Good

Executive Summary

Furniture Brands International is one of the foremost furniture producers in the world but has seen recent failure in nearly every facet of the company, evidenced by the recent filing for Chapter 11 bankruptcy. Since the company's inception, initially as a shoe company in St. Louis, Furniture Brands International has become a furniture superpower, commanding a number of subsidiaries in many different locations, both domestic and international. We believe that this torrential growth has not benefitted the company, but rather cannibalized its success. Their cash flows are consumed by the failure of the low-end brands as well as the inefficiency of FBN's distribution and retail. The growth has also birthed an ill-perceived notion that the management of such a large company should be business minded and focused on the movement of large amounts of inventory. With this loss of proper focus, the company's price per share has fallen from $43.20 in 2002 to the current nearly negligible price, hovering around $0.50.

Our team advises that Bear Capital Inc. restructure the company, adhering to the two major recommendations found in this paper. The first of the aforementioned recommendations will be refocusing the company. The facets of this company with the greatest profit margins are almost exclusively relevant to the production of high-end furniture, limited to the designing and manufacturing of said furniture. We advise that FBN have all other extraneous assets sold off, in regards to what is essential in creating the sought after high-end furniture. All retail and distribution within the many subsidiaries seems to be only a hindrance to production as well as provide a substantial amount of unnecessary liabilities that the company could and should avoid. Thus, a divesture in the low-end quality brands of FBN in favor of bolstering the high-end brands with a subsequent elimination of distribution and retail altogether of should eradicate the company of inefficiencies and allow it to refocus on the goods produced that are reaping benefits.

The second recommendation also lies in the realm of refocusing the company, only this time from a personnel standpoint. In terms of management, it is imperative that FBN reevaluate who is running the company. We advocate that FBN replace the executive suite in favor of hiring personnel who are well-versed in not only the business of furniture, but also the production and sales of it. The CEO should be plucked from the Board of the Directors and all over position be filled internally. This will ensure proper focus, drive, and knowledge of the industry. To compliment this change in the leadership of the company, new incentives should be given to the newly formed executive suite. If stock options are provided to executives as opposed to salary-based payment, the individuals running this company will be properly incentivized to manufacture a substantial profit for the company. This change in executive payment will also minimize the cash outlay for the company, which has proved to be a problem for FBN in the past.

If Bear Capital Inc. implements the previously described recommendations, this company should successfully arise from its Chapter 11 bankruptcy. The theme of our suggestions is for the company to clear house and refocus. A good portion of Furniture Brand International has seen extensive success and the company is already a renowned producer of furniture. Once FBN bolsters its efficient activities and excises the ones hindering its success, the company will again flourish.

Group Round-table grades:
Questions: 133
Defense: 126
Total: 259

nice intro

Introduction

Once a thriving company, the troubled Furniture Brands International has not seen a profit in nearly seven years. This St. Louis-based firm recently filed for Chapter 11 bankruptcy on September 9th, 2013, and has opened the bidding process for those interested in the purchase of the company out of bankruptcy. Although it is easy to spot Furniture Brand International's inefficiency, narrowing profit margins, and overall poor results throughout the past years, our team of highly trained professionals has dug further to analyze the deeply-rooted issues within the company. Serving in a consulting role, our team has creatively devised two recommendations for Bear Capital to implement in order to improve operations at Furniture Brands International and bring the dying company back to life.

In short, the first recommendation revolves around narrowing the focus of the company and therefore the divestment of low-end quality brands under the Furniture Brand International (FBN) name, as well as the elimination of the retail portion of the business. This focuses the company back to their competitive advantage and establishes a core competency on which they can concentrate. Secondly, our team recommends that Bear Capital removes all personnel currently in upper-level executive positions and implements an alternative compensation package for the new executive team.

