La-Z-Boy Reports Fourth Quarter and Full Year Operating Results

05/28/03

MONROE, Mich., May 28, 2003 /PRNewswire-FirstCall via COMTEX/ -- La-Z-Boy Incorporated (NYSE: LZB; PCX) today reported its operating results for the fourth fiscal quarter and full fiscal year ending on April 26, 2003. Net sales for the quarter declined 9.4% from a year earlier, to $540 million. The quarter's operating margin was 8.0%, compared to 7.1% as reported in fiscal 2002's fourth quarter, and 9% as "normalized" to adjust for the elimination of amortization expense and restructuring charges (a reconciliation table of GAAP to non-GAAP normalized results follows). Diluted earnings per share were $0.45 -- within management's previously announced guidance range. This compares against $0.41 per diluted share reported for fiscal 2002's fourth quarter, or $0.53 per share -- as normalized.

La-Z-Boy Incorporated president and CEO Jerry Kiser said, "This was a difficult quarter for the industry and for our company. Several bouts of severe winter weather had a dampening impact on retail store traffic and sales. In addition, consumer confidence was weakened by the ongoing conflict in Iraq and an increase in consumers' general apprehension levels. Additionally, we are comparing against a strong year-earlier quarter, when our upholstery sales rose 11%. At the same time, the continued softness in our casegoods business is a continuing concern to our management team."

For the full fiscal year, net sales totaled $2.11 billion, down 2% from fiscal 2002's $2.15 billion. Adjusted to exclude the divestiture of Pilliod in November 2001, the phase-out of the operations of HickoryMark, announced in August 2002 and completed in October 2002, and the acquisition of five retail stores in Boston and Kansas City, fiscal 2003's sales were virtually flat with the prior year. Net income for fiscal 2003 was $0.63 per diluted share, after the cumulative effect of a $1.04 charge resulting from the company's adoption of Statement of Financial Accounting Standards No. 142 ("SFAS 142"), versus $1.01 in fiscal 2002. Prior to the adoption of SFAS 142 diluted earnings per share for the year totaled $1.67. In fiscal 2002, by comparison, the company earned $1.35 per diluted share, on a normalized basis. The elimination of goodwill and trade name amortization under SFAS 142 would have added $0.03 and $0.12, respectively, to fiscal 2002's fourth quarter and full year diluted earnings per share had SFAS 142 been in effect then. Operating margin for fiscal 2003 was 7.7%, up from a reported 4.5% and a normalized 6.5% in fiscal 2002.

Kiser commented, "Our industry has been operating in a difficult business climate for the past three years with the exception of a six month period at the beginning of 2002. During that time, the relatively stagnant U.S. economy, coupled with a wide variety of geopolitical uncertainties, has driven consumer confidence down to a recent nine-year low point and significantly curtailed retail furniture purchases. But we were encouraged by the overall progress La-Z-Boy achieved in fiscal 2003 -- particularly the yearly margin improvement in both segments of our business. Due to the strength of our brands, products and distribution network, we believe La-Z-Boy is well- positioned to participate in a new growth cycle when the U.S. economy and consumer sentiment rebound."

Upholstery segment

Fiscal 2003's fourth quarter upholstery segment sales declined 8% from a year earlier as reported, and were down 7% excluding the phase-out of the HickoryMark brand and the retail store acquisitions mentioned earlier. Kiser noted, "A leading barometer for our upholstery group is the performance of our mostly independently-owned La-Z-Boy Furniture Galleries(R) stores which were up against a very strong year-earlier quarter. For the March 2003 calendar quarter, same store retail sales of the Furniture Galleries stores were off 6.3% from a year earlier. This compared to an 11.8% same store sales gain in the first quarter of calendar 2002. Total store sales for the quarter were up 1% reflecting the continued expansion and success of the overall system."

