La-Z-Boy Reports Third Quarter Operating Results

02/08/05

MONROE, Mich., Feb 08, 2005 /PRNewswire-FirstCall via COMTEX/ -- La-Z-Boy Incorporated (NYSE: LZB; PCX) today reported operating results for the third fiscal quarter ended January 22, 2005. Net sales for the quarter were $518 million, up $26 million or 5.3% compared to a year earlier, with earnings of $0.21 per fully diluted share -- which was above management's previously announced guidance range. The quarter includes after tax restructuring charges of $0.03 per share and $15 million of additional sales and earnings of $0.01 per share related to the consolidation of certain Variable Interest Entities (VIEs). These VIEs were not reflected in our results in the year earlier reporting period. This quarter's per share earnings compare against $0.29 per fully diluted share earned in the fiscal 2004 third quarter, including $0.01 per share of restructuring charges.

For the nine months ended January 22, 2005 net sales were $1.518 billion, an increase of $64 million or 4.4% from the year earlier sales of $1.455 billion. Fully diluted earnings per share for the nine months totaled $0.31, including restructuring charges of $0.16 per share on an after-tax basis, an extraordinary gain of $0.01 per share, and $38 million of additional sales and an after-tax loss of $0.08 per share related to the consolidation of certain VIEs. This compares to $0.67 per share in the first nine months of fiscal 2004, including restructuring charges of $0.11 per share on an after-tax basis.

Operating margin for the most recent quarter was 3.9%, down from 5.3% a year earlier and a sequential improvement from last quarter's 3.0%. This year's fiscal third quarter included restructuring charges amounting to 0.4% of net sales versus 0.3% last year. The nine months fiscal 2005 operating margin was 2.1% including 0.9% of net sales for restructuring charges, down from 4.4% in the same period of fiscal 2004. Last year's fiscal nine months included restructuring charges amounting to 0.7% of net sales.

La-Z-Boy Incorporated President and CEO Kurt L. Darrow said, "We were pleased with our sales results for the quarter which exceeded our guidance and were favorable given continuing softness at retail. Operating margins continue to be weaker than last year primarily as a result of continued pressure on margins from increased raw material pricing. During the quarter we began to see improvements in our margin trend as the impact of our price increases to our customers began to take effect. These increases will be fully implemented by the end of our fourth quarter."

Upholstery Segment

The third quarter fiscal 2005 upholstery segment sales increased 2.0% from a year earlier and were up 3.5% through the first nine months of the fiscal year. Darrow noted, "Sales from our La-Z-Boy branded business continue to be stronger than our upholstery segment in total. During the quarter, we further expanded the La-Z-Boy Furniture Galleries(R) store system and gained additional general dealer retail floor space which has allowed us to increase our market share. In our branded upholstery business we continue to see better order trends than in our non-branded upholstery, which is experiencing declining order trends in the low single digits as a result of somewhat inconsistent consumer demand similar to industry reports." The upholstery segment operating margin for the quarter was 6.1% compared to a reported 8.4% for last year's third quarter, while the nine months operating margin declined to 5.7% from 7.9% a year earlier. The decline in margins for the year is primarily attributable to unprecedented raw material price increases, particularly in steel, poly and plywood.

Darrow continued, "During this quarter we continued to strengthen our proprietary distribution network of mostly independently operated La-Z-Boy Furniture Galleries(R) stores by opening four new stores and converting four existing stores to the 'New Generation' format, bringing the total to 98 in this new format. These new format stores are generating increased traffic levels, higher average sales per square foot and greater total sales volumes than the previous format stores. In the last nine months we have opened 30 of these new format stores and plan on opening eight and remodeling six stores to the new format by the end of our fiscal year. Currently, there are 328 stand- alone stores, of which 38 are company-owned. Plans are to open approximately 50 of these updated format stores during our 2006 fiscal year, with over 20 of those being new stores and the remainder being store remodels or relocations."

System-wide, the La-Z-Boy Furniture Galleries(R) stores' same store sales dollars were up 3.6% for the 2004 calendar fourth quarter and up 2.9% for calendar 2004. Total sales for the stores were up 6.5% for both the calendar fourth quarter and for the entire calendar 2004.

