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**HEADLINE:** Q3 2002 **Newell Rubbermaid** Earnings Conference Call - Final

**BODY:**

**OPERATOR:** Good morning, ladies and gentlemen. Welcome to **Newell Rubbermaid's** third quarter conference call.

At this time we are in a listen-only mode. After a brief discussion by management we will open up the conference call for questions. At that time you may press star and the number 1 in order to ask a question. Today's call will also be available live via audio webcast at [www.newellco.com](http://www.newellco.com) and two hours after the call on digital replay at 800-642-1687 for domestic participants and 706-645-9291 for international participants.

I would now like to turn the call over to Mr. Jesse Herron, Director of Investor Relations. Mr. Herron, you may begin. **JESSE HERRON, DIRECTOR, INVESTOR RELATIONS, NEWELL RUBBERMAID, INC.:** Good morning. Welcome to our third quarter conference call. Today I'm joined by our CEO, Joseph Galli, our CFO, Bill Alldredge, and our Corporate Controller, Pat Robinson.

Before we begin, let me start with the obligatory forward-looking statement. The statements made in this conference call that are not historical in nature are forward-looking statements. Forward-looking statements are not guaranteed due to inherent difficulties in predicting future results. Actual results could differ materially from those expressed or implied in the forward-looking statements. For a list of major factors that could cause actual results to differ materially from those projected, please refer to our 2001 Form 10K.

Now I'll turn the conference call over to our CEO, Joe Galli. Joe?

**JOE GALLI, JR., PRESIDENT, CEO, DIRECTOR, NEWELL RUBBERMAID, INC.:** Thank you, Jesse, and hello, everyone.

I'm very pleased to report that **Newell Rubbermaid** delivered another strong quarter during Q3 of 2002. Our earnings per share came in at 46 cents, which is at the higher end of our guidance and compares quite favorably to last year's 34 cents in the same quarter.

Based on the strength of our business across the board, we are reaffirming our full-year guidance of \$1.53 to \$1.58 per share. And in fact, I'm very confident that we will deliver in the high end of that range. That guidance translates into Q4 guidance between 44 and

49 cents a share, versus last year's 39 cents in Q4.

Turning towards sales results, we had an excellent internal sales performance in Q3 here at **Newell Rubbermaid**, and I'm particularly encouraged by our 4% internal sales growth performance, because of the lackluster economic environment that we see in the U.S. and Europe, and because of ongoing retail consolidation. In spite of those issues, our team did deliver a collective 4% internal growth. What was even more encouraging is that all four operating groups delivered internal sales growth for the second consecutive quarter. So our growth initiatives are working in a broad-based way throughout this company, and we are very, very encouraged that, as we continue to roll out our new product programs, our marketing efforts, our strategic account management initiatives, we'll continue to demonstrate progress in internal sales growth.

Now, when you add our American Tool acquisition sales into the total, our overall sales actually grew 10.2% to a new record level of revenues for Q3.

Our P&L showed encouraging and on-plan progress in Q3. In fact, gross margin was up 80 basis points in the third quarter from 27.7 last year to 28.5 this year.

This reflects an outstanding job on the part of all four operating units in terms of generating productivity. In fact, we delivered \$50 million of manufacturing cost reductions in Q3 alone, and that now gives us a full-year performance, 3/4 performance in 2002 of \$151 million of productivity. We've lowered this company's manufacturing costs \$151 million in the first three quarters of this year, which is allowing us to offset any price erosion that we've experienced, as we capture the market share and still improve our gross margin. By the way, that was our fourth consecutive quarter of gross margin improvement versus the prior year.

At the same time, we remain committed to investing in our marketing initiatives, which show up, of course, in the P&L and SG&A. Our SG&A was up 70 basis points in the quarter. What is encouraging here is, that our gross margin continues to improve at a faster rate than our SG&A investment. That's a trend we will perpetuate on into the future. And again, our P&L progress is on plan and right where we expected it at this stage in revitalizing **Rubbermaid**.

Free cash flow was another highlight of Q3. This year we delivered \$130.4 million in free cash flow, which is up from last year's 100.8 million or roughly \$30 million improvement in pre-cash flow. What we're excited about here is that we made progress across the board in working capital. In all three working capital measures we showed progress, versus last year.

