❖ Contrarian Research Report ❖

June 18, 2008

Jarden Corp.

(BUY)

Price: (6/18)	$20.30	**Ticker:**	JAH
52-wk. range:	$17.48 - $45.09	**Dividend :**	None
Market cap:	$1,563 million	**Yield:**	n/a

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Investment Thesis

Jarden is a leveraged consumer products company. It has over the last five years made a practice of acquiring from other manufacturers very mature and stable consumer brands that do not demonstrate much cash flow volatility. The underlying strategy of Jarden is not to vigorously increase the sales of these brands. Rather, the company finances these purchases with debt and redeploys the cash flow towards the repayment of this debt. Over time, Jarden endeavors to earn an escalating rate of return from these investments, as this repetitive deleveraging increases the company's cash flow. Jarden is more appropriately viewed as a publicly traded leveraged buyout company that engages in consumer products acquisitions. This investment posture is quite sensible and underlies the basic premise of the private equity industry.

Since 2001, Jarden has actively acquired consumer products companies, whose widely recognized brands produce a consistent stream of cash flow and require very little capital reinvestment. This is a departure from the company's prior posture, which was to operate primarily under the umbrella of its Ball brand of food canning products as well as a zinc strip and fabricating business that supplies coin blanks for the U.S. and Canadian mints.

Under the direction of new management, Jarden embarked upon a series of acquisitions that led to the purchase of a wide variety of branded products such as Coleman outdoor equipment, Sunbeam and Mr. Coffee home appliances, Rawlings and Worth sporting equipment, Stren and Trilene fishing gear, K2 snowboards, Crock-Pot and FoodSaver home products, Java-Log and Pine Mountain firelogs, Bee and Bicycle playing cards, and Diamond kitchen matches and plastic cutlery.

The critical variable that ultimately determines the investment success of a private equity investment is the interest rate at which financing may be secured. Jarden essentially has two options in this regard. It may issue equity, which will cost the company a rate of X%, or it may borrow the funds, which may be obtained at a rate of Y%. Obviously, the option that provides the highest rate of return will be selected. Jarden has found, as have many companies, that the cost of debt is cheaper than its equity cost. The current equity to debt cost comparison is 15.6% versus 6.7%. Hence, the aforementioned acquisitions have been rather heavily leveraged buyouts.

The inclination towards debt, which was not so long ago much in favor, has caused investors to vigorously eschew firms such as Jarden in light of the current crisis in the lending market. Firms that rely upon debt as a form of financing, or as a source of earnings growth, are condemned for their ill-advised behavior. The experience of the Jarden shares, which have fallen by roughly 55% over the last year, is not that dissimilar to the dismal experience of formal leveraged buyout companies such as Fortress and Blackstone and, actually, the Jarden share price decline has been slightly worse.

Jarden is also beleaguered by the consensus viewpoint among many world economists that the U.S. economy is teetering upon a severe recession caused by inflationary pressures. The impact upon consumer spending, as the consensus believes, would grievously damage the earnings of consumer products manufacturers. Since the capital structure of Jarden is comprised mostly of debt and no tangible equity, it is logically argued that a sharp diminution of its earnings could place the company's liquidity position in a dire circumstance. As a result, the short selling community has taken a keen interest in Jarden and, accordingly, dramatically raised the risk premium of the shares.

The rejoinder, and obviously there must be a rejoinder in order to endorse the shares, is that amid a low interest rate environment businesses that produce low earnings volatility such as those owned by Jarden should actually be purchased with debt. This is a notion not lost on the minds of some very astute investors and corporations that have recently undertaken leveraged buyouts of large proportion.

Nonetheless, fear that is so ever present in the credit market has caused the Jarden shares to trade at a preposterously low level. The company is anticipated to earn $3.20 per share next year, which in relation to the $20.50 share price, represents a p/e ratio of 6.4x. On a cash flow basis, which is an appropriate measure given the financial leverage of the company, the multiple on expected *free cash flow* in 2009 is 5.8x. Since Jarden does not normally trade at this valuation, the company is clearly not expected to achieve these forecasts.