The upholstery segment operating margin for the most recent quarter was 10.3%, compared to a reported 10.9% and a normalized 11.1% in the final quarter of fiscal 2002. For fiscal 2003 as a whole, upholstery segment sales rose 3% as reported, and 4% on a normalized basis, and the annual operating margin increased to 9.7%, compared to a reported 8.5% and nearly a full point higher than fiscal 2002's normalized 8.9%. Kiser said, "Our upholstery group continues to improve margins as a result of their focus on continuous improvement, the fine tuning of product offerings and distribution expansion."

Kiser continued, "During the past year, we continued to build and strengthen our proprietary upholstery distribution network, not just at our flagship La-Z-Boy division, but also at England and Clayton Marcus. At the end of fiscal 2003, we had over 1,100 proprietary dealer locations with more than 7 million square feet of retail floor space dedicated to our upholstery lines. Of particular note are the new generation La-Z-Boy Furniture Galleries(R) stores, which have experienced higher traffic levels, higher average sales per consumer and higher total sales volumes than the old format stores. At the end of fiscal 2003, 46 new generation format stores were operating. Plans are to open another 40-45 of these stores during the current fiscal year, with 20-25 of these being new stores and the remainder being store remodels or relocations. Currently, there are 314 stand-alone stores."

Casegoods Segment

On the casegoods side, sales declined 14% from a year earlier for both the April quarter and the full year. Excluding Pilliod, full year fiscal 2003 casegoods sales were down 10% compared with the prior year. The casegoods segment's operating margin for the April 2003 quarter was 4.8%, compared to a reported -0.9% and a normalized 6.3% for last year. Despite the lower sales for the full year, the segment's operating margin was 6.1%, compared to the reported -1.7% and a normalized 4.2% margin recorded in fiscal 2002.

Kiser commented, "The full year margin improvement in casegoods reflected benefits from our past restructuring efforts, as well as a growing volume of higher margin imports. One factor contributing to the sales decline is that casegoods product purchases are more easily postponed by consumers because they tend to be in a less visible area in the home and are not as impacted by style, color and the wear issues which exist in upholstered products. Accordingly, casegoods sales tend to be more heavily influenced by this factor in addition to factors such as overall consumer confidence."

He added, "While fourth quarter casegoods sales were clearly disappointing, we strongly believe the refocusing of our casegoods business is proceeding well at this point. We were especially pleased with the dealer enthusiasm and retail floor placements we received at this past April's

International Home Furnishings Market. In particular, American Drew's Bob Mackie Two(TM), Pennsylvania House's New Standards(TM), and Kincaid's Cotswold(TM) (an addition to their Laura Ashley Home(TM) line) collections were extremely successful at the show. Although these new groups will not ship until fall, we are convinced their fresh looks which created a real sense of excitement among our retailers -- along with carefully focused merchandising efforts -- will help reverse the recent downward sales trend we have experienced in casegoods.

Kiser stated, "As we have previously stated, we continue to evaluate our domestic casegoods manufacturing and, in light of projected industry trends, our sales declines of the past several quarters and our ongoing migration to cost-competitive globally sourced products, we anticipate making a determination on a further consolidation of our domestic casegoods facilities within the next couple of weeks. The financial impact of this, including any potential additional restructuring charges, has not yet been fully evaluated and when complete will be communicated."

Balance sheet

Inventories remained flat during the April quarter and for the year rose $44 million, with virtually all of the increase concentrated in finished goods. This was a reflection of the rapid growth in imports as a percent of total sales and the longer lead times required for imports vis-a-vis domestically-produced products.

During fiscal 2003's final quarter, the company repurchased an additional 974,000 shares of its outstanding common stock for $17.7 million. This brought the total number of shares repurchased for all of fiscal 2003 to 5.5 million shares, or approximately 9% of the shares outstanding at the beginning of the year, at a total cost of $130 million. At year-end, 4.2 million shares remained available under the company's existing stock repurchase authorization.

Kiser noted that total debt declined slightly during the fourth quarter, to $224 million, and said the company's year-end debt-to-capitalization ratio of 26.9% was, "down slightly from 27.1% at the start of the quarter and well within our targeted range."