Inventory was improved, down to 84 versus last year's 85 days. We took a day out of inventories. That's encouraging, because we're going through a significant amount of new product buildup in anticipation of a lot of new product launches in the fourth quarter and in the first half of 2003. While we're designing and building up new products and not generating the sales of those new products, as of yet, we are still able, overall, to reduce

our inventory by a day. It shows, again, good progress.

Receivables was another highlight of working capital. Our DSO, day sales outstanding, actually came down four days. A year ago we finished up at 68 days. This year, we've moved that number down to 64 days, which reflects improved discipline in terms of managing receivables in many of the geographic units outside the U.S. In particular, in Mexico, but in general, in Latin America and in Europe we are making progress in DSO. We will continue to do so as we move forward.

The biggest improvement in working capital was in payables. Our day's payable outstanding measure improved from last year's 32 days to this year's 45 days -- a full 13-day swing in DPO, which reflects the outstanding job our purchasing network delivered, in terms of renegotiating with our supply base and, quite honestly, we are streamlining and rationalizing the number of suppliers so that, each supplier we work with, becomes more important to the company and, therefore, is more willing to serve up concessions, like the terms of sale concession. So, once again, all three working cap measures improved in the quarter.

One of the most encouraging indications that we are structuring this company the right way to win long term is, what happened with our strategic accounts in the third quarter. You may recall that we organize our customer base into strategic accounts, opportunistic accounts, and high-risk accounts.

I'm pleased to report that our eight largest strategic accounts, when you add up our sales to all eight accounts in Q3, our sales grew 19% over the prior year. In the second quarter those same eight accounts grew 12%. In the first quarter -- 11%. So what you can see is that our strategic account management programs are continuing to gain traction and allow us to capture market share in the most viable retailers that have the brightest futures.

At the same time, we are reducing sales, by design, to high-risk accounts. Those accounts that we don't believe represent a bright future for **Newell Rubbermaid**. So, with this strategic account thrust implies is the fundamental reconfiguration of our account mix taking us to a point where we are growing our company with the right retailers. We are aligning our company's future with those customers that have the greatest prospects for long-term growth.

So, turning towards 2003, we are, today, issuing guidance that says internal sales next year will grow from 2 to 4%. That's in the face of a very difficult economic environment and with continuing retail consolidation. We're very confident we'll deliver between 2 and 4% internal sales growth next year.

Our EPS guidance for next year says we'll deliver EPS in the range of \$1.73 to \$1.83 a share. Again, we're very confident we will deliver in that range.

Now, what's encouraging and what you need to know is that we have done a significant amount of analysis in terms of resin movement. Resin prices have increased here in the

short term and we are planning for resin increases on into 2003. But, we're still very confident in committing to our EPS guidance because our productivity programs will more than offset any increase in resin and we'll end up with double digit earnings growth next year in the range that we've just shared.

At this point I'd like to turn it over to Pat Robinson.

PAT ROBINSON, VP, CONTROLLER, **NEWELL RUBBERMAID**, INC.: Thank you, Joe.

I'll start with our 3rd quarter P&L results. Our net sales were 1 billion, 948 million, up 181 million, or 10.2% for last year.

Excluding the American Tool acquisition, sales were up 70 million or 4%. This internal growth consisted of favorable currency translation of 15 million or .8%, unfavorable pricing in the quarter of 27 million, or negative 1.5%, and core sales growth of 82 million or 4.7%.

All four of our operating groups delivered internal growth in the quarter with the Sharpie group leading the way, up 6.4%, Calphalon up 5.4, Levolor/Hardware group up 4.5%, and **Rubbermaid** up 1.3%.

Gross margin in the quarter was 555 million, or 28.5% of sales, up 0.8% the last year. This improvement reflects our continued focus on productivity, the operations delivering 49.5 million in net productivity for the quarter. This was partially offset by the 1.5% decline in pricing in the quarter and some one-time expenses related to our ongoing restructuring efforts.

SG&A expenses continued on plan at 338 million, or 17.4% of sales, up 43 million the last year. Almost 2/3 of this increase is due to the acquisition of American Tool. The remaining increase represents our planned investments in sales, marketing, R&D, and advertising, partially offset by about \$8 million of streamlining savings in the quarter. This increase to last year is significantly smaller than we saw in the first two quarters, as we have new anniversaried many of the initiatives which began in mid-2001.