The success of the company's investment strategy depends almost entirely on its ability to repay debt. Jarden will likely spend nearly $90 million on capital expenditures this year and probably a commensurate amount in 2009. In relation to the $336 million of cash earnings expected this year, Jarden likely will generate $248 million of free cash flow, which represents a free cash flow yield of 15.7%. Based on 2009 earnings, the free cash flow yield is 17.4%. Of course, Jarden could forego substantial debt repayment and instead repurchase its shares, which it has done in the past. At least in theory, Jarden would be able to repurchase all of its stock within a time span of roughly five years.

The company's total debt, which is predominantly at the short end of the maturity spectrum, is $2.826 billion. If Jarden used the entirety of its free cash flow to reduce debt, which appears to be the company's position, total borrowings would decline by 10%. If the enterprise value of Jarden is invariant to its capital structure, as is proposed by the Modigliani-Miller theorem, then the equity market value should rise proportionately. Hence, the investor might be able to achieve nearly a 10% this year, and which would increase every year as Jarden could accelerate its debt repayment schedule due to lower interest costs, merely from a deleveraging scenario. Presented within the text of this report is a scenario in which regular debt repayment could lead to a return of 14% per year over the next five years.

One could also be fairly certain that if the concerns regarding the company's earnings visibility over the next few years prove to be misguided, Jarden will receive a revaluation. If a reasonably successful consumer products company should trade not at a 6x p/e ratio, but at perhaps a 12x p/e ratio, which is the competitive valuation level, the return could well be in the 100% range.

Alternatively, since Jarden is a leveraged company at the moment, its total enterprise value should be considered in the valuation equation. Based on $5.7 billion of revenues forecasted in 2009, the current enterprise value-to-sales ratio is 0.7x. Over the last five years, Jarden has traded well above this level, or at an average of 1.3x, which is consistent with the present valuations of other consumer products companies. Hence, Jarden appears to be enormously undervalued based on a variety of measures such that the risk/reward dynamic of this security is in favor of the investor. Accordingly, the shares are recommended for purchase.

Company Description

Background

The history of Jarden can really be separated into two eras. Prior to 2001, Alltrista, as the company was then known, was a somewhat obscure amalgamation of companies that were dominated by the company's primary product line, which was the Ball brand of canning jars. Alltrista was also somewhat dependent on an entirely different product, which was a zinc strip and fabrication business that produced coin blanks for the United States Mint and Royal Canadian mint. The remaining businesses were mostly related to plastic injection molds, which were sold to various consumer product and healthcare companies.

Throughout the 1990s, Alltrista did not achieve much success. The company's earnings did not increase greatly and investors were not enamored with the conglomerate-based strategy undertaken by former management such that the stock price remained flat for the better part of the decade. Alltrista for all practical matters was not a very well managed organization at the time.

In 2001, a new era began for the company, as it underwent an organizational transformation. Martin Franklin was appointed Chairman of the company and various other executives replaced several former personnel. Mr. Franklin was not satisfied with the portfolio of businesses amassed prior to his tenure and he proceeded to divest the company of most of its assets except the Ball brand and coin minting business, the latter of which had long-term contracts with the U.S. and Canadian governments.

The company's name was changed shortly thereafter to Jarden. Commencing in 2002, Jarden then embarked upon an aggressive series of acquisitions that broadly expanded the company's portfolio of consumer product brands.

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In 2002, Jarden acquired a company known as Tilia International for $145 million, which manufactures the FoodSaver brand of home food packaging products. In 2003, Diamond Brands International was acquired for roughly $92 million. Diamond is a maker of plastic cutlery, kitchen matches, clothespins, and toothpicks. Also in 2003, a company known as Lehigh was acquired, which added rope, cord, and twine products to the Jarden portfolio.

USPC, which owns several brands of playing cards such as Bicycle and Bee, was purchased in 2004 for $238 million, and which represented the largest acquisition to date over this short time span. The product base was expanded even further in 2004, as the purchase of Loew-Cornell added paint brushes and various other arts and crafts brands.

By 2005, Jarden began to undertake transactions on a much larger scale. For instance, Jarden bought American Household Inc.(AHI), which owned a broad variety of branded products such as Coleman outdoor equipment as well as Mr. Coffee, Oster and Sunbeam home appliances. As part of the financing for this transaction, Jarden issued $350 million of equity to private equity investors, most notably Warburg Pincus, which remains a large shareholder of the company.