Casegoods Segment

Casegoods sales increased 3.7% from a year earlier for the January quarter and were down 3.6% through the nine months. The casegoods segment's operating margin for the January 2005 quarter was 1.9% compared to a negative 0.3% for last year and the nine months operating margin was flat with last year at 0.8%. Darrow commented, "This is the first positive sales comparison quarter for our casegoods segment in over three years and was lead by the portion of this segment serving primarily the hospitality industry. The residential portion of the segment continues to improve as we transition our business model to be primarily a marketer, distributor and importer of casegoods. In our casegoods segment, recent order trends have been down mid single digits with the exception of hospitality products."

He added, "Margins improved this quarter, but were adversely affected by greater than anticipated transition costs over and above the restructuring costs associated with our change to the Pennsylvania House business model. Also, due to the long lead times inherent in bidding our custom order hospitality business, we have not yet realized the margin benefits of recent pricing."

Restructuring charge

As previously announced, we began the closure of several production facilities during our second fiscal quarter and production was phased out at the last facility during the third fiscal quarter. During the third quarter charges of $0.03 per diluted share on an after-tax basis were incurred and were higher than anticipated resulting from additional union severance combined with higher inventory write-downs.

Variable Interest Entities

FIN 46 requires us to consolidate certain Variable Interest Entities (VIEs) beginning April 2004 which are included in our corporate and other segment. Certain of our independent dealers meet this criteria and the attached schedule outlines the impact and offers further explanation. This quarter one of our VIEs contributed $2 million of capital to their business which was recorded as income to reflect a recovery of previously recorded losses. Additionally, for the nine months the extraordinary gain is a result of the application of purchase accounting relating to the acquisition of a previously consolidated VIE. Darrow commented, "This quarter we successfully transitioned the ownership of two of our four under performing VIEs to new independent dealers and are in the process of taking specific actions to address the remaining two operations in our fourth quarter."

Balance sheet

During the quarter we generated positive cash flow from working capital management which was primarily utilized to reduce debt. Total debt at quarter end was $243 million, down $25 million from last quarter and the company's third quarter debt-to-capitalization ratio was 31.6%. Darrow stated, "This quarter we made progress moving the debt-to-capitalization ratio toward our targeted range of the mid-twenties and did not repurchase any stock during the quarter. Management remains opportunistic in execution of its stock repurchase program, but our prime focus is to bring our debt-to-capitalization ratio within our targeted range." At quarter-end, 6.7 million shares remained available under the company's existing stock repurchase authorization.

Business Outlook

Commenting on the business outlook, Darrow said, "Despite high energy prices, rising interest rates, constant geopolitical jitters, and a weakened dollar, consumer confidence has been slightly improving in the last several months. Our guidance takes into consideration the current direction of the economy, an extra week in our fiscal year calendar this year versus last year and anticipates little to no further increases in our major raw material costs. With this as a backdrop, we expect our fourth fiscal quarter sales to be flat to slightly up compared to the prior year's quarter. We anticipate reported earnings for the fourth quarter to be in the range of $0.26 - $0.30 per diluted share, which includes restructuring charges of $0.01 and up to a $0.02 per share potential loss from the consolidation of VIEs. This compares to the loss of $0.64 we incurred per diluted share before the cumulative effect of change in accounting principle in fiscal 2004's fourth quarter, which included a non-cash charge of $1.07 per diluted share to reflect the impairment of certain intangible assets and $0.01 of restructuring charges. Last year's quarter also included a non-cash cumulative effect charge of $0.16 per diluted share from the adoption of a new accounting standard.