Operating income for the quarter was 217 million or 11.1% of sales, up 37 million or 20% the last year. Excluding the change in accounting for goodwill, operating income was up 11.2% the last year.

Free cash flow for the quarter was 130 million versus 101 million last year, an improvement of 29 million, which reflects our continued focus on working capital management, as evidenced by the improvement in all three working capital measurements. DSO improved from 68 to 64 days, DPO from 32 to 45 days, and Inventory from 85 to 84 days on a year on year basis.

The September year to date P&L showed net sales of 5.4 billion, up 337 million, or 6.6%

the last year. Internal sales were up 148 million or 2.9%. Gross margin was 27.6%, up 140 basis points to 2001. This improvement reflects over 150 million in productivity, year to date, partially offset by 1.5% decline in pricing.

SG&A expenses of 964 million, or 17.7% of sales, were up 129 million for last year. About 1/3 of the increase is due to the American Tool acquisition. The remainder is on plan for our September year to date spending.

September year to date Op income was 538, up 79 million or 17% to last year.

Looking at our segment information for Quarter 3, our **Rubbermaid** group had sales of 666 million, up 1.3% for last year. Increases of mid single digits of **Rubbermaid** Home Products and Little Tikes were partially offset by high single digit declines in our Graco business, as we continued to feel the impact of line review losses suffered in 2001. Investments in new product development and marketing at our Graco business are expected to reverse this trend in the second half of 2003 and beyond. Operating income for the group was 65 million or 9.7% of sales, up 16 million or 33% for last year, driven by productivity improvements of over 5% for the quarter, and higher margins on our new product introductions, particularly TakeAlongs and Stain Shield.

At our Sharpie group sales increased 6.4% to 496 million, with every division in the group delivering growth in the quarter, led by double digit improvement at our Goody business. Operating income improved by 15% to 89 million or 18% of sales, continuing the improvement trend we saw in the first half of the year.

At the Levolor/Hardware group sales were 479 million, up 36% the last year. Internal sales improved 4.5%. Again, all divisions delivered growth in the quarter, led by high single digit growth of our European window fashion business. Operating income was 38 million or 7.9% of sales. Excluding American Tool this represented an 11 million decline the last year. This decline is the result of our continued investment in marketing and engineering talent to drive new product development, which we expect to begin having a positive impact on earnings in late 2003, as well as some one-time expenses related to our ongoing restructuring efforts in this group.

At the Calphalon group, sales were 307 million, up 5.4% for last year, led by our Calphalon brand, which was up 40%, and our European cookware business, which was up 22%. Operating income of 33 million was essentially flat to last year.

I'll now turn it back over to Joe Galli.

JOE GALLI, JR.: Thanks, Pat.

Just to summarize our financial results in Q3, it is clear that this company's focus on fundamentals is paying off across the board. At the same time, our growth initiatives are really gaining traction. That's going to become increasingly visible as the quarters unfold.

I'd just like to wrap up this portion of the call by inviting everyone to our Analysts' Day coming up this week. On Thursday, October 3rd we will have a full-day analyst session in Manhattan at the Equitable Center on 7th Avenue. During this session, we will showcase a wide range of new products. These are about to be launched, either in Q4 or Q1 of next year.

I think that anyone that attends will see that the momentum in this company's product development process is breathtaking and bodes well for our future, no matter what happens in the economic environment that we compete in.

We're also going to have a number of our executives on hand at the analysts' session to allow everyone to have a chance to talk to and meet a broad group of **Newell Rubbermaid** executives. We believe the greatest strength in this company is the management team that we've been fortunate enough to assemble here and put in place to run this business. And we believe that great people build great companies. I think when you see the talent we've been able to bring into the company, and the talent that we've identified inside the company that we've promoted to higher positions, I think you'll gain higher levels of confidence with our ability to deliver outstanding numbers in the future.

With all of that, I would like to now, Jesse, open it up for questions.

OPERATOR: Thank you.