Also in 2005, Jarden purchased the brands Crock-Pot, Patton, Rival, White Mountain, Holmes, Bionnaire, and Seal-A-Meal through the acquisition of the Holmes Group for $680 million. Most recently, in 2007 the company known as K2 was purchased for $1.2 billion. K2 is a leading manufacturer of sports equipment products such as skis, snowboards, and skates.

Management Comment

It is fairly accurate to state that, under the direction of Mr. Franklin, Jarden has been an extraordinary investment. Since his tenure began in late 2001, the Jarden share price has risen from a split-adjusted level of $3.50 to the current $20 level.

It also must be mentioned, as it is clearly relevant to the Jarden business strategy, that Mr. Franklin appears to be an acquisition-minded individual. In addition to his current record of transactions at Jarden, Mr. Franklin has also undertaken two ventures known as special acquisition vehicles, or SPACs, in industry parlance. He was Chairman of Freedom Acquisition Holdings, which last year undertook a reverse merger with GLG Partners, the European hedge fund firm. GLG currently trades under the symbol GLG on the NYSE.

Mr. Franklin is also currently Chairman of Liberty Acquisition Holdings Corp. and Liberty Acquisition Holdings (International) Company, which are publicly traded SPACs that have yet to make acquisitions under their designated time frame.

Business Description

Jarden operates within four product lines, which are Outdoor Solutions, Consumer Solutions, Branded Consumables, and Process Solutions. Following the acquisition of K2 last year, Outdoor Solutions, which also includes the Coleman brands and other

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recreational products, now represents over half of the total revenue stream for the company, as provided in the table below.

	1Q2008	% of Total	2007	% of Total	2006	% of Total	2005	% of Total
Outdoor Solutions	$658	54.1%	$1,699	36.5%	$901	23.4%	$821	25.7%
Consumer Solutions	319	26.2%	1,869	40.1%	1,892	49.2%	1,518	47.6%
Branded Consumables	169	13.9%	806	17.3%	812	21.1%	685	21.5%
Process Solutions	89	7.3%	354	7.6%	309	8.0%	234	7.3%
Intercompany Eliminations	(18)		(68)		(68)		(69)	
Total	$1,217		$4,660		$3,846		$3,189	

($ in millions)

The acquisition tendency of Jarden over the last three years has shifted from traditional household product companies to outdoor and recreational product brands. This appears to offer not only the benefit of earnings diversification but also a certain amount of operational efficiency, as both indoor and outdoor products are generally distributed to and sold at mass merchandise retailers such as Target and Wal-Mart.

1. **Outdoor Solutions**: This portion of the business is mostly the result of three acquisitions, those being American Household Inc. (Coleman brands), K2, and Pure Fishing. The Coleman brand is widely recognizable to consumers and includes products such as air beds, coolers, charcoal grills, and outdoor furniture. The company's sporting equipment products such as snowboards, skis, personal flotation devices, skates, baseball and basketball equipment, and water sports equipment are sold under brand names that include Atlas, Little Bear, 5150 Snowboards, Miken, Rawlings, Worth, and Mad Dog Gear. Lastly, Jarden also sells a variety of fishing equipment products such as fishing rods, reels, and line under the names Abu Garcia, Berkley, Penn, Shakespeare, Trilene, Stren, and Fenwick.

   Jarden reports the profitability of each of its business segments on a cash flow basis, or on a measure of EBITDA, which excludes acquisition related charges and stock-based compensation expense. In the table below, it is observed that the acquisition of K2 in 2007 more than doubled the existing cash flow and allowed the the margin to increase from 9.3% to 12.4%. In relation to the overall company, the Outdoor Solutions business, at the current 12.4% margin, realizes an average profitability level.

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Year	Revenues	EBITDA	EBITDA %
2007	$1,699	$210	12.4%
2006	$901	$84	9.3%
2005	$821	$77	9.4%

($ in millions)

2. **Consumer Solutions**: The Jarden portfolio of small home appliance and personal care products are contained within the company's Consumer Solutions segment. The product base includes home vacuum food packaging, coffeemakers, health monitoring products, and crock-pots and other small kitchen appliances, which are sold under the brand names of FoodSaver, Seal-a-Meal, Health o meter, Mr. Coffee, Rival, Sunbeam, Oster, Crock-Pot, VillaWare, Holmes, Bionnaire, and Sunbeam.

