

Winter 2009

### Current State of the Market and the Impact on the Consumer Products Sector

The consumer products sector is being dramatically impacted by the current economic challenges. U.S. retail sales continue to fall, consumer spending has not grown since June, and the unemployment rate reached a 14-year high of 6.7 percent in November. Payroll employment fell by more than a half-million in November representing the largest drop in 34 years. Furthermore, despite efforts by the federal government to ease consumer sentiment, consumer confidence remains low. While consumer confidence slightly improved from an all-time low of 38 in October to 44.9 in November, confidence remains significantly below last year's level of 87.3.

In response, consumers are eliminating unnecessary expenses and trading down to store brands, which has resulted in lower sales for the consumer products sector, mainly for manufacturers of discretionary products and durable goods. To minimize the effects of the slowdown in consumer spending, companies are cutting costs and trimming inventories.<sup>1</sup> Wholesale inventories declined by 1.1 percent in October representing the largest decline in inventories since November 2001.<sup>1</sup> Manufacturers are also raising prices to offset recent price increases in raw materials, although they continue to feel the pressures of the recession as consumer budgets remain constrained.<sup>2</sup>

As the slowdown exacerbates, the consumer products sector will continue

to face margin pressures. Fitch Ratings expect the economic situation to worsen with more layoffs and a further contraction in consumer spending. In 2009, unemployment is expected to increase by 1.1 percent to 7.8 percent and consumer spending is anticipated to shrink to 1.6 percent.<sup>2</sup> Manufacturers and retailers of discretionary products, such as sporting goods equipment, furniture, jewelry, electronics, and clothing will experience the largest sales declines. However, firms with a strong brand name and a focus on decreasing operating costs should continue to experience moderate growth.

### How to Navigate This Challenging Time

In response to the current economic climate and the credit crisis, we want to share with you the capabilities of our Special Situations Advisory Group (SSAG), a specialized investment banking team within KPMG Corporate Finance LLC that is currently assisting companies to evaluate a wide range of liquidity options. It is important to understand that if your business is under financial stress, there is an inverse relationship between time and enterprise value—the more time a business remains under financial stress without a resolution, the faster the value of the business will likely deteriorate. Waiting to resolve the problem can result in fewer available restructuring options, which can ultimately result in the need for a bankruptcy filing.

Our SSAG professionals are highly trained specialist bankers that have

access to alternative sources of debt and equity capital focused on lending and investing during these restrictive credit markets. They also offer strategies to help companies de-leverage their balance sheet through negotiated debt restructurings with existing lenders and creditors, or can effectuate an accelerated M&A process for noncore assets in order to quickly raise cash for a business. Our Real Estate team can also provide lease mitigation services. Our team is very nimble and consistently executes these types of transactions within 30 to 90 days.

In these challenging times, business owners should seek objective advice from qualified professionals employed by a reputable firm. Our Consumer Markets sector bankers and SSAG professionals would welcome the opportunity to meet with you on a confidential basis to learn more about your firm's strategic objectives, and help you explore all liquidity options available in the market today.

*Additional information regarding our Special Situations Advisory Group can be found at:*

[www.kpmgcorporatefinance.com/services/specialsituations/](http://www.kpmgcorporatefinance.com/services/specialsituations/)

*Additional information regarding our Consumer Markets sector expertise can be found at:*

[www.kpmgcorporatefinance.com/consumermarkets/](http://www.kpmgcorporatefinance.com/consumermarkets/)

<sup>1</sup> *The Wall Street Journal* "Wholesale Inventories Drop 1.1 Percent," December 10, 2008.

<sup>2</sup> *Fitch Ratings*, "Fitch: Consumer Products Sector Faces Harsh 2009," December 1, 2008.