We will now begin the question-and-answer session. If you have a question, you will need to press star then the number 1 on your touch-tone phone. If your question has been answered and you wish to be removed from queue, please press star then the number 2. Your question will be queued in the order they are received. If you are using a speaker phone, please pick up the handset before pressing the numbers. If we are unable to get to your question during the conference call, please contact **Newell Rubbermaid** Investor Relations at 815-381-8150 after the conclusion of the conference call. Once again, if there are any questions please press star, then the number 1 on your touch-tone phone.

We'll pause for just a moment to compile the Q&A roster. We are still queuing the roster.

Wendy Nicholson from Solomon Smith Barney is online with a question. Please state your question.

WENDY NICHOLSON, SALOMON SMITH BARNEY: Hi I have two questions. The first one, can you tell us, as a percentage of your sales, how much is coming from the strategic accounts versus high risk and versus opportunistic accounts?

JOE GALLI, JR.: Hi, Wendy. Roughly, directionally 1/3, 30% of the company's sales are now in the hands of strategic accounts. The high risk is dropping quick, although it is still a meaningful number this year, it's a lot less than last year. We are not disclosing the high-risk number. I think you can apply though, what's going on with 19% strategic

account growth and overall growth at 4.

WENDY NICHOLSON: So the goal is to get strategic accounts to be, you know, half the company sales?

JOE GALLI, JR.: We haven't established the guidance on it yet. We're still evaluating. The reason is, we have eight strategic accounts. We really have traction today, Wendy. There are more strategic accounts outside the U.S. and there are more inside the U.S. that we're in discussions with, and that very well may be classified that way.

So this is still something that is -- we're evolving but, you know, I have to say, that we're well ahead of where I thought we would be at this stage of the game. We're winning vendor of the year awards with top accounts. We're growing our sales to top accounts at a faster clip than their impressive numbers are growing. All of these things bode well for our future.

WENDY NICHOLSON: Okay. I guess a question about the guidance for '03, the 2-4% internal growth rate. I think, historically you've talked about a 5% target for internal sales growth. Is this a permanent reduction of that target or is this just something that's an anomaly to '03?

JOE GALLI, JR.: Wendy, we've always said that we had a three-year plan and the out year of the three-year plan was 2004. And we said that by the time we completed our three-year plan, we believed that 5% internal sales growth would be a number we could perpetuate. So this is very consistent with that ramp. We grew 5 (indiscernible) in Q2, 4 in Q3. So our actions here are confirming that we're able to grow this company. This doesn't reflect any backing off of anything. It just shows a nice, steady trajectory on into the middle year of the three-year plan, 2003.

WENDY NICHOLSON: Okay, perfect. One more question. The guidance for '04. You usually give a wide range in terms of your earnings guidance and you did again here. And maybe that has some people spooked. I guess the question I have is, we're already, sort of, a month into the fourth quarter, and it is a huge range. What is the variability in your mind? Is it that you don't know how the selling environment will be, so sales growth is a moving target? I would think that the cost (indiscernible) initiatives are kind of all on board.

JOE GALLI, JR.: Wendy, let me just make a comment. I did, in my remarks up front, say that I was highly confident that the company will deliver in the high end of the guidance. You know, it's true. We're now at the end of October. We have good visibility so far in the quarter. So we're very confident that we'll have an impressive quarter.

WENDY NICHOLSON: Okay. Sounds good to me. Thanks.

JOE GALLI, JR.: Thank you.

OPERATOR: Catherine Lewis from Morgan Stanley is on line with a question. Please state your question.

CATHERINE LEWIS, MORGAN STANLEY: To follow up on the internal sales guidance for next year, the 2 to 4%. Can you talk a little bit, by business segment, what some of the drivers are? I guess, specifically, I'm a little bit concerned about **Rubbermaid** given the flattish internal sales growth in the quarter. What needs to happen in that division from, sort of, a new product standpoint, reinvestment to drive some of the sales growth next year?

JOE GALLI, JR.: Yeah, Catherine, it is a good question. **Rubbermaid** Group is a large group that consists of many different components. If core **Rubbermaid** Home Products Business is growing nicely, in fact, it's up 5% year to date and has a whole wave of new products on the way that you will see at analysts' day.

At the same time, Graco, which we communicated all along, is a business that is still in the early phases of turn-around, and we did suffer a lack of new product for the past three years. We're just putting those product development programs into place.