Recommendation #1: Refocus

Furniture Brands International must downsize their company while simultaneously eliminating their non-performing assets. Our team recommends that FBN completely eliminates all areas of business except design and manufacturing, thus eliminating all distribution and retail operations. By doing so, the company will be able to sell off all assets involved with distribution and retail areas. Removing peripheral distractions allows them to further develop their competitive

Q: what evidence have that mfg & design is their compet. advantage?

advantage and capitalize on what they do best - high-end furniture design and manufacturing. Furthermore, we recommend that FBN sells off all furniture brands (Broyhill, Lane, Creative Interiors and Thomasville) except those in the high-end furniture market (LaBarge, Henredon, Drexel Heritage, Maitland-Smith, Hickory Chair and Pearson). FBN generated the most profit from their high-end segment, so naturally we believe this should become their focal point.

Evidence?

Q: what evidence do you have this is high?

The first step in downsizing Furniture Brands International involves eliminating all areas of the company except for high-end furniture design and manufacturing. Furniture Brands International currently has extremely high Selling, General and Administrative Expenses, approximately 26.08% of sales (see Appendix C). These high SG&A expenses are due in large part to the company's involvement in all areas of the home furniture industry – design, manufacturing, distribution and retail – and their lack of focus and cost management in these areas. By focusing solely on design and manufacturing, the company will be able to eliminate a large portion of their expenses that originate from their distribution and retail operations. Expenses that will be eliminated include lease expenses on retail buildings and wholesale distribution centers, payroll, advertising costs and other general expenses involved with the distribution and retail ends of the business. Moreover, the company will be able to sell off all assets associated with these areas of business, including buildings, land, machinery and equipment. As a result, FBN will have a larger amount of cash available to reinvest in their high-end market. Q: Is it better to shut down or sell these parts of the firm?

Q: Might this create efficiencies?

Q: How would this affect revenues?

The main motivation in eliminating the retail and wholesale distribution areas of the business stems from repeated poor performance. Historically, the company has been able to produce decent revenues from the distribution and retail divisions, but all revenues were being offset by overly high SG&A expenses stemming from poor efficiency. Our team recommends

Q: How decide what to keep + what to divest?

that Furniture Brands sticks to their core business – the designing and manufacturing of high-end furniture – and leaves the distribution and retail, with their proportionately high expenses, to someone else. Furthermore, Furniture Brands International has the opportunity to continue producing the high-end furniture consumers desire, but at a much lower cost. By selling off all of their current domestic buildings, manufacturing plants and land (excluding headquarters), the company will also be able to move their manufacturing overseas where they can produce furniture at a much lower cost (see Appendix E). Down the road, we believe that FBN should consider consolidating all manufacturing of furniture to one specific location overseas. By doing so, the company will begin producing their furniture more efficiently and cost effectively.

Q: Evidence?

Q: How would disposing of distr. + retail lower production costs of high-end furniture?

on what basis do you make these claims?

Furthermore, Furniture Brands International has the opportunity to establish a unique niche in the home furniture market by focusing solely on design and manufacturing of high-end furniture. In the past, the company's resources were spread over a variety of areas (design, manufacturing, wholesale, distribution and retail) and also furniture quality segments (from the low-end to high-end market). By narrowing their focus, Furniture Brands International will be able to use cash flow that was previously utilized for expenses and reinvest them into their high-end segment. As a result of improved concentration, FBN will take high-end furniture to a level never before in the market. For example, in three years FBN has spent a considerable amount of funds on advertising and marketing, expensing an average of $33.9 million per year (2012 Annual Report). By eliminating the need for such expenses, the company will be able to spend more time and money on identifying the specific needs and wants of the end consumer. They will be able to engineer and produce goods in demand, rather than spending exorbitant amounts of money in pursuit of consumers via television and magazine advertising, only to compete with well-marketed companies like La-Z-Boy and Ethan Allen. By applying their now-on-hand extra

Q: what evidence do you have that the thing you are selling were negative net cash flow?

cash flow to improve manufacturing efficiency, product design and engineering, Furniture Brands International could potentially become the leading manufacturer and designer of high-end furniture in the world. Sounds like a reach

Our team believes that a key area of Furniture Brands International's redesigned business plan is consumer demand. In the past, Furniture Brand's International has proven to be in touch with consumer trends in the high-end market. We believe that past success can be channeled to see explosive sales above and beyond competitors. With extensive focus solely on high-end Q: why?