   The transformation of the Consumer Solutions business really occurred in 2005. Prior to that, Jarden owned a minimal portfolio of consumer product brands; however, this was greatly expanded in 2005, as several products, mostly complimentary to one another in the retail distribution sense, were acquired such that the level of revenues from this business rose from a few hundred million dollars to nearly $2 billion last year.

   Initially, the cash flow or EBITDA margin following the series of acquisitions declined from the 20% level in 2004 to 12.5% in 2005. Over the last two years, however, this measure has gradually improved to the current 14.5%.

Year	Revenues	EBITDA	EBITDA %
2007	$1,869	$271	14.5%
2006	$1,892	$250	13.2%
2005	$1,518	$190	12.5%
2004	$222	$43	19.4%
2003	$216	$45	20.8%

3. **Branded Consumables**: Whereas the Consumer Solutions business represents mostly kitchen-related products, the Branded Consumables category might be interpreted as the portion of the Jarden portfolio that sells miscellaneous household goods, although the Ball food canning products are included in this business mix. Other products include smoke detectors, playing cards, kitchen matches, plastic cutlery, lighters, straws, ropes, twines, paintbrushes, firelogs and firestarters, sawhorses, workbenches, and organization products. These are sold under brand

names such First Alert, Bee, Bicycle, Diamond, Lehigh, Loew-Cornell, Foster, Java-Log, Pine Mountain, and Crawford.

This business suffered a modest decline in sales last year, which the company attributes to a diminution of demand for its products from home improvement retail chains. Overall, although sales have grown substantially, obviously as a result of acquisitions, the profitability from a cash flow perspective has not increased and, actually, has declined over the last five years. It might be reasoned that five years ago, this was a very small business, mostly consisting of the Ball jarring business, which is a brand that due to its widespread recognition does not require much advertising expense, and which presumably is a quite profitable franchise. As other products and brands were added to this mix, some of which obviously do not generate a commensurate margin, the overall margin naturally declined, although this has not been a severe decline. This is presented in the table below.

Year	Revenues	EBITDA	EBITDA %
2007	$806	$100	12.4%
2006	812	118	14.5%
2005	685	95	13.9%
2004	473	87	18.4%
2003	258	40	15.5%

4. **Process Solutions**: This category of products relates to the legacy zinc coin blank business inherited from Alltrista as well as a plastic products business that manufactures contact lens packaging, refrigerator door closures, medical disposables, and rigid packaging. There is also a small monofilament business that mainly produces fiberglass radio antennas sold to marine dealers and communications companies. There really are no recognized brands for these products, as the vast majority are sold to other product manufacturers and government agencies.

   Jarden enjoys a dominant position in the coin blank industry, as it is the sole provider to the U.S. Mint and a significant supplier to the Royal Canadian Mint. This business is carried out through long-term contracts such that it has historically proven to be a stable and mature business. In addition to the copper plated zinc penny blanks sold to the U.S. and Canadian governments, Jarden also sells nickel, brass, and bronze plated coinage to other international customers.

   Although sales from this division have grown steadily during the period from 2004-2007, the rising cost of raw materials, in this case copper, zinc, and other metals, has compressed the marginal profitability.

Year	Revenues	EBITDA	EBITDA %
2007	$354	$35	9.9%
2006	309	34	11.0%
2005	234	29	12.4%
2004	196	27	13.8%

Revenue Variability Comment
Although it is somewhat premature to discuss valuation characteristics at this point in the report, it is important to note here that much of the Jarden risk premium is due to the company's perceived earnings vulnerability to a potential recession. Jarden, as have many U.S. manufacturers, has found great promise and achieved success recently vis-à-vis sales to international customers. As recently as a few years ago, Jarden really did not have an international business. At present, roughly 30% of the company's total revenues are derived from international customers, most likely emerging markets that are increasing their demand for U.S. products. Offshore sales have proven to be an outlet for earnings growth for many U.S. companies that otherwise are experiencing reduced demand from U.S. consumers. Hence, an economic recession in the U.S., such as it may exist, does not necessarily lead to the conclusion that the Jarden business will be grievously impaired.