In fact, it is exciting, Graco is launching right now the new Turbo Booster car seat. And the early indications are that thing will be a tremendous success. On the heels of the booster seat will be a new stroller at Graco, the first stroller in years. And again, we have great reaction from the consumer.

But Graco sales are down. That is a function of line reviews that happened in the past.

The other thing is, **Rubbermaid** Europe is also down. **Rubbermaid** Europe is a business we're restructuring. It is in our strategic plan. That's a business that has experienced three years in a row of declines, and we will turn it around and grow it. Right now, it is still in a declining mode.

**Rubbermaid** Commercial Products is relatively flat. Little Tikes is starting to grow for the first time in a long time. We're very encouraged by the selling of our new products in Little Tikes. And our **Rubbermaid** Cleaning Business, which you'll see on Thursday, is one of the most exciting growth opportunities in the Corporation, and is off to a great start, in terms of line review wins and you'll learn about that as well.

So, with all of that said, we are highly confident, Catherine, that we will grow the **Rubbermaid** businesses for our plants, we'll turn around Graco in Europe, and grow the balance of those businesses. I think you will see it be a consistent internal grower for years to come.

CATHERINE LEWIS: Okay, and then just real quick on profitability. I know your investment mode, principally in Levolor. Should we see a reversal of some of the profitability trends in Levolor, and also Calphalon?

JOE GALLI, JR.: The Levolor group's profit profitability performance in Q3 reflects, Catherine, an awful lot of restructuring activity and a one-time cost associated with that. We're closing, in that business, more facilities than any other business and we're reopening facilities in China and in Mexico. And also we're reconfiguring that business's, call it, complex infrastructure, in Europe and into something much lower costs, much more simple.

So, because of that, here are a lot of those costs that we endured in Q3. As we restructure that business, though, you will see positive trends in that business, profitability will grow per plant. We're confident that we will deliver the plan that we set out to deliver in the Levolor group.

CATHERINE LEWIS: Okay, so just from a timing standpoint, that's late '03, early '04 for some profit return.

JOE GALLI, JR.: We're going to see progress every quarter. What you will see as you look at that group and the company in general, is consistent, steady progress quarter after quarter. All of the indications, all signs that we see in the Levolor group, are that the new manufacturing operations are going to meet or beat their cost targets, Catherine. The growth prospects look great. I don't see it as a sudden improvement, but rather very steady, solid progress.

We put a factory in China to build paint brushes to supply Wal-Mart with the **Rubbermaid** brand. The team went from breaking ground to building paint brushes in 12 short months. Our costs are coming in on target and reflect a lot of upside potential.

CATHERINE LEWIS: Okay. Great. Thank you.

OPERATOR: Once again, if you would like to ask a question, please press star then the number 1 on your telephone key pad. Please limit your questions to one question per participant.

Connie Maneaty with Prudential Securities is on line with a question. Please state your question.

CONNIE MANEATY, PRUDENTIAL SECURITIES: Good morning.

JOE GALLI, JR.: Hi, Connie.

CONNIE MANEATY: Could you talk a little bit about what the trends in receivables and inventories were, ex American Tool?

JOE GALLI, JR.: Ex American Tool, Certainly receivables.

PAT ROBINSON: They were very similar to what they are without American Tool. The improvement was about the same number of days. They might have moved one day

either way. I think improvement was the same, but one day different internal. I can get back to you with the exact numbers, or Jesse can after the call. The improvement was about four days, with or without American Tool.

CONNIE MANEATY: Okay. If I could just ask a follow-up on your strategic account sales? Some of these accounts don't have the Phoenix team assigned to them. Could you give us what the growth rate was for accounts that had Phoenix versus the ones that don't?

JOE GALLI, JR.: Connie, we haven't broken that out. I think it's best to say -- Directionally, wherever we have Phoenix in place, the growth rates are higher than the strategic accounts where we don't have that program in place. We haven't broken it out yet that way.

PAT ROBINSON: Connie, while I have you here, too, I do have the number here now. It actually improved five days without American Tool. We were actually a day better without American Tool. Okay? On the receivables side.

OPERATOR: Carol Wilke from Merrill Lynch is on line with a question. Please state your question.