Q: Fire current people?

furniture, FBN can improve their design and engineering personnel, manufacturing equipment, and most importantly their knowledge of customer's demand. By extending their research of the high-end furniture market, FBN will be able to design and manufacture furniture that will be heavily desired. Q: why can't they do this now?

Overall, our recommendation has the opportunity to turn Furniture Brands International into an aggressive and profitable business. The elimination of all business areas except high-end furniture design and manufacturing will allow for the divesture of assets related to other business divisions freeing up cash to stimulate the company post-bankruptcy. Cash flows previously used for segments outside of high-end divisions will be reinvested to boost our high-end division to the top of the industry. By doing so, Furniture Brands will have a sustainable niche in the market that consistently produces solid profits.

Recommendation #2: Realign

Ralph Scozzafava, current Chief Executive Officer (CEO) of Furniture Brands International, appears to have facilitated a steep decline in internal morale. In fact, many current and past employees have posted commentaries on a popular website, Glassdoor.com, regarding the

Q: more than at other firms?

Q: Has the # of posts risen?

detrimental effect Scozzafava has had on the employee culture and atmosphere at Furniture Brands International. It is evident that morale has steadily deteriorated under the reign of Scozzafava. A noteworthy complaint is that high-level executives are business-minded, but have no idea about furniture or its industry as a whole. In order to boost morale and send FBN in a better general direction, we believe all high high-level management should be replaced with new management that is more properly equipped to lead the company in its new industry-appropriate direction.

Q: Don't the employees at a money-losing firm need to be forced out of their comfort zone?

Q: What would this cost? What are severance costs?

To begin setting a new "tone at the top," we recommend that Furniture Brands International starts fresh and selects new top executive positions. However, this includes first releasing the current CEO and Chairman of the Board of Directors, Ralph Scozzafava. In addition, we will eliminate Vance Johnston, Senior Vice President and Chief Financial Officer (CFO); Mary Sweetman, Senior Vice President, Human Resources; Meredith Graham, Senior Vice President, General Counsel and Corporate Secretary; Raymond Johnston, Senior Vice President of the Global Supply Chain; and Richard Isaak, Vice President, Controller, Treasurer, Investor Relations and Chief Accounting Officer.

Additionally, the presidents of all segments unrelated to high-end furniture will be removed in conjunction with the divesture of their respective entities. These presidents include Mark Wiltshire, President of Special Markets; Mark Stephens, President of Broyhill Furniture Industries, Inc.; Edward Teplitz, President of Thomasville Furniture Industries, Inc.; and Daniel Bradley, President of Furniture Brands Designer Group.

Q: How disruptive would this be to operations? How much institutional knowledge would be lost?

A truly sizeable decision must be weighed when lessening the payroll burden, but in this case employee elimination is crucial to reducing payroll expense. All personnel working in

Q: what experience do they have in the industry?

segments without a high-end focus will be eliminated, with the exception of retaining top performers with a progressive and positive outlook. Fewer employees equates to fewer employee benefits. Fewer benefits will decrease the possibility that FBN will rack up the same stifling liability as it was weighed down with before bankruptcy – an approximate $213 million pension obligation that currently accounts for 37.84% of their total liabilities (see Appendix B).

Q: How does this compare to other firms in the industry?

In an effort to bring in new talent and a change of general direction, we have decided the best candidate for the new CEO position will be found on the company's Board of Directors. Board members know the company's past strategy and financial situation, have an outside perspective, but do not feel pressured in the same way as an insider to make the "popular" decision. In addition, we see value in utilizing talent internal to the company. Insiders have a solid handle on the company, its procedures and its operations. It also makes sense financially. In "*Paying More to Get Less: The Effects of External Hiring versus Internal Mobility*," a study completed by Wharton School of Business professor (Bidwell), it was found that executives brought in from the outside are paid 18 to 20% more than insiders, even though insiders generally perform better. For this reason, we will fill the other executive slots by bringing up high-performing individuals from within the company, specifically those who have performed well for FBN's high-end segments in the past.

Q: Are they insiders

Good.

what % of compensation?