Business outlook

Commenting on the business outlook, Kiser said, "The recent conclusion of the conflict in Iraq produced an immediate rebound in U.S. consumer confidence, which potentially has positive implications for our industry. But the fact remains that we still face a large number of uncertainties which we believe make forecasting a virtually impossible task at present.

"The U.S. economy remains highly unsettled, having lost a substantial number of jobs over the past six-to-nine months. The current elevated unemployment rates, coupled with virtually no jobs growth, have contributed to an extreme degree of consumer caution. Energy costs, while down from their recent peak levels, remain relatively high. Furthermore, U.S. retail sales figures have remained soft, despite the success of the Iraqi war.

"Superimposed on these macroeconomic uncertainties are the unusually strong upholstery sales comparisons we recorded in last year's July quarter as we went into that quarter with very strong backlogs. All of these elements cause us to strongly suspect the current quarter's sales and earnings will be down significantly. Given the likely declining level of sales, we would also possibly take extended summer vacation plant shut downs in addition to the traditional time taken in July. While we could hazard a specific guess regarding sales and earnings performance for the current quarter, it would be only that, and we don't feel it would be a particularly reliable yardstick for our shareholders and other investors. So, until the visibility of our business improves, we have decided to suspend specific financial guidance at this time."

Conference Call Information

The dial-in phone number for tomorrow's conference call at 11 a.m. E.T. will be (800) 374-1298 for persons calling from within the U.S. or Canada, and (706) 634-5855 for international callers. The call will also be webcast live and archived on the Internet, with both accessible at http://www.la-z-boy.com /about/ir_confcalls.asp . A telephone replay will be available for a week following the live call to callers from the U.S. and Canada at (800) 642-1687 and to international callers at (706) 645-9291. The replay passcode is 191820.

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 SARS on imports, the impact of logistics on imports, the impact of interest rate changes, the availability and cost of capital, the impact of imports, 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 regulatory environment, the impact of new manufacturing technologies, 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 . Investors and others wishing to be notified of future news releases, SEC filings and conference calls may sign up at: http://my.lazboy.com/mygallery/investor_relations.cfm .

Background Information

With annual sales in excess 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 Furniture Group and Sam Moore, and the La-Z-Boy Casegoods Group companies are Alexvale, 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 314 stand-alone La-Z-Boy Furniture Galleries(R) stores and 317 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 fifth largest U.S. furniture retailer. Additional information is available at www.la-z-boy.com .

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

	UNAUDITED		UNAUDITED	
	FOURTH QUARTER ENDED		TWELVE MONTHS ENDED	
	4/26/03	4/27/02	4/26/03	4/27/02
Sales	$540,329	$596,062	$2,111,830	$2,153,952
Cost of sales	413,301	459,528	1,617,261	1,691,657
Gross profit	127,028	136,534	494,569	462,295
Selling, general and administrative	83,838	94,086	331,695	353,906
Loss on divestiture	-	-	-	11,689
Operating income	43,190	42,448	162,874	96,700
Interest expense	3,382	2,059	10,510	10,063
Other income (expense)	688	(18)	2,633	2,299
Pretax income	40,496	40,371	154,997	88,936
Income tax expense	15,387	15,505	58,899	27,185
Income before cumulative effect of accounting change	25,109	24,866	96,098	61,751
Cumulative effect of accounting change (net of tax of $17,920)	-	-	(59,782)	-
Net income	$25,109	$24,866	$36,316	$61,751
Basic average shares	55,523	60,445	57,120	60,739
Basic net income per share before cumulative effect of accounting change	$0.45	$0.41	$1.68	$1.02
Cumulative effect of accounting change per share	-	-	(1.04)	-
Basic net income per share	$0.45	$0.41	$0.64	$1.02
Diluted average shares	55,601	61,063	57,435	61,125
Diluted net income per share before cumulative effect of accounting change	$0.45	$0.41	$1.67	$1.01
Cumulative effect of accounting change per share	-	-	(1.04)	-
Diluted net income per share	$0.45	$0.41	$0.63	$1.01
Dividends paid per share	$0.10	$0.09	$0.40	$0.36

Certain prior year information has been reclassified to be comparable to the current year presentation.