Company	Market Snapshot									
	Market Cap <sup>1</sup>	Share Price	52-Week Low	52-Week High	Price % Change 1 Mo	Price % Change 3 Mo	Price % Change 1Yr	EV <sup>2</sup> /Sales	EV <sup>2</sup> /EBITDA	EV <sup>2</sup> /EBIT
<b>Case Good Manufacturers</b>										
BASSETT FURNITURE INDUSTRIES INC.	38.7	3.55	3.10	13.41	-23.0%	-66.9%	-62.0%	0.2x	13.3x	NM
ETHAN ALLEN INTERIORS INC.	438.7	16.34	11.26	34.02	-6.5%	-40.0%	-44.5%	0.6x	5.1x	6.6x
FLEXSTEEL INDUSTRIES INC.	45.8	7.00	6.75	14.50	-9.8%	-37.8%	-43.3%	0.2x	6.6x	11.5x
FURNITURE BRANDS INTERNATIONAL INC.	151.3	3.31	2.08	15.46	-25.6%	-68.5%	-70.3%	0.1x	NM	NM
HOOKER FURNITURE CORP.	78.0	7.22	5.64	24.00	-19.0%	-61.7%	-64.8%	0.2x	2.7x	3.0x
JENNIFER CONVERTIBLES, INC.	2.6	0.40	0.11	5.04	5.3%	-68.3%	-92.0%	NM	NM	NM
LA-Z-BOY INC.	140.0	2.90	2.28	11.76	-38.4%	-68.0%	-56.6%	0.2x	16.4x	NM
LEGGETT & PLATT INC.	2,347.7	15.25	12.03	24.60	-6.4%	-34.4%	-26.4%	0.7x	6.8x	10.3x
NATUZZI SPA	104.2	1.90	1.67	5.51	-32.1%	-53.0%	-62.0%	0.0x	NM	NM
SEALY CORP.	249.7	2.75	1.62	13.39	-1.8%	-66.0%	-78.9%	0.6x	5.4x	6.5x
STANLEY FURNITURE CO. INC.	77.7	8.01	5.60	14.90	-9.8%	-3.4%	-36.5%	0.3x	4.8x	26.2x
TEMPUR PEDIC INTERNATIONAL INC.	529.8	7.73	4.96	32.08	7.8%	-36.6%	-75.8%	0.9x	4.6x	5.5x
<b>Case Good Manufacturers Mean</b>					<b>-13.3%</b>	<b>-50.4%</b>	<b>-59.4%</b>	<b>0.4x</b>	<b>7.3x</b>	<b>9.9x</b>
<b>Home Appliances</b>										
BLACK & DECKER CORP.	2,664.5	44.66	32.31	84.36	-1.8%	-32.5%	-45.9%	0.6x	6.4x	8.3x
CRAFTMADE INTERNATIONAL INC.	8.1	1.61	1.42	9.99	-18.7%	-62.2%	-80.5%	0.3x	7.6x	9.3x
EMERSON ELECTRIC CO.	24,806.8	33.32	29.26	58.87	3.5%	-25.3%	-42.8%	1.1x	5.8x	6.8x
GENERAL ELECTRIC CO.	177,008.0	18.00	12.58	38.52	-4.6%	-38.1%	-51.9%	3.9x	18.2x	27.3x
JARDEN CORP.	970.0	12.71	7.20	29.38	-22.6%	-52.9%	-55.1%	0.6x	6.1x	7.7x
NACCO INDUSTRIES INC.	310.2	38.47	25.88	125.50	-13.8%	-64.8%	-61.4%	0.2x	3.9x	6.1x
NATIONAL PRESTO INDUSTRIES INC.	452.6	69.05	41.40	80.60	5.6%	-12.7%	29.2%	0.7x	4.5x	5.1x
WHIRLPOOL CORP.	3,137.8	43.20	30.19	98.00	-2.7%	-51.7%	-51.2%	0.3x	3.7x	6.1x
<b>Home Appliances Mean</b>					<b>-6.9%</b>	<b>-42.5%</b>	<b>-44.9%</b>	<b>1.0x</b>	<b>7.0x</b>	<b>9.6x</b>
<b>Electronics</b>										
APPLE INC.	88,946.8	98.21	79.14	202.96	0.0%	-37.8%	-49.4%	2.0x	9.6x	10.3x
CANON INC.	36,817.2	29.83	23.85	63.96	-10.8%	-32.0%	-43.7%	0.6x	2.7x	4.2x