Q: How compensated now? How much?

In regards to compensation, we plan to incentivize upper-level management with stock options. Stock options incentives address two critical issues within FBN. First, with the company facing liquidity issues, stock option compensation will minimize immediate cash outlay and therefore alleviate the serious burden that is executive compensation. Equity in the company is effectively worthless (see Appendix D), so by following the stock option compensation model, executives will not be paid until the company begins to succeed. By weighting the executives'

good

comment: depends on strike price

Q: book or mkt?

total salaries more in stock options and less in base price salaries, the team is incentivized to work toward growth and prosperity for all parties involved. These payment incentives will be an easy task once the funding for the company is established. The funding of the company should closely mimic the current industry average debt-to-equity ratio value of 0.57 (see Appendix in order to provide more equity for said payment incentives, as well as not be extensively leveraged.

what is range?

Q: which one? where are industry stats?

Q. How is leverage related to ability to issue equity to mgrs?

After the executive team is established, we recommend they implement a new focus, engage the entire staff and set the example for a resourceful, friendly and hard-working atmosphere. This includes spending more time, effort and resources establishing a solid stream of contacts and relationships with retail and wholesale giants who will commit to and sell the products that FBN designs and manufactures. The decrease in expenditures for direct consumer advertising will be put to use developing steady sales connections which will become the company's outlet to consumers following the divesture of FBN's retail divisions. FBN has already seen success with retail relations, such as Henredon's long-standing contract with Ralph Lauren and Barbara Berry Realized. The executives must be responsible to put together a trustworthy team of managers and salespeople who work toward end goals of profitability and increasing shareholder wealth.

Q: How are these related?

Conclusion

After emerging from bankruptcy, Furniture Brands International can only move in an upward direction. This is a company with a bright future if its strengths and competitive advantages are utilized appropriately. As the high-end brands account for favorable margins, our team of experts recommends that Bear Capital (1) divests its inefficient, low-end brands including Lane, Broyhill, and Thomasville in order to maximize margins, and (2) supplant its ill-experienced team of executives with industry experts who are motivated through a collection stock options and other performance-based incentives. Using the aforementioned recommendations, financial feasibility replaces institutional insolvency as the operating norm. All things considered, bolstered margins and satisfactory profits will begin to define the customary status of Furniture Brands International's operations.

Q: Evidence?

Appendix A: Company Overview

Furniture Brands International is a home-furnishing company based out of St. Louis, Missouri. The company originally started out as the International Shoe Company after two of the largest shoe companies in the US joined forces in 1911. After the Great Depression, the largest shoe supplier in the country and was responsible for supplying all American troops with shoes during WWII. The increased productivity allowed the company to start buying up other companies in different countries. In 1966, the International Shoe Company became Interco to reflect their broader range of business as they now sold apparel, footwear, and introduced retailing. However, due to poor management and investments in the shoe industry, the company filed for Ch. 11 bankruptcy in 1991, but recovered one year later. They decided to focus only on furniture after their acquisition of Thomasville Furniture Industries, and officially changed their name to Furniture Brands International. The company continued their success selling a wide variety of furniture, but in 2007 began their inexorable decline which has led to their bankruptcy they are facing today.

Products

Furniture Brands International produces all types of home furniture such as couches, recliners, bookcases, tables, etc. Customers are able to purchase these products individually or as an entire set. Furniture Brands International has twelve different brands which make up all of their products.

Facilities and Employees

Furniture Brands International is based out of St. Louis, Missouri. However, its production facilities are located throughout the US. This includes “eight upholstery facilities, two case goods facilities, one component manufacturing facility, and one multifunctional facility” primarily located in North Carolina and Mississippi(2012 10K). They also have a few plants located abroad in Mexico, China, Indonesia, Vietnam, and the Philippines. CEO Ralph Scozzafava hopes that, "developing our own production assets in best-cost locations is a key to improving Furniture Brands' profitability and manufacturing flexibility." In order to save costs, many production facilities are being transferred abroad. In 2011, they shut down a production facility in Appomattox, Virginia which made ready-to-assemble products and moved it to plants in Mexico and Asia.

