

ACG6175 - Final Examination

Name _____

Panther ID Number _____

- There are TWO parts to this examination. Part 1 = 13 points. Part 2 = 7 points. Total = 20 points.
- *Write your answers in Standard English.*
- *Separately label each of your answers.*

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**SUNBEAM COMPLETES RECORD YEAR
FOR SALES, EARNINGS & GLOBAL EXPANSION**

DELRAY BEACH, FLORIDA JANUARY 28, 1998 - Sunbeam Corporation (NYSE:SOC) today announced record sales and earnings for its fourth quarter and full year 1997. Sales for the quarter were \$338 million, reflecting a 30.6% increase over the prior year period on a comparable basis. Before the 1996 special charges taken by the Company to restructure and reposition Sunbeam, earnings per share (diluted) from continuing operations of \$0.47 were \$0.50 ahead of the loss of \$0.03 reported in the fourth quarter last year. Including these charges earnings per share (diluted) rose \$2.76 above the reported \$2.29 loss reported in 1996. On a year to date basis, revenue of \$1.168 billion was 22.4% above 1996 on a comparable basis.

Albert J. Dunlap, Sunbeam's Chairman and Chief Executive Officer, said "I am very proud of the dramatic turnaround that we have achieved at Sunbeam in such a short period of time as we continue to execute against our three year growth plans. Our continuous sales increases of 13%, 17%, 28% and 31% in the four quarters of 1997, for an overall sales increase of 22% for the year, are a clear indication that our strategy is working."

The Company's three year strategy to achieve \$1 billion in revenue growth, which it embarked upon in 1997, was fueled by the addition of 25 international distribution/license agreements, the introduction of 35 new U.S. products and 54 new international products along with the contribution from 22 factory outlet stores. "We experienced sales growth in all major channels of distribution, in all regions of the world and in each of our five global businesses, and we gained market share in all of our key product categories, reversing a three year downward trend, " said Mr. Dunlap.

Required:

PART 1 - There are a number of interesting differences between Sunbeam's 1997 and 1996 balance sheets (e.g., receivables increased by \$82 million, inventories increased by \$94 million, and pre-paid expenses decreased by \$23 million, while long-term productive assets and liabilities remained relatively unchanged), and between its 1997 and 1996 income statements (e.g., during 1997 the company engaged in a number of "buy and hold" transactions, gross margin increased dramatically and SG&A declined).

- a. (maximum 7 points out of 13) - Adjust Sunbeam's 1997 Earning before interest and taxes for one-time events and apparent (e.g., doubtful accounts, depreciation expense, and etc.) changes in accounting policy. Be careful to adjust for things done in 1996 that had a carry-over effect on 1997. You may want to compute some comparative ratios to facilitate your analysis. Be sure to provide the details of and clearly label any computations.
- b. (maximum 4 points out of 13) - Utilizing your adjusted numbers from 1)a. (above) re-compute Sunbeam's operating cash flows for 1997 (i.e., compute a new cash flows amount based on your adjustments to the original data). Clearly label the components of your computations.
- c. (maximum 2 points out of 13) - Summarize your findings in 1)a. and 1)b. (above), paying particular attention to any evidence of fraud (be careful not to let 20-20 hindsight - i.e., information that you are aware of, but is not included in this case - influence your conclusions).

**SELECTED DATA FROM: SUNBEAM CORPORATION AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K**

GENERAL

Sunbeam Corporation is a leading designer, manufacturer and marketer of branded consumer products. The Company's primary business is the manufacture, marketing and distribution of durable household consumer products through mass market and other distributors in the United States and internationally.

RESTRUCTURING AND GROWTH PLAN

In the Fall of 1996, under newly elected Chairman, Albert J. Dunlap, the Company announced a major restructuring and growth plan. The restructuring portion of the plan was completed during 1997, resulting in a significant reduction in employees, facilities and costs, all of which is anticipated to generate approximately \$225 million in annual savings for the Company. The Company's restructuring plan included the closure of 18 factories, 43 warehouses and 5 headquarters, resulting in the consolidation of all corporate offices into a single headquarters office located in Delray Beach, Florida and an operations center at its Hattiesburg manufacturing and distribution facility.