LA-Z-BOY INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEET
Unaudited

(Amounts in thousands)	4/26/03	4/27/02
Current assets		
Cash and equivalents	$28,817	$26,771
Receivables, net	340,467	382,843
Inventories, net	252,537	208,657
Deferred income taxes	37,734	36,086
Other current assets	19,939	18,386
Total current assets	679,494	672,743
Property, plant and equipment, net	209,411	205,463
Intangibles	149,951	225,016

Other long-term assets	84,210	58,605
Total assets	$1,123,066	$1,161,827
Current liabilities		
Current portion of long-term debt and capital leases	$1,619	$2,276
Accounts payable	78,931	68,497
Other current liabilities	134,037	156,120
Total current liabilities	214,587	226,893
Long-term debt and capital leases	222,371	139,386
Deferred income taxes	36,928	47,196
Other long-term liabilities	39,241	34,830
Shareholders' equity	609,939	713,522
Total liabilities and shareholders' equity	$1,123,066	$1,161,827

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Quarter Ended		Unaudited Year Ended	
(Amounts in thousands)	4/26/03	4/27/02	4/26/03	4/27/02
Cash flows from operating activities				
Net income	$25,109	$24,866	$36,316	$61,751
Adjustments to reconcile net income to cash provided by operating activities				
Cumulative effect of accounting change-net of income taxes	-	-	59,782	-
Loss on divestiture	-	-	-	11,689
Depreciation and amortization	7,855	11,245	30,695	43,988
Change in working capital	9,881	5,505	(7,805)	24,217
Change in deferred taxes	4,515	(8,184)	6,004	(8,431)
Total adjustments	22,251	8,566	88,676	71,463
Cash provided by operating activities	47,360	33,432	124,992	133,214
Cash flows from investing activities				
Proceeds from disposals of assets	3,116	133	4,348	2,341
Capital expenditures	(7,044)	(9,624)	(32,821)	(32,966)
Acquisitions, net of cash acquired	-	-	(3,089)	-
Proceeds from divestiture	-	-	-	6,048
Change in other long-term assets	(15,290)	8,319	(30,210)	10,198
Cash used for investing activities	(19,218)	(1,172)	(61,772)	(14,379)
Cash flows from financing activities				
Net changes in debt	(1,410)	(3,756)	79,989	(73,982)
Dividends paid	(5,575)	(5,459)	(22,941)	(21,886)
Stock transactions	(16,404)	(24,259)	(118,825)	(19,720)
Cash used for financing activities	(23,389)	(33,474)	(61,777)	(115,588)
Effect of exchange rate changes on cash	247	1,204	603	(41)
Change in cash and equivalents	5,000	(10)	2,046	3,206
Cash and equivalents at beginning of period	23,817	26,781	26,771	23,565
Cash and equivalents at end of period	$28,817	$26,771	$28,817	$26,771

Certain prior year information has been reclassified to be comparable to the current year presentation.

LA-Z-BOY INCORPORATED
Segment Analysis

	UNAUDITED FOURTH QUARTER ENDED		UNAUDITED TWELVE MONTHS ENDED	
(Amounts in thousands)	4/26/03	4/27/02	4/26/03	4/27/02
Sales				
Upholstery segment	$414,386	$449,566	$1,589,778	$1,543,756
Casegoods segment	126,633	146,870	526,168	611,268
Eliminations	(690)	(374)	(4,116)	(1,072)
Consolidated	$540,329	$596,062	$2,111,830	$2,153,952
Operating income				
Upholstery segment	$42,666	$49,144	$154,617	$134,337
Restructuring	-	-	-	(3,735)
Net Upholstery segment	42,666	49,144	154,617	130,602
Casegoods segment	6,031	7,722	32,110	19,569
Restructuring	-	(9,000)	-	(18,452)
Loss on divestiture	-	-	-	(11,689)
Net Casegoods segment	6,031	(1,278)	32,110	(10,572)
Corporate and other	(5,507)	(5,418)	(23,853)	(23,330)
Consolidated	43,190	51,448	162,874	130,576
Restructuring	-	(9,000)	-	(22,187)
Loss on divestiture	-	-	-	(11,689)
Net Consolidated	$43,190	$42,448	$162,874	$96,700