As a ~~cause~~ result of these cut backs and facility relocations, many jobs have been cut within the company. The closure of the aforementioned plant cannibalized nearly 200 jobs. Furniture Brands International currently employs 9,100 workers. Of these 9,100, 5,600 work within the U.S.; the remaining 3,500 work overseas.

according to who?

Ultimately, the downfall and inevitable bankruptcy can be traced back to the company's executive suite. Poor management skills, coupled with a grossly insufficient amount of industry specific knowledge led the company straight to Chapter 11 bankruptcy for the second time. The Chairman of the Board and CEO, Ralph Scozzafava, joined Furniture Brands International in 2007. He previously worked in several executive positions for Wrigley Jr. Company. Their Senior Vice President and CFO, Vance Johnston, joined the company in 2012. He has worked in management positions for Royal Caribbean International, Office Max and Burger King. A common issue in the furniture industry is that none of the people in management know anything about the industry. As evidenced above, it is clear the executives lack a terrible amount of experience in the industry.

Industry Trends and Competitors

According to IBISWorld, the furniture store business is a $65 billion industry. However, over the past five years there has been a negative growth rate most likely due to poor housing markets which decreased new home ownership. Analysts expect the industry to increase over the next five years, though, since new home purchases and disposable income are expected to increase. It has become a very competitive environment and in order for small mom and pop shops to succeed, many have merged together to form larger retail stores. Furniture stores in the US also have to compete with furniture imports from other countries. Customers have such a wide variety to choose from that it makes it essential for furniture companies to market efficiently so that they do not miss out on sales.

As mentioned above there are many furniture companies that compete with Furniture Brands International's customer base, but their top three competitors are La-Z-Boy, Ethan Allen Interiors and Ashley Furniture Industries. All three of these companies specialize in home furniture and make up the majority of the furniture industry in the United States.

Customers

Furniture Brands International markets to the everyday shopper who is trying to furnish their home. The company offers a wide spread of furniture that ranges from high-end to affordable which attracts shoppers of all incomes. They also sell their furniture to wholesale companies who buy in bulk. These wholesale companies are constantly evaluated depending on their terms such as their creditworthiness or sales growth.

Suppliers

Furniture Brands International obtains their raw material supplies from both domestic and foreign companies. Some of the materials they require are lumber, fiberboard, steel, paper, hardware, glass, leathers, etc. They make sure to support sustainability and try to replenish all of the natural resources they use. Furniture Brands International has not entered into any long-term contract with any of their suppliers. Their reasoning behind this is since prices on materials are very volatile, the can switch suppliers more quickly when prices change to stay competitive.

Appendix B

FURNITURE BRANDS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands except per share data)

	December 29, 2012	**December 31, 2011**
ASSETS		
Current assets:		
Cash and cash equivalents	$11,869	$25,387
Receivables, less allowances of $11,615 ($10,413 at December 31, 2011)	125,739	107,974
Inventories	244,333	228,155
Prepaid expenses and other current assets	11,287	9,490
Total current assets	393,228	371,006
Property, plant, and equipment, net	103,403	115,803
Trade names	76,105	77,508
Other assets	45,705	50,179
Total assets	$618,441	$614,496
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$113,590	$85,603
Accrued employee compensation	18,431	15,161
Other accrued expenses	40,310	38,390
Total current liabilities	172,331	139,154
Long-term debt	105,000	77,000
Deferred income taxes	18,002	19,330
Pension liability	213,295	185,991
Other long-term liabilities	55,015	60,740
Shareholders' equity:		
Preferred stock, 10,000,000 shares authorized, no par value — none issued	—	—
Common stock, 200,000,000 shares authorized, $1.00 stated value — 60,614,741 shares issued at December 29, 2012 and December 31, 2011	60,615	60,615
Paid-in capital	187,534	202,471
Retained earnings	137,784	185,053
Accumulated other comprehensive loss	(234,397)	(201,853)
Treasury stock at cost 4,305,787 shares at December 29, 2012 and 5,071,125 shares at December 31, 2011	(96,738)	(114,005)
Total shareholders' equity	54,798	132,281
Total liabilities and shareholders' equity	$618,441	$614,496

