Goes in background appendix.

Executive Summary

Furniture Brands International, established in 1921, has been one of the leading residential furniture manufacturers in the U.S. They distribute and market their products through a network of independent retailers, interior designers, and mass merchant stores. Over the life of the company, FBN has been one of the leading residential furniture manufacturers in the United States, yet FBN has seen rapid financial decline over the last decade.

In order to overcome liquidity and inventory issues, we recommend that Furniture Brands International focus on the high-end furniture line. FBN has been forced to markdown large amounts of old inventory that has not been sold, the majority of which consists of low-end products. The subsidiaries that produce luxurious furniture, such as Thomasville, have had positive profit margins, while the company has been unable to sell its low-end inventory.

Another struggle FBN has had to deal with has been inefficient manufacturing, and high storage costs. They have been forced to markdown large amounts of old inventory that FBN has been unable to sell. In response to this, we recommend outsourcing the manufacturing process through contract manufacturing in China to solve FBN's expensive manufacturing costs. They could be exposed to new growth markets while cutting costs and streamlining production.

We believe that a combination of concentration of investments and outsourcing of production should solve Furniture Brands International's company issues.

Group round-table grades
Questions: 133
Defense: 150
Total: 283

Shipping costs?

Introduction

Q: What #s do you have to back up this claim?

Furniture Brand International was a top furniture manufacturer in North America up until 2006 leading up to the financial crisis of 2008, where the furniture manufacturing industry saw a plummet in profits across the board. “Like most retailers of household goods, the industry has been negatively impacted by lower home ownership, reduced disposable income and stronger external competition.” (IbisWorld) As the economy rebounded, the furniture manufacturing industries in developing countries grew at remarkable rates, which has created increased competition within the furniture industry. However, this did not stop the US industry from growing ~~to grow~~ 5.2% in 2011. “In 2012, the US housing market began to look up after years of stagnation. Low interest rates, higher demand, lower inventories, and rising consumer confidence combined to boost the beleaguered housing market.“ (Euromonitor) This helped the US furniture industry to rebound and grow. Unfortunately, Furniture Brand International did not rebound along with the rest of the housing market, with net profits at a loss of a close to $400 million and still held at a loss of around $40 million for the next three years. Because of this period of prolonged loss on the bottom line, FBN is having issues with keeping a sufficient number of its assets liquid. Unable to sell product, FBN has “both inventory days and accounts receivable days…relatively high”(LexisNexis). One other problem FBN has encountered is an inability to keep expenses low with the drop in profitability. With the FBN’s inability to make a profit, lower expenses, or improve its liquidity, it is obvious that a number of serious changes will need to take place is FBN is to once again be a profitable, and competitive company.

Q: why? what was different about Furniture Brands?

Q: what does this mean?

Q: #s?

Recommendation 1: Focusing on High Margin/High Revenue Brands

Q: Do they have seperate assets that can be sold or retained?

Selling the subsidiaries of Furniture Brands International struggling to improve margins and developing a solid brand identity is a necessity for the acquiring company. Furniture Brands International is currently producing and selling under twelve different brand

(Q: Don't these brands help cover fixed costs?

names, and by spreading their production so thin they are exposing themselves to lower

(Q: Evidence?

margins due to increased cost of producing each brand. The benefit of selling the brands as opposed to liquidating them would be monetary in nature as seen by the following scenarios. In the first scenario an acquiring company called "XY", purchases the entire firm of Furniture

Q: How do you justify this #?

Brands International for $300MM and then sells off all subsidiaries except Thomasville,

Q: why these three?

Henredon, and Broyhill. They will continue operations on each of the remaining brands, incur cash inflows from the sale of the nine other brands, and then improve margins by reducing

Q: what evidence do you have that the other brands were not covering variable costs?

manufacturing expenses that were increased due to higher production costs. Each additional brand either increases expenses or reduces throughput by increasing the amount of machinery switches that must occur in a factory to produce the individual brand or by forcing the firm to open entire new production facilities to produce each brand. Of course the decisions on which brands to keep and which to sell would depend on the effects of cannibalization, which had

comment: Agreed

the lowest revenues or lowest margins, and which brands bring more value by being sold rather than kept. In order to determine selling price of each brand several metrics would need to be calculated. The firm would need to determine which multiple they would like to use (most likely a revenue or brand equity multiple) and then see which comparable brands have

Q: regardless of price?!!

sold similarly in the past few years. In scenario 2, no one wants to buy these brands and the sale goes wrong. Even if this is the case, the acquirer of FBN would more than likely improve overall sales and margins by liquidating a majority of its brands until the firm was to a more

Q: what mean by this?

manageable size. By reducing the number of brands, essentially merging brands into a few same brands as opposed to a large amount of different ones, the firm is reducing the needed

Q: what evidence do you have?

capital associated with each brand and increases margins because of it.