La-Z-Boy Incorporated
Reconciliation of Non-GAAP Normalized Financial Information
to GAAP Financial Information

(Amounts in thousands except per share data)

	Unaudited Quarter Ended		Unaudited Year Ended	
Sales	4/26/03	4/27/02	4/26/03	4/27/02
Upholstery group as reported	$414,386	$449,566	$1,589,778	$1,543,756
HickoryMark and Retail(1)	(2,067)	(5,531)	(21,308)	(35,145)
Normalized upholstery group	412,319	444,035	1,568,470	1,508,611
Casegoods group as reported	126,633	146,870	526,168	611,268
Pilliod (2)	-	-	-	(24,203)
Normalized casegoods group	126,633	146,870	526,168	587,065
Eliminations	(690)	(374)	(4,116)	(1,072)
Consolidated as reported	540,329	596,062	2,111,830	2,153,952
HickoryMark, Retail and Pilliod (1)(2)	(2,067)	(5,531)	(21,308)	(59,348)
Normalized consolidated	$538,262	$590,531	$2,090,522	$2,094,604
Operating income				
Upholstery group as reported	$42,666	$49,144	$154,617	$130,602
Restructuring (3)	-	-	-	3,735
Amortization (4)	-	822	-	3,286
Normalized upholstery group	42,666	49,966	154,617	137,623
Casegoods group as				

reported	6,031	(1,278)	32,110	(10,572)
Restructuring (3)	-	9,000	-	18,452
Loss on divestiture of Pilliod	-	-	-	11,689
Amortization (4)	-	1,493	-	5,964
Normalized casegoods group	6,031	9,215	32,110	25,533
Other	(5,507)	(5,418)	(23,853)	(23,330)
Consolidated as reported	43,190	42,448	162,874	96,700
Restructuring (3)	-	9,000	-	22,187
Loss on divestiture of Pilliod	-	-	-	11,689
Amortization (4)	-	2,315	-	9,250
Normalized consolidated	$43,190	$53,763	$162,874	$139,826
Operating margin				
Upholstery group as reported	10.3%	10.9%	9.7%	8.5%
Normalized upholstery group	10.3%	11.1%	9.7%	8.9%
Casegoods group as reported	4.8%	-0.9%	6.1%	-1.7%
Normalized casegoods group	4.8%	6.3%	6.1%	4.2%
Consolidated as reported	8.0%	7.1%	7.7%	4.5%
Normalized consolidated	8.0%	9.0%	7.7%	6.5%
Diluted net income per share				
Consolidated as reported	$0.45	$0.41	$0.63	$1.01
Restructuring (3)	-	0.09	-	0.22
Amortization (4)	-	0.03	-	0.12
Normalized consolidated	$0.45	$0.53	$0.63	$1.35

La-Z-Boy Incorporated
Footnotes to Reconciliation of Non-GAAP Normalized Financial Information
to GAAP Financial Information

(1) Excludes sales of fiscal 2003 retail store acquisitions and fiscal 2002 and fiscal 2003 sales of HickoryMark through its cessation of operations in October 2002.
(2) Excludes fiscal 2002 sales of Pilliod through its November 2001 divestiture.
(3) Excludes the fiscal 2002 restructuring charges.
(4) Excludes amortization prior to our adoption of SFAS No. 142.

SOURCE La-Z-Boy Incorporated

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