Source: 2012 Furniture Brands International Annual Report

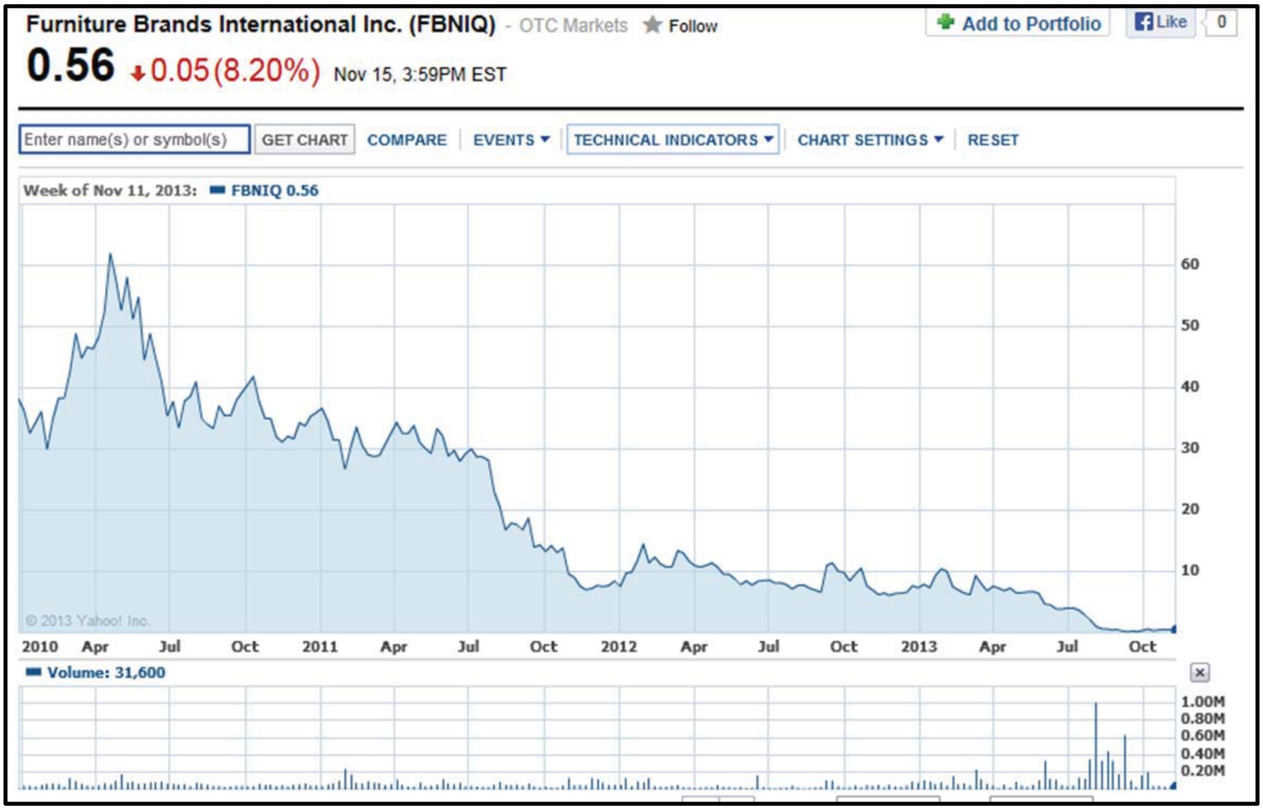
Appendix C

FURNITURE BRANDS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

	Year Ended December 29, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Net sales	$1,072,324	$1,107,664	$1,159,934
Cost of sales	828,030	840,357	883,620
Gross profit	244,294	267,307	276,314
Selling, general, and administrative expenses	279,660	305,499	321,075
Impairment of assets, net of recoveries	8,709	6,355	251
Operating loss	(44,075)	(44,547)	(45,012)
Interest expense	5,681	3,573	3,172
Other income, net	713	1,567	264
Loss before income tax benefit	(49,043)	(46,553)	(47,920)
Income tax benefit	(1,774)	(2,803)	(8,894)
Net loss	$(47,269)	$(43,750)	$(39,026)
Net loss per common share — basic and diluted:	$(0.86)	$(0.80)	$(0.76)
Weighted average shares of common stock outstanding - Basic	55,156	54,935	51,116
Weighted average shares of common stock outstanding - Diluted	55,156	54,935	51,116

Source: 2012 Furniture Brands International Annual Report

Appendix D



Source: Yahoo! Finance

Nice!