Secondly, there are certain products within the Jarden business mix that clearly maintain non-recessionary features. For instance, it is somewhat hard to imagine that demand for products such as playing cards, firelogs, matches, food canning devices, or food storage bags will decline dramatically. In fact, one could draw a few interesting, perhaps even logical, if nonetheless amusing, observations from the Jarden products. For instance, if a member of one's household were to unfortunately become unemployed, there are certain individuals that would undertake gambling as a means of recovering lost income. This could actually increase the Jarden playing card business. Moreover, if the cost of heating one's home became sufficiently expensive due to higher natural gas prices, the use of a fireplace, if available, would become a viable heating option. In this case, the Jarden firelog, matches, and firestarter businesses could experience great success.

On a final note, with respect to the revenue profile of Jarden, the company is often judged as not possessing brands that demonstrate a high rate of growth. The so-called organic growth rate of Darden, similar to the manner in which a retail firm's same store sales figures are monitored, is very low. On a pro-forma basis, or as if the company's 2007 acquisitions were included in the 2006 financial results, the organic growth rate was 4.4%. In a sense, this is accurate because Jarden purchases mature and stable businesses. Some of these brands might actually be in a state of very moderate decline. Yet, if the capital expenditure features are such that a certain level of cash flow can be modeled several years into the future, a business in inexorable decline can provide a reasonably good rate of return if financed properly. The internal growth rate that can be found with a mature set of

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businesses diverge sharply from the observed revenue rate. This will be explored within the valuation section of this report.

Jarden Functioning a Leveraged Buyout Vehicle

Transformation of the Company

In 2001, Jarden (then Alltrista) recorded $304 million of sales and, prior to that, an average level of $350 million of sales was realized with regularity. Jarden for much of its history leveraged its capital structure with debt, but not to the degree that exists at present. For example, debt represented 1.2x of its equity in 2000. Jarden clearly at the time did not manifest the features of a firm inclined towards leveraged buyouts. Rather, Jarden represented perhaps a disorganized collection of businesses that were operated and financed with a fair amount of debt.

During the five-year period of 2003-2007, Jarden experienced a tremendous rate of growth, as the company's acquisitions increased with great vigor.

Year	Sales	EBITDA (1)
2007	$4,660	$566
2006	3,846	442
2005	3,189	360
2004	839	147
2003	588	108
Annl'zd %:	*67.8%*	*51.3%*

(1) EBITDA excludes stock-based compensation expenses and reorganization costs

With the growth in the company's cash flow, as these were debt-financed transactions, the Jarden balance sheet became exceedingly leveraged, although as evidenced by historical standards, the financial leverage does not appear excessive, which is presented below.

Year	Debt	S. Equity	Debt/Equity
1Q08	$2,826	$1,560	1.8x
2007	2,747	1,539	1.8x
2006	1,441	1,257	1.1x
2005	1,541	1,004	1.5x
2004	487	334	1.5x
2003	387	250	1.5x

Alternatively, one may view the Jarden leverage from the perspective of a lending institution, which is to measure total debt versus EBITDA. In 2003, the ratio was 3.6x in comparison to the 2007 level of 4.9x, which is actually skewed higher since the cash flow from the K2 acquisition was only recorded in August of that year. Thus, the leverage ratio in 2008, all else equal, will likely be lower. Generally, most leveraged buyouts can be comfortably financed with a debt/EBITDA ratio of under 5x and, more recently, transactions have reached in excess of 6x. Jarden, which is essentially a leveraged buyout company, appears to remain within the industry debt parameters.

From a margin perspective, Jarden has endured a diminution of profitability. However, this statement must be considered in the proper context. For many years, Jarden operated with far fewer branded products and it may merely be the case that these products manifested a higher profit margin than the typical consumer product that Jarden now manufacturers. In the following table, both the gross margin and EBITDA margin of Jarden are presented on a historical basis.

Year	Gross Margin (2)	EBITDA %
2007	27.08%	12.1%
2006	24.75%	11.5%
2005	25.37%	11.3%
2004	32.90%	17.5%
2003	36.22%	18.4%

(1) EBITDA excludes stock-based compensation expenses and reorganization costs
(2) In 2007, 2006, 2005 gross margin excludes $119 million, $10.4 million, and $22.4 million of inventory adjustments related to acquisitions

The EBITDA margin will be viewed in relation to the competition of Jarden, which suggests that the current 12% level is at the midpoint of, if slightly lower than, that of an industry benchmark.

