steelcase inc

Steelcase Reports Second Quarter Fiscal 2004 Results; Strong Sequential Quarter Revenue Growth in North America

GRAND RAPIDS, Mich.--(BUSINESS WIRE)--Sept. 24, 2003--Steelcase Inc. (NYSE:SCS) today reported revenue from continuing operations for its second quarter totaled $612.1 million, an increase of 10 percent over first quarter revenue of $555.6 million, and a 5 percent decrease compared with $644.2 million in the same quarter last year. Driven by strong sales in North America, these results were in line with company estimates. The year-on-year sales decrease is net of a $16.1 million favorable currency translation effect in the International segment. Currency translation did not materially affect the sequential quarter comparison. Revenue for the quarter and prior period comparisons excludes the recently divested Attwood marine business, now treated as a discontinued operation.

Steelcase reported net income of $18.1 million, or $0.12 per share for the second quarter. These results compare with a net loss of $(7.3) million, or $(0.05) per diluted share, in the second quarter of fiscal 2003.

In the quarter, the company sold its Attwood Corporation marine hardware and accessories business and results reflect a $31.9 million pre-tax gain related to the divestiture. Reported results also include pre-tax restructuring and related asset impairment charges of $(4.9) million for International and $(2.5) million for North America, a $7.0 million pre-tax non-operating gain on the sale of real estate, and a pre-tax non-operating charge of $(6.1) million related to a dealer transition. The total of all these items is a net gain of $25.4 million pre-tax, or $16.0 million after-tax.

"We returned to profitability this quarter on the strength of improved sales and operating profits in the North America segment," said James P. Keane, chief financial officer. "In addition, we strengthened our balance sheet through the sale of Attwood, and continued control over capital expenditures. We increased cash balances to $173 million and lowered debt to $316 million during the quarter."

"This performance gives us confidence we will achieve our targets for the year," said James P. Hackett, president and chief executive officer. "We made significant progress on our ongoing restructuring actions and we strengthened our liquidity position. Our efforts to improve our cost structure combined with a focus on customer service, innovation and operational excellence are preparing us for growth."

Outlook

"We are seeing some signs that business capital spending is finally beginning to recover in the United States," said Mr. Keane. "Although we believe increased spending on office furniture will generally lag other categories, we are expecting a modest increase in second half shipments, including projects we have already won. International markets are not yet showing the same signs of improvement in overall economic indicators."

The company expects third quarter sales from continuing operations to be flat to slightly up from second quarter levels. North America order rates increased slightly in the second quarter versus the first quarter, and have been volatile in the early weeks of the third quarter.

Third quarter earnings are expected to be just above breakeven, including $(5.0) to $(7.0) million of pre-tax restructuring charges, and the impact of labor and overhead inefficiencies related to ongoing plant consolidation activities. The company expects to be profitable for fiscal year 2004.

Mr. Hackett concluded, "We are delivering innovative solutions in new and existing markets that together with the operational initiatives implemented and underway, will provide Steelcase with significant opportunity for growth and profitability as the economy recovers."

Webcast

Steelcase will webcast its conference call reviewing second quarter fiscal 2004 financial results on Thursday, September 25, 2003 at 11:00 a.m. EDT. Links to the webcast are available at www.steelcase.com. Accompanying webcast presentation slides will be available on the company's website shortly before the start of the webcast. A replay of the webcast can be accessed on the site after the

call.

Business Segment Results
(in millions)

	Second Quarter Three Months Ended			Sequential Quarters Three Months Ended		
	Aug 29, 2003	Aug 23, 2002	% Inc (Dec)	Aug 29, 2003	May 30, 2003	% Inc (Dec)
Revenue						
North America (1)	$346.0	$377.7	(8.4)%	$346.0	$296.2	16.8%
Steelcase Design Partnership (2)	73.4	75.1	(2.3)%	73.4	67.0	9.6%
International (3)	120.5	117.3	2.7 %	120.5	129.8	(7.2)%
Other (4) (6)	72.2	74.1	(2.5)%	72.2	62.6	15.3%
Consolidated Revenue	$612.1	$644.2	(5.0)%	$612.1	$555.6	10.2%
Operating Income(5)						
North America	$3.4	$(2.8)		$3.4	$(19.3)	
Steelcase Design Partnership	4.6	5.1		4.6	2.9	
International	(11.2)	(4.9)		(11.2)	(5.2)	
Other(6)	1.4	(10.2)		1.4	(3.7)	
Consolidated Operating Loss	$(1.8)	$(12.8)		$(1.8)	$(25.3)	
Operating Margin Percent	(0.3)%	(2.0)%		(0.3)%	(4.6)%	