DELL INC.	23,061.0	12.02	8.72	26.04	-4.2%	-40.4%	-42.3%	0.3x	3.7x	4.5x
EASTMAN KODAK CO.	1,932.9	6.59	6.15	24.02	-25.4%	-57.5%	-72.2%	0.1x	1.7x	3.9x
ELECTRONIC ARTS INC.	6,209.0	17.00	16.56	60.35	-27.8%	-63.0%	-69.5%	0.9x	NM	NM
ENERGIZER HOLDINGS INC.	2,554.0	45.29	30.36	118.88	7.8%	-48.3%	-60.6%	1.2x	6.4x	7.7x
KONINKLIJKE PHILIPS ELECTRONICS NV	17,390.5	17.88	15.30	40.52	-5.8%	-43.3%	-58.8%	0.6x	5.0x	7.3x
NINTENDO CO. LTD.	49,364.4	386.00	232.57	741.86	15.3%	-21.3%	-36.2%	1.7x	5.6x	5.7x
PANASONIC CORPORATION	23,768.7	11.48	11.11	27.08	-26.5%	-43.5%	-44.9%	0.2x	2.4x	4.0x
SONY CORP.	20,734.3	20.64	18.49	69.02	-7.4%	-44.7%	-62.0%	0.3x	3.7x	7.4x
UNIVERSAL ELECTRONICS INC.	226.5	16.75	12.33	38.47	2.6%	-37.9%	-54.9%	0.5x	5.6x	7.2x
<b>Electronics Mean</b>					<b>-7.5%</b>	<b>-42.7%</b>	<b>-55.0%</b>	<b>0.8x</b>	<b>4.6x</b>	<b>6.2x</b>
<b>Leisure Products</b>										
BRUNSWICK CORP.	285.8	3.37	1.82	20.85	-3.7%	-76.4%	-83.4%	0.1x	2.3x	6.4x
CALLAWAY GOLF CO.	615.5	9.88	7.55	18.20	-4.0%	-32.7%	-45.1%	0.5x	4.6x	6.4x
COLUMBIA SPORTSWEAR COMPANY	1,188.3	36.70	26.07	49.49	6.0%	-11.4%	-23.5%	0.8x	5.4x	6.4x
CROCS INC.	136.9	1.69	0.79	46.80	-24.2%	-66.7%	-96.3%	0.1x	1.4x	2.7x
ESCALADE INC.	10.1	0.76	0.77	9.39	-39.8%	-75.1%	-91.9%	0.4x	8.0x	48.0x
HASBRO INC.	3,907.3	28.07	21.57	41.68	1.2%	-26.3%	5.2%	1.1x	6.4x	8.3x
JOHNSON OUTDOORS INC.	51.2	5.95	5.35	23.00	-17.5%	-60.9%	-73.0%	0.2x	NM	NM
MARVEL ENTERTAINMENT, INC.	2,357.6	30.82	23.28	38.50	2.7%	-9.2%	9.9%	4.3x	8.3x	8.3x
MATTEL INC.	5,358.5	14.96	10.89	21.99	0.5%	-23.4%	-27.5%	1.0x	7.5x	9.5x
NIKE INC.	25,687.6	50.50	42.68	70.60	2.2%	-16.3%	-23.3%	1.2x	8.4x	9.6x
QUIKSILVER INC.	182.8	1.59	0.80	11.14	-27.1%	-80.8%	-85.3%	0.4x	4.7x	6.9x
SMITH & WESSON HOLDING CORP.	112.9	2.56	1.53	10.13	9.9%	-44.2%	-62.4%	0.7x	6.4x	10.7x
STEINWAY MUSICAL INSTRUMENTS INC.	153.8	18.99	14.84	30.58	-8.2%	-34.0%	-33.9%	0.7x	6.1x	7.8x
<b>Leisure Products Mean</b>					<b>-7.8%</b>	<b>-42.9%</b>	<b>-48.5%</b>	<b>0.9x</b>	<b>5.8x</b>	<b>10.9x</b>
<b>Total Consumer Products Mean</b>					<b>-9.1%</b>	<b>-44.8%</b>	<b>-52.5%</b>	<b>0.7x</b>	<b>6.1x</b>	<b>9.2x</b>

Source: Capital IQ and company filings

<sup>1</sup> Market Capitalization amounts are in millions, based on closing Share Prices as of December 12, 2008<sup>2</sup> Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority

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