CAROL WILKE, MERRILL LYNCH: Thanks. Joe, during your comments, you mentioned that, you know, there's certainly been a challenging economy, etc. When you look into '03, are you assuming that the negative 1.5% price will continue? I know you typically factor in a percent, but I mean, given Wal-Mart coming in at the lower end of it, Target, etc., are you feeling the negative pricing environment will be a little bit more challenging?

PAT ROBINSON: Yeah. In fact, we have it in the 1.5% to 2.5% range depending on the group for next year.

JOE GALLI, JR.: Carol, it is smart for us to be highly conservative. That's why, fortunately, we have so much momentum in our productivity programs to offset that pricing issue.

CAROL WILKE: Last quarter was very helpful. You broke down the rest of the gross margin or improvement. I know you talk about how much from the productivity. Was the remaining 15 million, or so, from lower raw materials? Or was there other savings in there, too?

PAT ROBINSON: That would be part of the productivity improvement.

JOE GALLI, JR.: Productivity would include movement for the raw materials.

PAT ROBINSON: .....( indiscernible) whether they were up or down.

JOE GALLI, JR.: The balance of it is pricing and mix, or new products. It could be that there's a blend of new products that have higher margins, mixed improvements, pricing we give up, and productivity. Those are all factors. The big factors move around gross margin.

OPERATOR: Budd Bugatch from Raymond James is on line with a question. Please state your question.

BUDD BUGATCH, RAYMOND JAMES & ASSOCIATES: Yeah, Joe. I'd like to just explore a little bit on the new products and new markets. Last quarter you talked about a number of new markets. I know cleaning products is one of them. I wonder if there was anything else going on in that? Also, in the new products, have you seen any consumer response to Stain Shield to date? What your advertising plan looked like going forward on that? And last year Rapid Craft, you sold 150,000 units. And I think this year is a big ramp, hopefully expected, in that.

JOE GALLI, JR.: Going back to the first question, I would like to answer the first question on Thursday. We're going to basically spend all day at Analysts' Day going through new products plans, including new businesses and new markets. I think it will be much clearer when we show you the actual samples and have the people who run these businesses explain it. I'm going to go ahead and defer that until Thursday.

In terms of the Stain Shield question, the early feedback is that Stain Shield is selling slightly better than planned, recognizing that TV kicks in November. But when our venetians demonstrate Stain Shield, it sells -- it's an unbelievable success. It's a highly demonstrable product The demonstrations are very effective. And even the on the shelf movement, without any marketing intervention, is running, again, slightly better than what we had hoped when we first rolled the program out. So, we're very bullish on Stain Shield.

In terms of Rapid Craft, you're absolutely right, the number this year will be larger than last year. And we're racing to build enough Rapid Craft to meet the demand we've been fortunate enough to see so far from our customers. So I think that's going to be a very positive example of our marketing product development prowess here in the company.

BUDD BUGATCH: As a follow-up, I haven't seen Pendulum yet in the marketplace. Has it started to hit?

JOE GALLI, JR.: No, we'll talk about this this week. Pendulum hasn't rolled out. The writing instruments new products, for the most part, haven't rolled out. They will roll out in mid Q4, Thursday. You'll see some exciting new Sharpies and some other writing instruments that we will revealed here in Manhattan.

OPERATOR: Jim Holig from Goldman Sachs is on line with a question. Please state your question.

JIM HOLIG, GOLDMAN SACHS: Hi, good morning, guys. One quick question and a quick follow-up, if I could. Joe, it sounds like you guys are being conservative. I think that makes sense in this environment about pricing, and about raw materials, and about a couple of things that could impact your gross margin. As you look out to next year, I know you're still in the early savings of your cost reduction efforts that are going on. Can you see the 50 million run rate of productivity accelerating a little bit more to offset some of these other issues? Or will we see a little less of the gross margin expansion next year than we have the last couple of quarters?

JOE GALLI, JR.: I'm going to let --, so, I mean, directionally, well first of all, productivity will include any movement of raw material. Resin will go up, we'll take cost out of the raise and the net will be the savings. We have not offered guidance on productivity per quarter for next year. We are very confident we will achieve, at least, the productivity that is necessary to hit this range we talked about. Patrick, do you have anything to add?