	Second Quarter Six Months Ended		
	Aug 29, 2003	Aug 23, 2002	% Inc (Dec)
Revenue			
North America (1)	$642.2	$768.7	(16.5)%
Steelcase Design Partnership (2)	140.4	143.8	(2.4)%
International (3)	250.3	224.9	11.3%
Other (4) (6)	134.8	133.1	1.3%
Consolidated Revenue	$1,167.7	$1,270.5	(8.1)%
Operating Income(5)			
North America	$(15.9)	$(9.1)	
Steelcase Design Partnership	7.5	8.7	
International	(16.4)	(14.7)	
Other(6)	(2.3)	(14.8)	
Consolidated Operating Loss	$(27.1)	$(29.9)	
Operating Margin Percent	(2.3)%	(2.4)%	

Business Segment Footnotes

(1) North America business segment includes the company's Steelcase and Turnstone brands and consolidated dealers in the U.S. and Canada.

(2) Steelcase Design Partnership (SDP) business segment includes Brayton, The Designtex Group, Details, Metro and Vecta.

(3) International business segment includes all manufacturing and sales operations outside the U.S. and Canada.

(4) Other includes Steelcase Financial Services, PolyVision and IDEO subsidiaries, other ventures and unallocated corporate expenses. Steelcase Financial Services was a reporting segment in fiscal 2003 and is now included in Other because revenue and assets fall below the threshold required for segment reporting.

(5) Operating income percent comparisons are not provided because they are not meaningful.

(6) For the second quarter and in prior period comparisons, the divested Attwood marine business is treated as a discontinued operation. Attwood revenue was $14.9 million and operating income was $2.2 million in Q2 FY04. In fiscal 2003, Attwood revenue was $57.0 million and operating income was $8.0 million.

About Steelcase Inc.

Steelcase Inc., a Fortune 500 company, helps individuals and organizations around the world to work more effectively by providing knowledge, products and services that enable customers and their consultants to create work environments that integrate architecture, furniture and technology. Founded in 1912 and headquartered in Grand Rapids, Michigan, the company has led the global office furniture industry in sales every year since 1974. Its product portfolio includes interior architectural products, furniture systems, technology products, seating, lighting, storage and related products and services. Fiscal 2003 revenue was approximately $2.6 billion. Steelcase Inc. and its subsidiaries have dealers in more than 900 locations, manufacturing facilities in over 50 locations and approximately 16,000 employees around the world. The company's Class A Common Stock trades on the NYSE under the symbol SCS.

Forward-looking Statements

From time to time, in written reports and oral statements, the company discusses its expectations regarding future performance. For example, certain portions of this release contain various "forward-looking statements." Such statements involve certain risks and uncertainties that could cause actual results to vary. The company's performance may differ materially from that contemplated by forward-looking statements for a variety of reasons, including, but not limited to: competitive and general economic conditions/uncertainty domestically and internationally; delayed or lost sales and other impacts related to acts of terrorism, acts of war or governmental action; changes in domestic or international laws, rules and regulations, including the impact of changed environmental laws, rules or regulations; major disruptions at our key facilities or in the supply of any key raw materials; competitive pricing pressure; pricing changes by the company or its competitors; currency fluctuations; changes in customer demand and order patterns; changes in the financial stability of customers or dealers (including changes in their ability to pay amounts owed to the company); changes in relationships with customers, suppliers, employees and dealers; product (sales) mix; the success (including product performance and customer acceptance) of new products, current product innovations and platform simplification, and their impact on the company's manufacturing processes; the ability of the company to effectively cull products; possible acquisitions or divestitures by the company; the company's ability to reduce costs, including ramp-up costs associated with new products and to improve margins on new products; the impact of workforce reductions (including elimination of temporary workers, hourly layoffs, early retirement programs and salaried workforce reductions); the company's ability to successfully integrate acquired businesses, initiate and manage alliances and increased global sourcing, transition production of products or components from one of its manufacturing facilities to another or to third parties as a result of production rationalization, implement technology initiatives and migrate to a less vertically integrated manufacturing model; changes in business strategies and decisions; and other risks detailed in the company's Form 10-K for the year ended February 28, 2003 and other filings with the Securities and Exchange Commission. Steelcase undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

STEELCASE INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in millions, except per share data)