Forward-looking Information

Any forward-looking statements contained in this news release are based on current information and assumptions and represent management's best judgment at the present time. Actual results could differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to: changes in consumer sentiment or demand, changes in demographics, changes in housing sales, the impact of terrorism or war, energy price changes, the impact of logistics on imports, the impact of interest rate changes, the effects of the ruling on tariffs by the U.S. Department of Commerce and potential disruptions of Chinese imports, the availability and cost of capital, the impact of imports as it relates to continued domestic production, raw material price changes, changes in currency rates, competitive factors, operating factors, such as supply, labor, or distribution disruptions including changes in operating conditions or costs, effects of restructuring actions, changes in the domestic or international regulatory environment, not fully realizing cost reductions through restructurings, ability to implement global sourcing organization strategies, the future financial performance and condition of independently owned dealers that we are required to consolidate into our financial statements or changes requiring us to consolidate additional independently owned dealers, the impact of new manufacturing technologies, the impact of adopting new accounting principles, fair value changes to our intangible assets due to actual results differing from projected, factors relating to acquisitions and other factors identified from time to time in the company's reports filed with the Securities and Exchange Commission. The company undertakes no obligation to update or revise any forward-looking statements, either to reflect new developments, or for any other reason.

Additional Information

This news release is just one part of La-Z-Boy's financial disclosures and should be read in conjunction with other information filed with the Securities and Exchange Commission, which is available at http://www.la-z-boy.com/about/investorRelations/sec_filings.aspx. Investors and others wishing to be notified of future La-Z-Boy news releases, SEC filings and quarterly investor conference calls may sign up at: http://www.la-z-boy.com/about /investorRelations/IR_email_alerts.aspx.

Background Information

With annual sales of $2 billion, La-Z-Boy Incorporated is one of the world's leading residential furniture producers, marketing furniture for every room of the home and office, as well as for the hospitality, health care and assisted-living industries. The La-Z-Boy Upholstery Group companies are Bauhaus, Centurion, Clayton Marcus, England, La-Z-Boy, La-Z-Boy Contract and Sam Moore. The La-Z-Boy Casegoods Group companies are American Drew, American of Martinsville, Hammary, Kincaid, Lea and Pennsylvania House.

The corporation's vast proprietary distribution network is dedicated exclusively to selling La-Z-Boy Incorporated products and brands, and includes 328 stand-alone La-Z-Boy Furniture Galleries(R) stores and 334 La-Z-Boy In- Store Gallerys, in addition to in-store gallery programs at the company's Kincaid, Pennsylvania House, Clayton Marcus, England and Lea operating units. According to industry trade publication Furniture/Today, the La-Z-Boy Furniture Galleries retail network by itself represents the industry's fourth largest U.S. furniture retailer and the second largest single source furniture retailer. Additional information is available at http://www.la-z-boy.com/.

LA-Z-BOY INCORPORATED CONSOLIDATED STATEMENT OF INCOME
(Unaudited, amounts in thousands, except per share data)

	Third Quarter Ended				
			% Over	Percent of Sales	
	1/22/05	1/24/04	(Under)	1/22/05	1/24/04
Sales	$518,160	$492,167	5.3%	100.0%	100.0%

Cost of sales					
Cost of goods sold	393,743	382,865	2.8%	76.0%	77.8%
Restructuring	2,252	1,244	81.0%	0.4%	0.3%
Total cost of sales	395,995	384,109	3.1%	76.4%	78.0%
Gross profit	122,165	108,058	13.1%	23.6%	22.0%
Selling, general and administrative	101,911	82,018	24.3%	19.7%	16.7%
Operating income	20,254	26,040	-22.2%	3.9%	5.3%
Interest expense	2,684	2,697	-0.5%	0.5%	0.5%
Other income, net	321	1,301	-75.3%	0.1%	0.3%
Pre-tax income	17,891	24,644	-27.4%	3.5%	5.0%
Income tax expense	6,799	9,365	-27.4%	38.0%*	38.0%*
Net income	$11,092	$15,279	-27.4%	2.1%	3.1%
Basic weighted average shares	52,122	52,825			
Basic net income per share	$0.21	$0.29			
Diluted weighted average shares	52,193	52,931			
Diluted net income per share	$0.21	$0.29			
Dividends paid per share	$0.11	$0.10			

*As a percent of pre-tax income, not sales.