	Most Recent Annual EBITDA %
Clorox	21.6%
Energizer	19.0%
Church & Dwight	16.3%
Newell Rubbermaid	15.7%
Helen of Troy Ltd	13.3%
Spectrum Brands	8.3%
Lifetime Brands	6.2%

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Moreover, the obvious motive of compiling a portfolio of brands that tend to share similar marketing and distribution features is that certain operational redundancies can be reduced in order to raise the overall profit margin. A large percentage of the Jarden products are distributed to mass retailers such as Wal-Mart and Target, which increases the distributional efficiency when additional products are shipped. Certain other Jarden products share similar consumer utility features such that advertising costs can also be consolidated. For instance, if Jarden is marketing its outdoor products, it may well introduce to the consumer a variety of Coleman products such as tents, sleeping bags, coolers and charcoal grills in addition to perhaps recreational sports products such as fishing gear in order to promote the products one may purchase when planning a camping venture.

That these potential cost reductions have not yet emerged within the overall profit margin is not necessarily an indication that Jarden has undertaken unwise acquisitions. Rather, since many of these acquisitions occurred only one or two years ago, it may simply be that more time is required in order for Jarden to experience margin improvement.

The Cash Flow Features of the Jarden Portfolio

There are certain brands that have enduring value to the consumer. The human inclination towards a certain brand provides the manufacturer with a competitive barrier and, hence, a relatively consistent stream of cash flow.

From the perspective of a company that endeavors to acquire such branded products, low volatility cash flows can be wisely financed with very little equity. Jarden, then, is easily able to arbitrage the acquired cash flow against a certain debt interest rate, the principal of which obviously has a fixed repayment schedule thereby earning an increasing spread, as the cash flow is used to repay indebtedness on the leveraged investment.

The other component of success in this regard is a low capital expenditure investment. Consumer brands that have endured throughout time, in their present state, generally do not require much capital improvement or reinvestment of cash flow. In the case of Jarden, the company reported $81 million of capital expenditures in 2007, which will be viewed in relation to the non-cash depreciation and amortization expense of $96 million. Hence, the cash earnings should increase at a proportionately higher rate than the company's actual need to reinvest those earnings.

If the Jarden products will indeed manifest low revenue volatility, the company's cash flow and subsequent debt repayment ability should be predictable. Let us assume that Jarden earns $2.86 per share as estimated in 2008. In addition to $116.4 million of depreciation and amortization expense, the company's cash earnings could be $337 million. Less $88 million for capital expenditures, free cash flow would be $248 million.

Let us further assume a modest level of future earnings growth, perhaps only the inflation rate of 3%, over the next five years. Assuming that there is no margin expansion possible

over this time frame, which could be a conservative assumption, the base free cash flow growth rate would also be 3%. The table below presents a scenario in which this overall cash flow, which increases every year care of lower interest expense, is used to repay debt. As demonstrated, over the course of five years, the cumulative debt reduction would be on the order of 50%.

	2008	2009	2010	2011	2012	2013	Cumulative
Total Debt	$2,826	$2,578	$2,311	$2,025	$1,717	$1,386	-51.0%
Current Average Debt Interest Rate	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	
Interest Expense	$189	$173	$155	$136	$115	$93	-51.0%
Y-o-y Interest Expense Savings, after taxes	-	$11	$12	$12	$13	$14	
Free Cash Flow	$248	$267	$287	$308	$331	$356	43.5%
Annual Free Cash Flow Growth Rate		7.5%	7.5%	7.5%	7.5%	7.5%	
Annual Debt Reduction Rate		-8.8%	-10.3%	-12.4%	-15.2%	-19.3%	

Allowing for merely 3% revenue growth, no operating margin expansion from any cost or revenue synergies from the recent sizeable acquisitions, and debt reduction, the company's earnings growth would match or exceed that of an average S&P 500 company over time.

It should also be mentioned that $2.236 billion, or 82% of the Jarden debt is short-term, or due by 2012. Much of this is due to credit facilities extended to the company for acquisitions. The current average interest rate on this debt is 6.7%. Since the facilities are generally LIBOR plus a certain basis point margin, Jarden has hedged its debt book with swaps in order to replace the short-term rates with long-term fixed rates. The highest rate of interest the company pays is a 7 ½% note due 2017. As this note currently trades for $90, or an effective yield of 8.3%, the bond market does not perceive there to be much default risk at Jarden.