	Three Months Ended		Six Months Ended	
	Aug. 29, 2003	Aug. 23, 2002	Aug. 29, 2003	Aug. 23, 2002
Revenue	$612.1	$644.2	$1,167.7	$1,270.5
Cost of sales	437.1	451.7	836.2	898.0
Restructuring costs	7.3	1.6	17.5	5.2
Gross profit	167.7	190.9	314.0	367.3
Operating expenses	169.4	191.4	336.3	380.7
Restructuring costs	0.1	12.3	4.8	16.5
Operating loss	(1.8)	(12.8)	(27.1)	(29.9)
Interest expense	(5.1)	(5.2)	(9.9)	(10.3)
Other income (expense), net	1.7	3.5	8.2	(1.3)
Loss from continuing operations before income tax benefit	(5.2)	(14.5)	(28.8)	(41.5)
Income tax benefit	(2.0)	(6.0)	(10.8)	(16.1)
Loss from continuing operations	(3.2)	(8.5)	(18.0)	(25.4)
Income from discontinued operations, net of applicable taxes	1.3	1.2	2.7	2.7
Gain on sale of net assets of discontinued operations, net of applicable taxes of $11.9	20.0	--	20.0	--
Income (loss) before cumulative effect of accounting change	18.1	(7.3)	4.7	(22.7)
Cumulative effect of accounting change	--	--	--	(229.9)
Net income (loss)	$18.1	$(7.3)	$4.7	$(252.6)
Basic and diluted per share data:				
Loss from continuing operations	$(0.02)	$(0.06)	$(0.12)	$(0.17)
Income from discontinued operations	0.14	0.01	0.15	0.02
Cumulative effect of accounting change	--	--	--	(1.56)
Earnings (loss)	$0.12	$(0.05)	$0.03	$(1.71)
Dividends declared per common share	$0.06	$0.06	$0.12	$0.12

STEELCASE INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)

	(Unaudited) Aug. 29, 2003	Feb. 28, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 172.6	$ 128.9
Accounts receivable, net	398.7	367.2
Notes receivable and leased assets, net	79.8	84.9
Inventories	121.0	129.8
Other current assets	116.1	103.3
Total current assets	888.2	814.1
Property and equipment, net	713.0	774.0
Notes receivable and leased assets, net	110.0	125.9
Goodwill and other intangible assets, net	302.0	306.0
Other assets	314.7	322.2
Total assets	$2,327.9	$2,342.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 139.4	$ 145.4
Short-term borrowings and current portion of long-term debt	29.8	30.0
Accrued expenses:		
Employee compensation	76.3	90.9
Employee benefit plan obligations	30.7	39.6
Other	239.5	196.6
Total current liabilities	515.7	502.5
Long-term liabilities:		
Long-term debt	286.2	294.2
Employee benefit plan obligations	233.2	237.8
Other long-term liabilities	41.4	52.6
Total long-term liabilities	560.8	584.6
Total liabilities	1,076.5	1,087.1
Shareholders' equity:		
Common stock	288.4	286.1
Accumulated other comprehensive loss	(41.5)	(50.1)
Deferred compensation - restricted stock	(1.6)	--
Retained earnings	1,006.1	1,019.1
Total shareholders' equity	1,251.4	1,255.1

Total liabilities and shareholders' equity	$2,327.9	$2,342.2

STEELCASE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	(Unaudited) Six Months Ended Aug. 29, 2003	Aug. 23, 2002
OPERATING ACTIVITIES		
Net income (loss)	$ 4.7	$(252.6)
Depreciation and amortization	71.9	76.7
Cumulative effect of accounting change	---	229.9
Gain on sale of discontinued operations	(31.9)	---
Changes in operating assets and liabilities, net of corporate acquisitions	(28.5)	(58.2)
Other, net	(17.9)	2.7
Net cash used in operating activities	(1.7)	(1.5)
INVESTING ACTIVITIES		
Capital expenditures	(19.3)	(44.7)
Proceeds from the disposal of fixed assets	17.2	0.9
Net proceeds on sale of discontinued operations	46.9	---
Proceeds from the sales of leased assets	39.8	178.0
Net (increase) decrease in notes receivable and leased assets	(16.2)	3.7
Other, net	3.2	17.1
Net cash provided by investing activities	71.6	155.0
FINANCING ACTIVITIES		
Long-term debt issuances (repayments), net	(9.4)	(117.1)
Short-term borrowings (repayments), net	0.3	(48.8)
Common stock issuance	0.3	3.6
Dividends paid	(17.7)	(17.7)
Net cash used in financing activities	(26.5)	(180.0)
Effect of exchange rate changes on cash and cash equivalents	0.3	1.3
Net increase (decrease) in cash and cash equivalents	43.7	(25.2)
Cash and cash equivalents, beginning of period	128.9	69.4
Cash and cash equivalents, end of period	$172.6	$ 44.2

CONTACT:
Steelcase Inc.
Investor Contact: Raj Mehan, 616-698-4734
Media Contact: Lisa Kerr, 616-698-4487

SOURCE: Steelcase Inc.