Another consideration with the focusing of FBN's image into a couple of specific brands is how the public markets would perceive the company. It appears that in the furniture space, favorable valuations are not dependent on the region that a company is operating in

Q: what are #s?

within the furniture manufacturing industry. For example, on a P/E basis La-Z-Boy currently has the most favorable market valuation yet they fall in the middle of Furniture Brand International's peer set when it comes to price point. Additionally, on an EV/TTM EBITDA

Q: what are #s?

basis Ethan Allen has the most favorable valuation despite their price range being in the middle of the road as well. The main conclusion that can be drawn from the public market statistics is the fact that investors are more concerned with a history of cash flows and operational success than the specific subsector that the firm is located in. That being said, it also appears that investors prefer a focused company as opposed to what Furniture Brands International currently is operating as where they produce under a variety of different labels. Therefore, our thought is that under a more focused number of labels operating in a more concentrated region of the market Furniture Brands International will not only have more operational success but they will also realize multiple expansion through the public markets.

Q: How is this section relevant?

Recommendation 2: Outsourcing of Manufacturing to China

Q: How compare to facilities in Indonesia?

Q: who?

Q: For example?

Q: why?

Due to the increasing international pressures and the rise of the manufacturing industry in developing countries, many furniture manufacturers have been turning to cost-cutting measures to try to compete. Unfortunately, sometimes these cuts are not enough. Trying to compete with lower labor costs can lower profit margins without doing much to help increase the movement of inventory. The majority of furniture manufacturing companies in developed countries have moved some part or all of their business to developing countries, particularly China. Production costs of furniture in China is about 20 times cheaper than those of America or European countries. (European Business & Innovation) Outsourcing production to China has helped China become the largest furniture producer in the world, and as a result, many segments within some of China's massive industrial parks that have been specialized for furniture manufacturing.

Q: why this one?

Q: wouldn't a coastal city be better for shipping?

Excellent.

Furniture Brands International should outsource its manufacturing processes to the Chinese industrial park Chengdu, which is located in the center of China. Chengdu is one of the top five locations of furniture manufacturing and distribution in China. The majority of upper-stream industry activities, such as woods growing, boards processing, and furniture upholstery, and down-stream industry activities, such as packaging, logistics, and sales, all occur in or near Chengdu. This allows for smaller transportation costs, cutting costs beyond lower labor costs. With thirteen universities and various research institutions and vocational colleges in Chengdu, including the University of Electronic Science and Technology of China, research and development between the universities and furniture manufacturers is common, leading to some of the most advanced factories in the world being located in Chengdu. (European Business & Innovation)

Excellent

Q: who mfgs here? Is there capacity? what do w/ existing facilities?

Excellent

Chengdu has a superior transportation system that has been cultivated for the manufacturing industry. Chengdu has a large railway system, with the 4 major railways and freight trains passing through. The Ministry of Railway is also investing billions of yuan to continue expanding this system. Chengdu has eight major highways and 10 freeways, two of which of the highways lead to the sea. This helps Chengdu reach any part of China easily through the road. Chengdu also has 3 large river ports within 180 miles, making coastal cities easily accessible. (European Business & Innovation)

With these transportation channels, Furniture Brands International would have increased access to distribution networks in growing markets with lower transportation costs. While China's furniture manufacturing industry has grown at a dramatic rate, its rapid urbanization has created an even larger increase in furniture consumption rates. Russia has the 11th largest furniture market and its furniture consumption rate is continuing to grow. It is the 9th largest furniture importer in the World, with its imports from China as its largest growing sector. (Huier) This would also lead to more access in the developing countries of Southeast Asia that recently have had phenomenal economic growth. To compliment the lower cost of transportation to the Asian, Pacific Islands, and Russian furniture markets, the expansion of the Panama canal also means lowered transportation costs to America in the future.

At what rate?

Q: How would this help Furniture Brands to compete in the U.S. market?

Furniture Brand International should only outsource its manufacturing process. This will create higher profit margins that can be channeled into better marketing, sales, and other pertinent parts of its business. FBN should hire a contract manufacturer in Chengdu, while continuing to upgrade and enhance its internal processes and image.