PAT ROBINSON: Our target every year is at least 5% in all of our operations, okay? This year, we happened to have a little bit of tailwind, if you will, from resin pricing. Next year we expect to have some headwinds. Our restructuring plans are beginning to show their full kick-in next year. We fully expect to deliver the full 5%, despite the fact we've had movement in the resin price in the wrong direction.

JOE GALLI, JR.: Jim, we have good visibility into next year's cost, because, we've done so much restructuring. We've put facilities in China. We've put facilities in Mexico. We're already doing building products in eastern Europe. All of these steps that are behind us give us confidence, as we go forward, that we can deliver, minimally, what we've committed to.

JIM HOLIG: I guess, as a follow up on a separate note -- you made comments about your pension this morning and potentially taking a charge in the fourth quarter. I just want to clarify, just for my own understanding. That's not going to be an earnings impact on the income statement? It's going to be, solely to comprehensive income. Is that correct, Pat?

**BILL ALLDREDGE, CFO, PRESIDENT- CORP. DEVEL., NEWELL RUBBERMAID, INC.:** This is Bill, Jim. It's a charge to equity. It's a non cash and non P&O charge.

JIM HOLIG: Okay, so there will be no charge on the income statement?

BILL ALLDREDGE: Right.

JIM HOLIG: And directionally next year, I'm assuming your pension expense will go up. Do you have any color or commentary on that?

BILL ALLDREDGE: Our only comment there is, that what we expect to happen is reflected in the guidance that we have given you. We'll have more detail on that, I'm sure,

at the end of the year but, at this point, we're still trying to understand exactly what that number is. But we have, in the guidance, reflected what we think will happen to pension expense.

OPERATOR: Linda Bolton-Weiser is on line with a question. Please state your question.

LINDA BOLTON-WEISER, FAHNESTOCK: Thank you. The effective tax rate in the quarter was a little bit lower than I had expected. Do you expect it to be 34% or lower in the fourth quarter?

PAT ROBINSON: We expect it to be about where it came in in the third quarter.

LINDA BOLTON-WEISER: Okay. Just secondly, in terms of your Little Tikes business, there are some issues with some other toy companies, because of what is going on out on the West Coast at the docks. Do you think that Little Tikes could benefit with retailers in terms of sales growth in the fourth quarter because you do manufacture mostly in the United States?

JOE GALLI, JR.: Good question, Linda. In fact, we got some encouraging news in Q3 and we actually were able to fill demand from some of our key strategic retailers who were not able to get the toys they had ordered from our competitors. It was a fortuitous development for us.

LINDA BOLTON-WEISER: So you are saying third quarter results did benefit a little bit from that?

JOE GALLI, JR.: We booked the orders. And the fact is, the revenue is a little bit 3 quarter, but mostly Q4. The Little Tikes business is showing growth for the first time in a long time. This is a small, but helpful benefit. The real benefit here with that, we were able to step in and help strategic retailers. Because we helped them through an issue they had, they've rewarded us with more market share, more shelf space going on into the future, well past Q4 this year. So the Little Tikes business, this really helped them with their momentum. They have nice momentum. This was just another positive.

LINDA BOLTON-WEISER: Just one other thing. On Graco, did you say you didn't expect the sales growth to pick up until the second half of '03? I guess I was expecting maybe a little bit sooner we would see some improvement there on the top line.

JOE GALLI, JR.: I think right now the budget is very conservative in Graco. I think you're talking about a business, Linda, that drifted for three, maybe four years. You know, you'll see very positive signs opening up the year, that we've stopped the shrinking, and we're starting to gain back share. But we've just budgeted very conservatively. We think it is wise with what that business has been through not to be unrealistically optimistic, in terms of commitment.

And we'll try and sell as much as we can. The good news is the new product there has

been a home run. It has been extremely well received. We know that the process that we put in place will work. We know, as time unfolds, that business will be a gross business for the company.

OPERATOR: Bill Steele from Banc of America Securities is on the line with a question. Please state your question.

BILL STEELE, BANC OF AMERICA SECURITIES: Thanks. Bill, I was wondering if you could help me out with the pension charge in the fourth quarter. What exactly is that for? The 48 to 56 million charge that's noncash?

BILL ALLDREDGE: That is reflective of the underfunded status of the pension plan, because, as the equities have fallen off, the plan has moved from overfunded to underfunded status. It's the same thing that you see from a lot of other companies that have reported and indicated that their pension plans, also, have gone into an underfunded status.