LA-Z-BOY INCORPORATED CONSOLIDATED STATEMENT OF INCOME
(Unaudited, amounts in thousands, except per share data)

	Nine Months Ended				
			% Over	Percent of Sales	
	1/22/05	1/24/04	(Under)	1/22/05	1/24/04
Sales	$1,518,201	$1,454,657	4.4%	100.0%	100.0%
Cost of sales					
Cost of goods sold	1,164,296	1,129,603	3.1%	76.7%	77.7%
Restructuring	13,401	9,493	41.2%	0.9%	0.7%
Total cost of sales	1,177,697	1,139,096	3.4%	77.6%	78.3%
Gross profit	340,504	315,561	7.9%	22.4%	21.7%
Selling, general and administrative	307,975	251,164	22.6%	20.3%	17.3%
Operating income	32,529	64,397	-49.5%	2.1%	4.4%
Interest expense	7,500	8,936	-16.1%	0.5%	0.6%
Other income, net	338	3,021	-88.8%	--	0.2%
Pre-tax income	25,367	58,482	-56.6%	1.7%	4.0%

Income tax expense	9,640	22,223	-56.6%	38.0%*	38.0%*
Income before extraordinary item	15,727	36,259	-56.6%	1.0%	2.5%
Extraordinary gain, net of income tax expense of $430	702	--	N/M	--	--
Net income	$16,429	$36,259	-54.7%	1.1%	2.5%
Basic weighted average shares	52,043	53,904			
Basic income per share before extraordinary gain	$0.30	$0.67			
Extraordinary gain per share	0.01	--			
Basic net income per share	$0.31	$0.67			
Diluted weighted average shares	52,100	54,066			
Diluted income per share before extraordinary gain	$0.30	$0.67			
Extraordinary gain per share	0.01	--			
Diluted net income per share	$0.31	$0.67			
Dividends paid per share	$0.33	$0.30			

N/M = not meaningful
*As a percent of pre-tax income, not sales.

LA-Z-BOY INCORPORATED CONSOLIDATED BALANCE SHEET
(Unaudited, amounts in thousands)

			Increase/(Decrease)		
	1/22/05	1/24/04	Dollars	Percent	4/24/04
Current assets					
Cash and equivalents	$25,994	$25,774	$220	0.9%	$33,882
Receivables, net	278,269	295,148	(16,879)	-5.7%	299,801
Inventories, net	272,922	228,954	43,968	19.2%	250,568
Deferred income taxes	38,961	35,897	3,064	8.5%	37,969
Other current assets	20,558	16,880	3,678	21.8%	31,454
Total current assets	636,704	602,653	34,051	5.7%	653,674
Property, plant and equipment, net	209,920	201,398	8,522	4.2%	212,739
Goodwill	68,615	78,807	(10,192)	-12.9%	68,116
Trade names	27,889	71,144	(43,255)	-60.8%	27,889
Other long-term assets	84,367	89,498	(5,131)	-5.7%	85,078
Total assets	$1,027,495	$1,043,500	$(16,005)	-1.5%	$1,047,496

Current liabilities					
Short-term borrowings	$11,500	$3,000	$8,500	283.3%	$37,219
Current portion of long-term debt and capital leases	2,776	4,893	(2,117)	-43.3%	5,344
Accounts payable	72,618	69,475	3,143	4.5%	93,298
Accrued expenses and other current liabilities	122,148	121,017	1,131	0.9%	147,460
Total current liabilities	209,042	198,385	10,657	5.4%	283,321
Long-term debt and capital leases	229,158	185,903	43,255	23.3%	181,807
Deferred income taxes	20,329	38,154	(17,825)	-46.7%	20,219
Other long-term liabilities	42,813	37,641	5,172	13.7%	39,821
Contingencies and commitments					
Shareholders' equity					
Common shares, $1 par value	52,167	52,584	(417)	-0.8%	52,031
Capital in excess of par value	214,538	215,738	(1,200)	-0.6%	216,156
Retained earnings	257,099	312,287	(55,188)	-17.7%	253,012
Unearned compensation	(1,683)	--	(1,683)	N/M	--
Accumulated other comprehensive income	4,032	2,808	1,224	43.6%	1,129
Total shareholders' equity	526,153	583,417	(57,264)	-9.8%	522,328
Total liabilities and shareholders' equity	$1,027,495	$1,043,500	$(16,005)	-1.5%	$1,047,496