Valuation

Historical Context

Since the historical net earnings of Jarden have been volatile, due to the inclusion of many acquisition-related and early debt repayment charges, a p/e based approach towards the historical valuation is not really proper. Rather, an appropriate measure might be the historical enterprise value/revenue ratio.

It is visible in the table below that the Jarden valuation has been on a gradual decent since 2003. From a high valuation point of 2x reached in 2004, Jarden traded at 0.9x revenues for the next three years. Perhaps coinciding with the recent credit crisis, the ratio has fallen

to 0.7x based on estimated sales in 2008. Thus, over the last five years, the Jarden valuation has declined by 53%.

Year	EV/Sales
2008 est.	0.7x
2007	0.9x
2006	0.9x
2005	0.9x
2004	2.0x
2003	1.5x
Avg.	1.3x

Comparative Approach

On a going-forward basis, one can view the Jarden net earnings with a certain degree of clarity. That is, assuming the company does not undertake new acquisitions, there should not exist reorganization charges. Further, it appears that the analytical community has accounted for the ability of Jarden to repay its debt, as the following earnings estimates include a declining level of interest expense.

During 2009, Jarden is expected to earn $3.20 per share on a normalized basis, which represents a p/e ratio of 6.4x. In general, consumer products companies at the moment do not receive an optimistic valuation, as their earnings are also viewed with pessimism due to the lingering fear of a severe recession. However, this level of valuation optimism is manifested by an average 11x p/e for these companies, which is nearly double the current 6x p/e of Jarden, the exception being Lifetime Brands, which also trades at a p/e of under 7x. However, Lifetime Brands is an unprofitable company, appears to generate very little cash flow, has a retailer-based business model in that the company operates its own retail stores, and its brands do not appear to be of superior quality.

The prospective 2009 p/e ratios of a wide variety of consumer products companies are presented below. Clearly, if Jarden were even accorded a low 10x p/e, the share price would be $32 for a return of 56%.

	2009 P/E
Church & Dwight	17.3x
Clorox	13.2x
Energizer	11.0x
Spectrum Brands	9.9x
Newell Rubbermaid	9.5x
Helen of Troy Ltd	9.3x
Lifetime Brands	6.7x
Avg.	11.0x
Jarden	*6.4x*

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Since other consumer products companies have used the low interest rate environment of the last few years to arbitrage the cost of debt versus their equity or, in other words, issued debt to replace equity through share repurchases or to finance acquisitions, an enterprise value approach to valuation is proper. A comparative table is presented below.

	Enterprise Value/2009E Sales
Clorox	1.9x
Energizer	1.6x
Church & Dwight	1.6x
Newell Rubbermaid	1.1x
Spectrum Brands	1.0x
Helen of Troy	0.9x
Lifetime Brands	0.4x
Avg	1.2x
Jarden	*0.7x*

On this basis, the same valuation dynamic visible in the p/e based approach indicates that if Jarden were to merely experience a re-rating that more similarly reflected the valuations of other consumer product companies, the appreciation of the shares would be extraordinary.

A Debt Reduction-Based Return

An intermediate and longer-term return scenario can be estimated using the debt reduction table that was presented on page 13. It will be recalled that if Jarden achieves $220 million of net earnings forecasted this year, the company likely will generate $248 million of free cash flow, which represents a free cash flow yield of 15.7%. This also represents 8.8% of the total debt outstanding such that upon retirement of $248 million of debt, the enterprise value in theory will decline by a commensurate amount. However, if this an improper assumption in that a company's enterprise value should be invariant to the underlying capital structure, then the 8.8% of debt reduction should be replaced with equity market value, which would result in an 8.8% appreciation of the common shares. Moreover, the underlying earnings growth rate in this example is merely 3%. In order for one to achieve a double digit rate of return in the first year, the Jarden free cash flow would only need to increase by an additional 1.2%, or 4.2% total, which would then allow the company to retire 10% of its outstanding debt.

Over the five-year time horizon of this debt reduction model, debt would decline from $2.826 billion to $1.386 billion, or by $1.44 billion. The current equity market value of Jarden is $1.578 billion. If the $1.44 billion of retired debt is replaced by equity market

value in order to maintain the current enterprise value, the equity market value in 2013 would be $3.018 billion for an annualized return of 14% over the next five years. Hence, one can achieve a fairly high rate of return even if Jarden does not increase its earnings organically during this time and merely repays debt.