Appendix E

Future Property, Plant & Equipment Decisions

Location Type of Facility	Floor Space	(Sq. ft.)	Owned/Leased	Lease Expiration Date	Divest/Keep
St. Louis, MO	Headquarters	53,467	Leased	2019	**Keep**
Saltillo, MS	Upholstery plant/distribution center	830,200	Owned		**Keep**
Tupelo, MS	Upholstery plant/distribution center	715,951	Owned		Divest
High Point, NC	Upholstery plant/distribution center	178,500	Owned		Divest
Lenoir, NC	Upholstery plant	395,000	Owned		Divest
Conover, NC	Upholstery plant	192,015	Owned		Divest
Mt. Airy, NC	Upholstery plant	102,500	Owned		Divest
Longview, NC	Upholstery plant	334,000	Leased	2015	**Expire**
Lenoir, NC	Case goods plant/distribution center	828,000	Owned		Divest
Thomasville, NC	Case goods plant	325,000	Owned		Divest
Hickory, NC	Case goods plant/upholstery plant/distribution center	519011	Owned		Divest
High Point, NC	Component plant	187,162	Owned		Divest
Rutherfordton, NC	Distribution center	1,009,253	Owned		**Keep**
Thomasville, NC	Distribution center	731,000	Owned		Divest
Lenoir, NC	Distribution center	312,632	Owned		Divest
Lenoir, NC	Distribution center	502,420	Leased	2013	**Expire**
Wren, MS	Distribution center	494,813	Leased	2017	**Expire**
Lenoir, NC	Distribution center	205,964	Leased	2021	**Expire**
Verona, MS	Distribution center/offices	423,392	Owned		Divest
Thomasville, NC	Offices/showroom	256,000	Owned		Divest
High Point, NC	Offices/showroom	100,000	Owned		Divest
Cebu, Philippines	Case goods plant	480,338	Owned		**Keep**
Tambak Aji, Indonesia	Case goods plant/distribution center	381,978	Owned		**Keep**
Semarang, Indonesia	Case goods plant/distribution center	330,000	Owned		**Keep**
Merida, Mexico	Cut and sew plant	73,195	Leased	2013	**Keep**
Dongguan, China	Offices/Lab	10,764	Leased	2017	**Keep**

Works Cited

Bidwell, Matthew. "Paying More to Get Less: The Effects of External Hiring versus Internal Mobility." *Administrative Science Quarterly*. (2011): n. page. Web. 19 Nov. 2013. <http://asq.sagepub.com/content/56/3/369.abstract>.

"Furniture Brands International." *Wikipedia*. Wikimedia Foundation, Inc., 08 Nov 2013. Web. 19 Nov 2013. <http://en.wikipedia.org/wiki/Furniture_Brands_International>.

"Furniture Brands to develop Mexican plant." *St. Louis Business Journal*. (2011): n. page. Web. 19 Nov. 2013. <http://www.bizjournals.com/stlouis/news/2011/01/06/furniture-brands-to-develop-mexican.html>.

Scozzafava, Ralph. United States. United States Securities and Exchange Commission. *Furniture Brands International, Inc. 2012 Annual Report*. Washington D.C.: , 2012. Print.

Scozzafava, Ralph. United States. United States Securities and Exchange Commission. *Furniture Brands International, Inc. 2011 Annual Report*. Washington D.C.: , 2011. Print.

Scozzafava, Ralph. United States. United States Securities and Exchange Commission. *Furniture Brands International, Inc. 2010 Annual Report*. Washington D.C.: , 2010. Print.