N/M = not meaningful

LA-Z-BOY INCORPORATED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited, amounts in thousands)

	Third Quarter Ended		Nine Months Ended	
	1/22/05	1/24/04	1/22/05	1/24/04
Cash flows from operating activities				
Net income	$11,092	$15,279	$16,429	$36,259
Adjustments to reconcile net income to cash provided by operating activities				
Extraordinary gain	--	--	(702)	--
Restructuring	2,252	1,244	13,401	9,493
Depreciation and amortization	7,154	7,193	21,154	21,830
Change in receivables	27,596	23,833	23,225	44,862
Change in inventories	9,098	8,701	(24,804)	23,583
Change in payables	(14,098)	(11,784)	(20,680)	(9,456)
Change in other assets and liabilities	(4,447)	(3,256)	(13,250)	(14,832)
Change in deferred taxes	(667)	1,820	(882)	3,063

Total adjustments	26,888	27,751	(2,538)	78,543
Net cash provided by operating activities	37,980	43,030	13,891	114,802
Cash flows from investing activities				
Proceeds from disposals of assets	8	196	5,605	1,968
Capital expenditures	(9,833)	(6,409)	(27,012)	(21,035)
Change in other long-term assets	(1,300)	15	(5,150)	(732)
Net cash used for investing activities	(11,125)	(6,198)	(26,557)	(19,799)
Cash flows from financing activities				
Proceeds from debt	3,746	5,544	105,988	12,466
Payments on debt	(28,668)	(18,825)	(86,925)	(42,661)
Stock issued for stock option and employee benefits plans	1,124	246	3,881	6,258
Repurchase of common stock	--	(17,158)	(2,476)	(59,378)
Dividends paid	(5,743)	(5,279)	(17,115)	(16,266)
Net cash provided by (used for) financing activities	(29,541)	(35,472)	3,353	(99,581)
Effect of exchange rate changes on cash and equivalents	3	(173)	1,425	1,535
Net increase (decrease) in cash and equivalents	(2,683)	1,187	(7,888)	(3,043)
Cash and equivalents at beginning of period	28,677	24,587	33,882	28,817
Cash and equivalents at end of period	$25,994	$25,774	$25,994	$25,774
Cash paid (net of refunds) during period - income taxes	$10,655	$11,150	$17,053	$21,643
Cash paid during period - interest	$2,772	$3,567	$6,832	$10,007

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Impact of FIN46 on Consolidation

(Unaudited, amounts in thousands)	1/22/05 VIEs	Consolidated
Assets		
Cash and cash equivalents	$3,209	$25,994
Accounts receivable, net	(18,863)(1)	278,269
Inventories, net	9,392	272,922
Deferred income taxes	6,112	38,961
Other current assets	1,395	20,558

Total current assets	1,245	636,704
Property, plant and equipment, net	10,608	209,920
Intangibles	7,714	96,504
Other long-term assets	(14,416)(1)	84,367
Total assets	$5,151	$1,027,495
Liabilities and shareholders' equity		
Short-term borrowings	$--	$11,500
Current portion of long-term debt and capital leases	1,569	2,776
Accounts payable	694	72,618
Other current liabilities	1,930	122,148
Total current liabilities	4,193	209,042
Long-term debt and capital leases	6,586	229,158
Deferred income taxes	--	20,329
Other long-term liabilities	(846)	42,813
Shareholders' equity (deficit)	(4,782)	526,153
Total liabilities and shareholders' equity	$5,151	$1,027,495

(1) Includes the elimination of intercompany accounts and notes receivable.