Additional Asset Value

At the end of 2007, Jarden reported $1.2 billion of net operating loss carryforwards, which were mostly obtained from acquired companies. The potential value of deferred tax assets, if there is any value at all, is not easily determinable. Many factors, including the expiration period of loss carryforwards create an analytical difficulty. However, it is an underlying asset that should at least be considered as having potential value.

In this regard, if one were to discount $1.2 billion at 10% over the next 10 years, the present value might be $462 million. From a pre-tax earnings perspective, which is the only way a tax asset really has any value, Jarden could in theory generate $1.321 billion of income free of taxes ($462 million ÷ 35%).

Investment Summary

Jarden employs large amounts of debt in order to acquire branded consumer product manufacturers. Over the last year, Darden has lost roughly half of its market value, as companies heavily dependent on debt financing are perceived to be at risk of a liquidity crisis given both the state of the lending market as well as the economy. However, this appears to be merely perceptive reasoning unfounded in fact. Darden has not endured a diminution of profit. It merely has endured a diminution of confidence in its earnings prospects. If the company's earnings prove to be more resilient than the investment community currently believes to be the case, the present valuation, which is morbidly low, could well rise by nearly 100%. However, in the absence of any valuation improvement, assuming that Darden can successfully repay its debt, a reasonably good rate of return on the order of 14% per annum over the next several years is certainly possible. The fear that pervades the credit markets appears to have created an extraordinary equity investment opportunity. Accordingly, the shares are recommended for purchase.

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JARDEN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In millions, except per share amounts)

	Three months ended March 31,	
	2008	**2007**
Net sales	$ 1,217.4	$ 820.9
Cost of sales	889.6	619.6
Selling, general and administrative expenses (including stock-based compensation of $6.0 and $6.8 for the three months ended March 31, 2008 and 2007, respectively)	259.8	151.2
Reorganization and acquisition-related integration costs, net	10.7	9.1
Operating earnings	57.3	41.0
Interest expense, net	46.2	25.0
Loss on early extinguishment of debt	—	14.8
Income before taxes	11.1	1.2
Income tax provision (benefit)	6.4	(0.2)
Net income	$ 4.7	$ 1.4
Earnings per share:		
Basic	$ 0.06	$ 0.02
Diluted	$ 0.06	$ 0.02
Weighted average shares outstanding:		
Basic	75.0	69.0
Diluted	76.2	70.3

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JARDEN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except per share data)

	March 31, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	$ 227.4	$ 220.5
Accounts receivable, net of allowances of $63.3 and $72.3 at March 31, 2008 and December 31, 2007, respectively	929.2	978.5
Inventories	1,234.5	1,126.2
Deferred taxes on income	151.1	140.5
Prepaid expenses and other current assets	100.8	84.5
Total current assets	2,643.0	2,550.2
Property, plant and equipment, net	518.6	510.9
Goodwill	1,626.7	1,610.8
Intangibles, net	1,123.1	1,126.6
Other assets	67.4	69.6
Total assets	$ 5,978.8	$ 5,868.1
Liabilities:		
Short-term debt and current portion of long-term debt	$ 380.9	$ 297.8
Accounts payable	453.4	439.3
Accrued salaries, wages and employee benefits	117.6	134.6
Taxes on income	27.5	20.9
Other current liabilities	387.2	387.8
Total current liabilities	1,366.6	1,280.4
Long-term debt	2,444.7	2,449.5
Deferred taxes on income	325.1	335.2
Other non-current liabilities	282.4	264.4
Total liabilities	4,418.8	4,329.5
Contingencies (see Note 8)	—	—
Stockholders' equity:		
Preferred stock ($0.01 par value, 5.0 shares authorized, no shares issued and outstanding at March 31, 2008 and December 31, 2007)	—	—
Common stock ($0.01 par value, 150.0 shares authorized, 78.4 shares issued at March 31, 2008 and December 31, 2007)	0.8	0.8
Additional paid-in capital	1,251.4	1,246.5
Retained earnings	293.5	288.8
Accumulated other comprehensive income	64.1	47.5
Less: Treasury stock (1.9 and 1.6 shares, at cost, at March 31, 2008 and December 31, 2007, respectively)	(49.8)	(45.0)
Total stockholders' equity	1,560.0	1,538.6
Total liabilities and stockholders' equity	$ 5,978.8	$ 5,868.1

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