

members wanted to diversify their long-term holdings and allow for distributions to charities and other philanthropic activities. During its 90 years as a private company, Steelcase had grown to become a member of the *Fortune* 500 and the largest manufacturer of office solutions in the United States. By 1998, the private ownership structure for this organization was simply too inflexible.

The economic environment at the end of the 1990s was prime for Steelcase's initial public offering. Data from the Business and Industrial Furniture Manufacturer's Association (BIFMA) forecast double-digit increases in office furniture shipments throughout the first three quarters of 1997.⁶ Steelcase was the leader in this growing furniture shipment industry, which was already worth \$10 billion in 1996. Furthermore, the U.S. economy overall was still growing at an impressive pace (though the Asian crisis had sparked some doubt in late 1997), white-collar job growth remained strong, and companies were flush with cash from the booming stock market.

Steelcase came to market on February 18, 1998, with a 9.4-million-share offering priced at \$28 per share; the proceeds went entirely to family stakeholders. The offering proved very popular with money managers and was oversubscribed to such a degree that the number of shares was increased from 9.4 million to 12.5 million and the IPO price quickly exceeded the originally projected range of \$23–\$26 per share. On the first day of trading, Steelcase shares rose from the opening offer to close at \$33.63, up approximately 20 percent.

After the IPO, 156 million total shares were outstanding, with 12.5 million in public hands, and the balance owned by the founding family. Employees received a gift of 10 shares each and options allowing them to purchase shares at below-market rates. One-third of the IPO shares went to employees. Institutions were the largest

purchasers of the 12.5 million shares sold to the public.

STEELCASE AS A PUBLIC COMPANY (IPO TO JUNE 2000)

Steelcase hit an all-time closing high of \$37.94 per share on March 13, 1998, less than one month after the IPO. Almost everything that followed with respect to the company's stock price, however, was disappointing. Uncertainty caused by the 1997 Asian crisis and the 1998 Russian default significantly disturbed many companies' capital expenditures. In addition, as the year 2000 approached and "Y2K" fears loomed, corporate spending was focused almost solely on technology and information systems. Although traditional indicators of furniture system demand remained strong, those indicators did not translate into end demand for Steelcase's products.

In 1999, just as the company's profitability started to weaken, Steelcase purchased the remaining 50 percent of Strafor, a previous joint venture interest in Europe and Africa with annual sales of \$500 million. Because the two companies concentrated on different aspects of the furniture business, the addition of Strafor's business to the balance sheet had a material effect on several of Steelcase's financial ratios. All of Steelcase's products were "made to order." This business model had allowed it to carry only a small amount of inventory, and Steelcase's dealers typically paid for purchases in less than 30 days. Strafor did not have the same inventory constraints. Also, many of Strafor's customers were accustomed to paying closer to 90 days after receiving an order. With the Strafor acquisition, inventory at Steelcase rose and inventory turnover fell. At the same time, however, a new customer base increased Steelcase's collection risk. The softness in the balance sheet reinforced investor concerns over deteriorating earnings performance.

Steelcase performance in 1999–2000 was mediocre. Sales slumped or, at best, remained flat.

⁶ Mahua Dutta, "Steelcase Builds IPO," *IPO Reporter*, February 16, 1998.