The Company's operating results for 1996 include the effects of a pre-tax special charge of \$337.6 million recorded in conjunction with the implementation of its restructuring and growth plan announced in November 1996. Approximately 20% of the charge was for cash items primarily for severance costs and lease and other facility exit costs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Sales of Outdoor Cooking products increased in 1997 after three straight years of declines as a result of increased merchandising and advertising programs, new distribution and the introduction of an entirely new line of grills and accessories for the 1998 season that began to ship in the fourth quarter of 1997 under a new "early buy" marketing program that included among other things, extended credit terms with due dates in the second quarter of 1998. The Company sold approximately \$50.0 million of Outdoor Cooking Products under this program in the fourth quarter of 1997. The early buy program for Outdoor Cooking products is designed to improve customer service levels and production efficiencies with more level seasonal production and distribution activities that have historically peaked in the first half of each year and to drive additional retail sell-through of Outdoor Cooking products by reducing the likelihood of retail stock-outs during the important first and second quarter 1998 selling season.

Selling, general and administrative ("SG&A") expenses, excluding the impact of special charges described above, were 17.6% of sales in 1996 primarily as a result of an inflated cost structure that has been realigned for 1997 and beyond. In addition, a \$12.0 million fourth quarter 1996 media advertising campaign and one-time expenditures for market research, new packaging, and other growth plan initiatives resulted in higher than normal SG&A spending in 1996. Also included in 1996 SG&A costs were \$7.7 million of compensation expense resulting from restricted stock awards made in connection with the employment of a new senior management team.

LIQUIDITY AND CAPITAL RESOURCES

As of December 28, 1997, the Company had cash and cash equivalents of \$52.4 million and total debt of \$195.2 million. Cash used in operating activities during 1997 was \$8.2 million compared to \$14.2 million provided by operating activities in 1996. This decrease is primarily attributable to an increase in earnings before non-cash charges in 1997 and the utilization of tax benefits generated from the implementation of the Company's restructuring plan, offset by higher accounts receivable due to increased sales in 1997 and certain seasonal dating terms, increased inventory levels in 1997 necessary to support continued anticipated sales growth and the Company's initiatives to improve customer service levels and 1997 cash expenditures required to implement the restructuring plan.

In addition, cash used in operating activities reflects \$59 million of proceeds from the sale of trade accounts receivable under the Company's revolving trade accounts receivable securitization program entered into in December 1997 as more fully described in Note 3 to the Company's consolidated financial statements.

Cash provided by investing activities also reflects \$91.0 million in proceeds from sales of businesses, assets and product categories determined to be non-core to the Company's ongoing operations in conjunction with the 1996 restructuring plan. Cash used in investing activities for 1995 includes the purchase of a portion of the Company's furniture business, which was subsequently divested in full in March 1997.

Cash provided by financing activities totaled \$16.4 million in 1997 and reflects net borrowings of \$5.0 million under the Company's revolving credit facility, \$12.2 million of debt repayments related to the divested furniture operations and other assets sold and \$26.6 million in cash proceeds from the exercise of stock options, substantially all by former employees of the Company. In 1996, cash provided by financing activities of \$45.3 million was primarily from increased revolving credit facility borrowings to support working capital and capital spending requirements, \$11.5 million in new issuances of long-term debt and \$4.6 million in proceeds from the sale of treasury shares to certain executives of the Company. In July 1997, the Company reduced the amount of available borrowings under its September 1996 unsecured five year revolving credit facility from \$500 million to \$250 million.

SUNBEAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except EPS)

	YEAR ENDED		THREE MONTHS ENDED	
	DECEMBER 28, 1997	DECEMBER 29, 1996	DECEMBER 28, 1997	DECEMBER 29, 1996
Net sales	\$1,168.2	\$984.2	\$338.1	\$268.9
Cost of goods sold	837.7	900.6 (a)	238.7	309.3 (a)
Gross profit (deficit)	330.5	83.6	99.4	(40.4)
% of sales	28.3%	8.5%	29.4%	-15.0%
Selling, general & administrative expense	131.1	214.0 (b)	32.7	94. (b)
Restructuring, impairment and other costs	-	154.9	-	154.9
Operating earnings/(loss)	199.4	(285.3)	66.7	(289.4)
% of sales	17.1%	-29.0%	19.7%	-107.6%
Interest expense and other, net	10.2	17.3	4.1	4.0
Earnings (loss) from continuing operations before income taxes	189.2	(302.6)	62.6	(293.4)
Income taxes (benefit)	66.1	(105.9)	20.9	(103.0)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	123.1	(196.7)	41.7	(190.4)
Earnings (loss) from discontinued operations, net of tax	(13.7)	(32.4)	-	(32.4)
Loss on sale of discontinued operations, net	(13.7)	(32.4)	-	(32.4)
Net earnings (loss)	\$109.4	(\$228.3)	\$41.7	(\$234.7)