A potential downside that most companies face when outsourcing is a loss of customers who insist on buying American-made furniture. However, with increasing funding

Q: Do you have any evidence this works?

and focus on marketing, FBN could keep those customers through effective marketing campaigns. Those marketing campaigns would be targeted at showing American patriotism, particularly through supporting American troops. Q: By telling people to buy furniture mfg'd overseas???

After FBN has finished outsourcing its manufacturing process, it should have lower costs overall, higher profit margins, and a larger distribution network. This will help it have larger profit and move more inventory. Comment: #s would be nice.

Conclusion

FBN's financial position has been bleak for a while now, with decreasing operating cash flows, high expenses, and losses on their bottom line for the last few years. However, there is still potential to save the company, and revert it to its once successful state. FBN has struggled with liquidity, debt, costs, accounts payable, inventory issues, and their bottom line taking an enormous hit. The only way all of these issues can be resolved is to fix the issue of profitability. There are many ways that can FBN can recover, but the most obvious financial solutions seem to focus on high-end products, and outsourcing manufacturing. While these solutions do come with some risks, these same risks are far outweighed by the benefits. Also, the potential downsides of both solutions seem quite improbably in our opinion.

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Appendix A: Company Overview

Furniture Brand International Inc. is a U.S. residential furniture company that is currently filing for chapter 11 bankruptcy. This company has over 5,600 full-time domestic employees and 3,500 non-domestic employees. The company currently has 12 recognizable brands including Broyhill, Lane, and Thomasville. It is estimated that Furniture Brand International has an estimated US market share of about 3.0%. The company does not provide information about the different brands profitability. Furniture brand competes in a highly competitive market against competitors such as: La-Z-Boy Inc., Ethan Allan Inc., Ashley Furniture Industries Inc., and many other residential furniture industries. Furniture Brand International dates back over 100 years when it was known as International Shoe Company which eventually turned into Interco Inc. Interco Inc. was known for buying many different businesses such as apparel, footwear and in 1980 Interco added furniture as one of its major divisions. After a spin-off from Interco in the 1990s, the company changed its name to Furniture Brand International.

Needs more variety of words

On September 9, 2013, Furniture Brands International filed for Chapter 11 bankruptcy. The company has listed $547 million in assets and $550 million in debt. The company is currently trying to restructure its operations. As of November 7, 2013, Furniture brand is currently trying to sell many of its divisions to the highest bidder. As of now the highest known bid is $280 million by KPS Capital Partners LP. There are many other interested parties such as Oaktree Capital Management and Samson Holding Ltd. which has a 9.5 percent holding in the company.

- a little vague

The company is currently trading at $0.56 per share, and has not made a profit since 2006 with a history of declining profits through the recession. According to FBN’s annual report the company is relatively encouraged by signs that show the global economy, housing industry and overall consumer confidence are improving. Although the company is encouraged, investors seem very discouraged due to the fact that many Furniture Brand International competitors have rebounded well after the recession. According to the company's annual report, for the past 5 years the company has produced a loss from $386 million in 2008 to $47 million in 2012.

Although the company is operating at a loss it, it is a much smaller loss than in previous years since its initial decline. Although they might be doing better than previous years, Furniture Brand International looks as if they might be selling off high end products while being reluctant to move old inventory. (Footnote 2) Also the company seems to be closing off many divisions, seen by the announcement in late September that FBN would close 14 corporately-owned Thomasville stores within the next two months. This news comes after the company has already closed six under-performing Drexel Heritage and Thomasville stores.

Furniture Brand International is also dealing with a $200 million pension obligation. With such a huge liability the company is likely to request that the federal Pension Benefit Guaranty Corp take over the $200 million in pension obligations for about 20,000 participants.

This is more opinion than background info

With the uncertainty of the economy, it is hard to see how Furniture Brands International Inc. will bounce back from their Chapter 11 bankruptcy. The company has many internal and external problems that need to be solved if they ever want to see their company flourish again.