	Third Quarter Ended 1/22/05		Nine Months Ended 1/22/05	
(Unaudited, amounts in thousands)	VIEs	Consolidated	VIEs	Consolidated
Sales	$14,847(2)	$518,160	$38,142(2)	$1,518,201
Cost of sales				
Cost of goods sold	1,765(2)	393,743	2,441(2)	1,164,296
Restructuring	--	2,252	--	13,401
Total cost of sales	1,765	395,995	2,441	1,177,697
Gross profit	13,082	122,165	35,701	340,504
Selling, general and administrative	11,321	101,911	38,710	307,975
Operating income (loss)	1,761	20,254	(3,009)	32,529
Interest expense	94	2,684	330	7,500
Other income (expense), net	(676)(3)	321	(3,062)(3)	338
Pre-tax income (loss)	991	17,891	(6,401)	25,367
Income tax expense (benefit)	378	6,799	(2,431)	9,640
Income (loss) before extraordinary item	613	11,092	(3,970)	15,727
Extraordinary gain, net of income taxes of $430	--	--	--	702
Net income (loss)	$613	$11,092	$(3,970)	$16,429

(2) Includes the elimination of intercompany sales and cost of sales.

(3) Includes the elimination of intercompany interest income and interest expense.

La-Z-Boy Furniture Galleries(R) stores that are not operated by us are operated by independent dealers. These stores sell La-Z-Boy manufactured product as well as various accessories purchased from approved La-Z-Boy vendors. In some cases we have extended credit beyond normal trade terms to the independent dealers, made direct loans and/or guaranteed certain loans or leases. Most of these independent dealers have sufficient equity to carry out their principal operating activities without subordinated financial support, however, there are certain independent dealers that we have determined may not have sufficient equity. Based on the criteria for consolidation of VIEs, we have determined that several dealers are VIEs of which, under FIN 46, we are deemed the primary beneficiary.

Since some of our VIEs have either negative or no equity in their business, we are required to absorb their losses in our consolidated statement of income. During the third fiscal quarter, one of the equity owners of our VIEs contributed $2.0 million of capital to their business. Current accounting standards required us to record the capital contribution as income in the current period to offset previously recorded losses. The operating results of the consolidated VIEs impacted our diluted earnings per share by $0.01 and ($0.08) for the third quarter and first nine months of fiscal 2005, respectively. The extraordinary gain of $1.1 million ($0.7 million net of income taxes), is a result of the application of purchase accounting relating to the acquisition of a previously consolidated VIE. Additionally, there are certain independent dealers that qualify as VIEs; however, we are not the primary beneficiary. Our interest in these dealers is comprised of accounts and notes receivable of $18.3 million.

In prior years, we have evaluated the collectibility of our trade accounts receivable from our independent dealers and we have provided an appropriate reserve relating to the collectibility of our receivables with these dealers or the contingent payout under any guarantees. There are no VIEs consolidated in the third quarter and first nine months of our fiscal 2004 financial statements. The table above shows the impact of this standard on our consolidated balance sheet and statement of income as of January 22, 2005. The amounts reflected in the table include the elimination of related payables, receivables, sales, cost of sales, and interest as well as profit in inventory.

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Segment Information

Our reportable operating segments are the Upholstery Group and the Casegoods Group. The third quarter and nine months ended operating results are shown in the table below.

(Unaudited, amounts in thousands)	Third Quarter Ended 1/22/05	Third Quarter Ended 1/24/04	Nine Months Ended 1/22/05	Nine Months Ended 1/24/04
Sales				
Upholstery segment	$393,272	$385,511	$1,153,272	$1,114,000
Casegoods segment	111,918	107,899	331,801	344,029
Eliminations/Other	12,970*	(1,243)	33,128*	(3,372)
Consolidated	$518,160	$492,167	$1,518,201	$1,454,657
Operating income				
Upholstery segment	$24,046	$32,555	$65,161	$87,932
Casegoods segment	2,152	(360)	2,732	2,717
Corporate and other	(3,692)*	(4,911)	(21,963)*	(16,759)
Restructuring	(2,252)	(1,244)	(13,401)	(9,493)
Consolidated	$20,254	$26,040	$32,529	$64,397

*The consolidated variable interest entities are included in Corporate and other.

SOURCE La-Z-Boy Incorporated

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