(a) Includes special charges of \$92.3

(b) Includes special charges of \$42.5

SUNBEAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

	December 28, 1997	December 29, 1996
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ASSETS		
Current assets:		
Cash and cash equivalents	\$52.4	\$11.5
Receivables, net	295.5	213.4
Inventories	256.2	162.3
Net assets of discontinued operations and other assets held for sale	-	102.
Deferred income taxes	36.7	93.7
Prepaid expenses and other current assets	17.2	40.4
	-----	-----
Total current assets	658.0	624.1
Property, plant and equipment, net	240.9	220.1
Trademarks and trade names, net	194.4	200.3
Other assets	27.0	28.2
	-----	-----
	\$1,120.3	\$1,072.7
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	105.6	107.3
Restructuring accrual	10.9	63.8
Other current liabilities	81.6	100.4
	-----	-----
Total current liabilities	198.1	271.5
Long-term debt	194.6	201.1
Deferred income taxes	54.6	52.3
Non-operating and other long-term liabilities	141.1	152.5
Shareholders' equity	531.9	395.3
	-----	-----
	\$1,120.3	\$1,072.7
	=====	=====

SUNBEAM CORPORATION AND SUBSIDIARIES - CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

FISCAL YEARS ENDED	DECEMBER 28, 1997	DECEMBER 29, 1996	DECEMBER 31, 1995
OPERATING ACTIVITIES:			
Net earnings (loss)	\$ 109,415	\$ (228,262)	\$ 50,511
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	38,577	47,429	44,174
Restructuring, impairment & other	--	154,869	--
Other non-cash special charges	--	128,800	--
Loss on sale of discontinued operations, net of taxes ...	13,713	32,430	--
Deferred income taxes	57,783	(77,828)	25,146
Increase (decrease) in cash from changes in working capital:			
Receivables, net	(84,576)	(13,829)	(4,499)
Inventories	(100,810)	(11,651)	(4,874)
Account payable	(1,585)	14,735	9,245
Restructuring accrual	(43,378)	--	--
Prepaid expenses and other current Assets and liabilities	(9,004)	2,737	(8,821)
Income taxes payable	52,844	(21,942)	(18,452)
Payment of other long-term and non-operating liabilities ..	(14,682)	(27,089)	(21,719)
Other, net	(26,546)	13,764	10,805
Net cash provided by (used in) operating activities	<u>(8,249)</u>	<u>14,163</u>	<u>81,516</u>
INVESTING ACTIVITIES:			
Capital expenditures	(58,258)	(75,336)	(140,053)
Decrease in restricted investments	--	--	45,755
Proceeds from sale of divested Operations and other assets	90,982	--	--
Purchase of businesses	--	--	(13,053)
Other, net	--	(860)	--
Net cash provided by (used in) investing activities	<u>32,724</u>	<u>(76,196)</u>	<u>(107,351)</u>
FINANCING ACTIVITIES:			
Net borrowings (revolving credit)	5,000	30,000	40,000
Issuance of long-term debt .	--	11,500	--
Payments of debt obligations	(12,157)	(1,794)	(5,417)
Proceeds from exercise of stock options	26,613	4,684	9,818
Purchase of treasury stock..	--	--	(13,091)
Sale of treasury stock	--	4,578	--
Payments of common dividends	(3,399)	(3,318)	(3,268)
Other financing activities .	320	(364)	(264)
Net cash provided by financing	<u>16,377</u>	<u>45,286</u>	<u>27,778</u>
Net increase (decrease) in cash and cash equivalents .	40,852	(16,747)	1,943
Cash and cash equivalents at beginning of year	<u>11,526</u>	<u>28,273</u>	<u>26,330</u>
Cash and cash equivalents at end of year	<u>\$ 52,378</u>	<u>\$ 11,526</u>	<u>\$ 28,273</u>

SUNBEAM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company recognizes revenues from product sales principally at the time of shipment to customers. In limited circumstances, at the customers request the Company may sell seasonal product on a bill and hold basis provided that the goods are completed, packaged and ready for shipment, such goods are segregated and the risks of ownership and legal title have passed to the customer. The amount of such bill and hold sales at December 29, 1997 was approximately 3% of consolidated revenues.

RECLASSIFICATION

In December 1997, the Company entered into a revolving trade accounts receivable securitization program to sell without recourse, through a wholly-owned subsidiary, certain trade accounts receivable. The maximum amount of receivables that can be sold through this program is \$70 million. At December 28, 1997, the Company had received approximately \$59 million from the sale of trade accounts receivable. The proceeds from the sale were used to reduce borrowings under the Company's revolving credit facility. Costs of the program, which primarily consist of the purchaser's financing cost of issuing commercial paper backed by the receivables, totaled \$.2 million during 1997, and have been classified as interest expense in the accompanying Consolidated Statements of Operations. The Company, as agent for the purchaser of the receivables, retains collection and administrative responsibilities for the purchased receivables.

