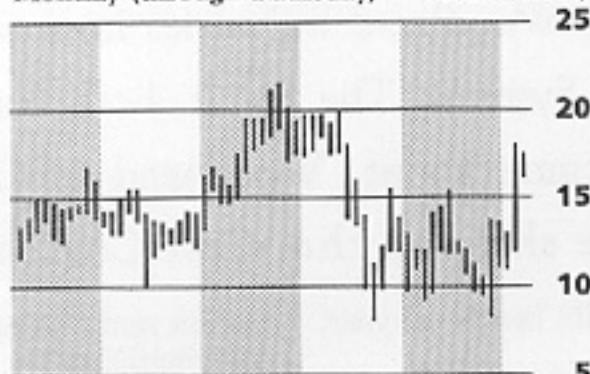
MARKET ACTION

► Woodhead Industries stock languished last year between 8 5/16 and 15%, closing 1999 at 11%, down 10.6%. However, belatedly recognizing the changes taking place at the company, investors in recent weeks have pushed up the shares to around 17 from about 11. The thinly traded stock has won a following among a number of Wall Street analysts and portfolio managers, who see it moving still higher in coming months.

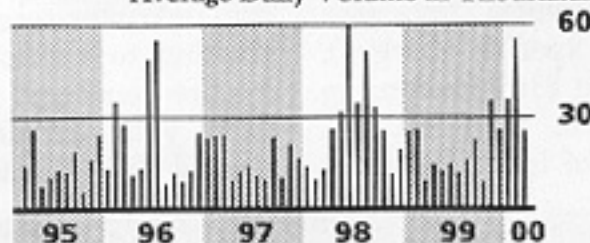
Woodhead Industries

WDHD • NNM

Monthly (through Thursday) Stock Price \$



Average Daily Volume in Thousands



SHAREHOLDER DATA

Market Value	\$193 million
Shares Outstanding	11.3 million
Insider Net Buys (shrs. latest 6 mos.)	63,250
Average Daily Volume	35,000 shares
Institutional Holdings	60%

DIVIDENDS

Current Rate	\$0.36
Current Yield	2.1%

KEY DATA

Profit Margin	6.5%
Return on Investment	13.9%
Debt to Capital	36%
Current Ratio	2.5-to-1

Product: Electronic components

Headquarters: Deerfield, Illinois

Recent Stock Price: 17

\$1.06-\$1.07 a share, and next year, \$1.22 a share seems reachable.

Sales this fiscal year are expected to climb 13%-14% to \$190-\$193 million. Woodhead got off to a good start in its first quarter, ended January 1. Net rose 13%, to \$2.7 million, or 23 cents a share, from \$2.4 million, or 21 cents, a year earlier; sales climbed 12% to \$43.3 million. The company's goal is to have \$300 million in annual sales within two years.

DeWinter is optimistic about the long-term benefits of Woodhead's connection with Symphony Systems, of which he is a director. He's aware that Symphony — based in Campbell, California, far from Woodhead's Deerfield, Illinois, home — probably will seek more outside financing to keep growing. This could mean further investment by Woodhead, because DeWinter wants his company to maintain its proportional stake.

One big lure: the possibility that Symphony eventually will float an initial public offering, which could be quite lucrative to insiders such as Woodhead.

When DeWinter began transforming Woodhead three years ago, it was primarily a maker of rugged electrical safety and specialty products used to maintain and repair manufacturing equipment. The business had been a good money-maker ever since Daniel Woodhead founded it in 1922. But as the industry consolidated and turned more competitive, it became dominated by larger companies. And Woodhead had been hobbled by some ill-advised acquisitions.

Only one Woodhead division, its Brad Harrison unit, was closely attuned to the growing electronics markets. DeWinter, who became CEO in 1993, concluded that Woodhead had to change. The aim was to increase to 70% from 50% the share of its products designed for the "connectivity" market — devices to control industrial-automation gear. Today, such products account for 61% of sales.

To secure a strong position in the industrial-automation market, DeWinter made several acquisitions that brought technology that enabled different kinds of equipment to "talk with" one another.

Using Woodhead's systems, computer-controlled machines are now being connected to office networks. This lets executives in an office keep tabs on the workings or potential failings of equipment on the factory floor.

The kind of remote-control system that Symphony and Woodhead are currently working on is the frosting on the connectivity cake. Assuming all goes well, it could be pretty tasty for profits and for investors. ■