Appendix B- Cash Flow Changes (Δ)

Ticker	FBNIQ US Equity								
Currency	USD								
Name	FURNITURE BRANDS								
Start Date	12/1/2008								
End Date	11/9/2013								
Periodicity	Calendar Annually								
Reported Status	Most Recent								
Consolidation Level	Default								
Scaling Factor	1								
Date:	CY1 2008		CY1 2009		CY1 2010		CY1 2011		CY1 2012
Status:	Original	Δ	Original	Δ	Original	Δ	Original	Δ	Original
Cash Flow From Operations									
Net Income	$ (385.88)	$ 277.20	$ (108.69)	$ 69.66	$ (39.03)	$ (4.72)	$ (43.75)	$ (3.52)	$ (47.27)
Deprec & Amortization	$ 25.31	$ (4.57)	$ 20.74	$ 3.11	$ 23.85	$ (1.96)	$ 21.89	$ (2.95)	$ 18.94
Oth Non-Cash Adj	$ 227.34	$ (191.01)	$ 36.33	$ (41.87)	$ (5.54)	$ (5.39)	$ (10.94)	$ 10.97	$ 0.03
Chg in non-cash wc	$ 174.62	$ (45.40)	$ 129.22	$ (103.20)	$ 26.02	$ 0.55	$ 26.57	$ (27.57)	$ (1.00)
Cashflow-Operating Activities	**$ 41.38**	**$ 36.22**	**$ 77.60**	**$ (72.30)**	**$ 5.30**	**$ (11.53)**	**$ (6.23)**	**$ (23.07)**	**$ (29.30)**
Cash Flow From Investing									
Disposal Of Fixed Asst	$ 3.36	$ 1.12	$ 4.48	$ (1.70)	$ 2.78	$ 6.74	$ 9.52	$ (5.74)	$ 3.78
Capital Ex/Prop Add	$ (18.98)	$ 9.20	$ (9.78)	$ (12.15)	$ (21.93)	$ (5.58)	$ (27.51)	$ 19.91	$ (7.60)
Sale of LT Investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Purchase of LT Investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Oth Investing Activities	$ 58.70	$ (58.70)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash-Inv Activities	**$ 43.09**	**$ (48.38)**	**$ (5.30)**	**$ (13.85)**	**$ (19.15)**	**$ 1.16**	**$ (17.99)**	**$ 14.17**	**$ (3.82)**
Cash Flow From Financing									
Dividends Paid	$ (5.84)	$ 5.84	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Inc(Dec) In ST Borrow	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 50.00	$ 50.00
Increase: LT Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 55.00	$ 55.00
Reimburse Of LT Borrow	$ (110.80)	$ 15.80	$ (95.00)	$ 77.00	$ (18.00)	$ 18.00	$ -	$ (77.00)	$ (77.00)
Inc capital stock	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Decrease In Cap Stocks	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Oth Financing Activities	$ 19.99	$ (20.00)	$ (0.01)	$ (0.05)	$ (0.06)	$ (2.30)	$ (2.36)	$ (6.04)	$ (8.40)
Cash From Financing Act	**$ (96.65)**	**$ 1.64**	**$ (95.01)**	**$ 76.95**	**$ (18.06)**	**$ 15.70**	**$ (2.36)**	**$ 21.96**	**$ 19.60**
Net Changes in Cash	$ (12.18)	$ (10.52)	$ (22.71)	$ (9.20)	$ (31.91)	$ 5.33	$ (26.58)	$ 13.06	$ (13.52)
Cash Paid for Taxes	$ 2.04	$ (38.77)	$ (36.73)	$ (26.56)	$ (63.29)	$ 64.00	$ 0.71	$ (0.56)	$ 0.15
Cash interest paid(rec)	$ 13.37	$ (8.14)	$ 5.23	$ (2.45)	$ 2.78	$ 0.24	$ 3.02	$ 1.06	$ 4.08
Free Cash Flow	**$ 22.41**	**$ 45.42**	**$ 67.82**	**$ (84.45)**	**$ (16.63)**	**$ (17.11)**	**$ (33.73)**	**$ (3.16)**	**$ (36.90)**
EBITDA	**$ (184.62)**	**$ 71.72**	**$ (112.90)**	**$ 92.84**	**$ (20.06)**	**$ 6.41**	**$ (13.65)**	**$ (2.77)**	**$ (16.42)**
FCF/share	**$ 3.22**	**$ 6.61**	**$ 9.83**	**$ (12.11)**	**$ (2.28)**	**$ (2.02)**	**$ (4.30)**	**$ (0.38)**	**$ (4.68)**
Cash Flow/Basic shr	**$ 5.94**	**$ 5.30**	**$ 11.25**	**$ (10.52)**	**$ 0.73**	**$ (1.52)**	**$ (0.79)**	**$ (2.92)**	**$ (3.72)**

Appendix C- Comparable Companies

Public Peer Comparables

	EV / TTM EBITDA
FLXS	6.12
BSET	7.29
HOFT	8.78
LZB	11.94
ETH	12.02

	P / E
BSET	6.94
FLXS	14.54
HOFT	17.56
ETH	24.11
LZB	25.28

Appendix D- Competition Matrix