7. SUPPLEMENTARY FINANCIAL STATEMENT DATA

Supplementary Balance Sheet data at the end of each fiscal year is as follows (in thousands):

	1997	1996
Receivables:		
Trade	\$ 305,219	\$ 227,043
Sundry	7,794	2,412
	313,013	229,455
Valuations allowances	(17,463)	(16,017)
	<u>\$ 295,550</u>	<u>\$ 213,438</u>
Inventories:		
Finished goods	\$ 142,976	\$ 84,813
Work in process	26,237	25,167
Raw materials and supplies	86,967	52,272
	<u>\$ 256,180</u>	<u>\$ 162,252</u>
Property, plant and equipment:		
Land	\$ 1,793	\$ 2,524
Buildings and improvements	98,054	95,619
Machinery and equipment	245,824	258,199
	345,671	356,342
Accumulated depreciation and amortization ..	(104,774)	(136,254)
	<u>\$ 240,897</u>	<u>\$ 220,088</u>
Trademarks and trade names:		
Gross	\$ 237,095	\$ 245,307
Accumulated amortization	(42,723)	(45,045)
	<u>\$ 194,372</u>	<u>\$ 200,262</u>

8. RESTRUCTURING, IMPAIRMENT AND OTHER COSTS

Amounts included in Restructuring, Impairment and Other Costs in 1996 in the accompanying Consolidated Statement of Operations include cash items such as severance and other employee costs of \$43.0 million, lease obligations and other exit costs associated with facility closures of \$12.6 million, \$7.5 million of start-up costs on back office outsourcing initiatives and other costs related to the implementation of the restructuring and growth plan. Non-cash Restructuring, Impairment and Other Costs in 1996 include \$91.8 million related to asset [property, plant & equipment] write-downs to net realizable value for disposals of excess facilities and equipment and non-core product lines, write-offs of redundant computer systems from the administrative back-office consolidations and outsourcing initiatives and intangible, packaging and other asset write-downs related to exited product lines and SKU reductions.

9. DISCONTINUED OPERATIONS AND OTHER ASSETS HELD FOR SALE

As part of the restructuring plan and redefinition of its core businesses, the Company also announced the divestiture of the furniture business, by a sale of assets. In February 1997, the Company entered into an agreement to sell the business to U.S. Industries, Inc. which was completed on March 17, 1997. In connection with the sale of these assets (primarily inventory, property, plant and equipment), the Company received \$69 million in cash. The Company retained accounts receivable related to the furniture business of approximately \$50.0 million as of the closing date.

11. CUSTOMER AND GEOGRAPHIC DATA

Classes of products which contributed more than 10% to consolidated sales were outdoor home use durable products \$325.8 million in 1997 and \$256.9 million in 1996, and indoor home use durable products \$769.6 million in 1997 and \$680.7 million in 1996. Sales of outdoor cooking products accounted for approximately 34% of the Company's domestic net sales in 1997. The Company's largest customer (Wal-Mart) accounted for approximately 21% of consolidated net sales in 1997 and 19% in 1996 and 1995.

VALUATION AND QUALIFYING ACCOUNTS: FISCAL YEARS 1997, 1996 AND 1995 (DOLLARS IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts and cash discounts:				
Fiscal year ended			\$ (2,000) (a)	
December 28, 1997..	\$16,017	\$ 8,411	8,948 (b)	\$17,463
			17 (c)	
Fiscal year ended			\$ (233) (a)	
December 29, 1996	\$12,326	\$23,369	19,911 (b)	\$16,017
			-- (c)	
Fiscal year ended			\$ 715 (a)	
December 31, 1995	\$ 9,416	\$10,651	6,988 (b)	\$12,326
			38 (c)	

Notes: (a) Reclassified to/from accrued liabilities for customer deductions.
(b) Accounts written off as uncollectible.
(c) Foreign currency translation adjustment.

PART 2 - (7 Points)

You read about in your text and assessed in the Strategic Analysis portion of your project, the factors that Michael Porter identifies as influencing and directing *competitive strategy*.

Required:

- a) (maximum 4 out of 7 points) identify each of those specific factors
- b) (maximum 3 out of 7 points) provide specific examples of accounting information that might be useful for assessing each factor. Be sure to explain (briefly) how each example might be used