BILL STEELE: But what's the charge? That's not what I'm not understanding. You're underfunding and, therefore, you are taking a charge?

BILL ALLDREDGE: It reflects the difference between the future liabilities -- if everybody were to retire today, and what the value of the assets in the pension plan is. So this is all related to generally accepted accounting principles.

BILL STEELE: Okay. I better look into it a little more. With regard to the charges this the third quarter, the 47 million after tax, how many more charges, or what is the magnitude of any, sort of, future charges you folks are anticipating?

PAT ROBINSON: As we've guided for previously our charge for a three-year period will be in the 300 million range, and we are well on track to take us to that number by the early part of 2004.

JOE GALLI, JR.: Bill, these charges are consistent with what we articulated a year ago in terms of the three-year plan to revitalize the company. So we said the period of 2002 through 2004, that 12 quarter period, we would invest roughly 300 to \$350 million in restructuring the company. We are on plan and are doing what we set out to do there. We feel very good about the process.

OPERATOR: Your final question is from Eric Bosshard from Midwest Research. Please state your question.

ERIC BOSSHARD, MIDWEST RESEARCH: Good morning. Joe, in the quarter you commented that gross margins were up 80 and SG&A was up 70 with gross margin improvement exceeding SG&A. Your operating margin is still below the 15 percent you've targeted over time. Can you talk about what the pace and what has to happen in order for that gap to widen so can you get to the 15% goal?

JOE GALLI, JR.: Sure. We are increasingly confident that we will run this company's op income margin up to 15%. Likely, we'll hold it there and invest in any additional earning power in future growth initiatives. We think that's the best way to maximize the value of this company's stock.

We're very confident that new products we're launching will carry a much higher gross margin than products that cannablize. So as we fuel new products, that will enrich the gross margin side of P&L, and drive those margins up at a very steady clip. You'll see steady progress quarter after quarter, just like you've seen the last 4 quarters in gross margin.

Additionally, our productivity programs are very much on track. As we complete the restructuring programs and move into low-cost countries, we believe we'll get, minimum, the cost we need to achieve the 15% from a gross margin standpoint.

On SG&A we still have investment to make. We are transforming this company into a marketing company. We still have investment to make but, the rate of that invest will lack gross margin improvement. So it we'll consistently increase op income until we get to 15.

So if you look out long, long term, let's say, 10 years out, Eric, it is very likely that this company's P&L will look a lot more like a high margin, higher SG&A company like Colgate Palmolive, as opposed to what it's looked like historically, which is low margin, low SG&A, and we believe that that is the right way to control our destiny and ensure that we have adequate demand generation that gives us clout with our customers, etc.

Gross margins, which started off in the mid to high 20s, will continue to move up, move up over the next 10 years into the high 30s. SG&A will go up, not as fast a pace for the 15% op income, cap it. We believe we can grow the company on into perpetuity beyond that, and grow the earnings dollars accordingly. That's what you should expect in terms of the P&L.

ERIC BOSSHARD: You think can you accomplish this high 30's gross margin over time, with the businesses effectively you're in today? Do you need any businesses removed from the portfolio to achieve those levels of gross margin?

JOE GALLI, JR.: The mix will change. The answer is yes. We can achieve high 30's gross margin long term with the portfolio we have today. You know, we will drive the sales growth of high margin products at a faster clip. We will downside or exit some inherently low margin products. So the nice thing is, Eric, every time we launch a new product, we launched Stain Shield now, which is a very high gross margin, much higher than fleet average. It is selling like crazy. That fuels the gross margin up. We're launching TakeAlongs in our **Rubbe rmaid** business, which is on fire. This is a very successful launch and that's got a very high gross margin. The Sharpie business, which is up 23% in the third quarter. You will see a flurry of new products under Sharpie and all which carry

a much higher margin that the company's got. So the answer -- and we'll talk about this in detail at Analysts' Day. But the answer is, yes we do feel very confident that we, like many other consumer product companies before us, that we can move these gross margins, with the businesses that we operate, with our new formula on to the future.

ERIC BOSSHARD: Great. Thank you.

JOE GALLI, JR.: Thank you. I'd just like to, once again, to encourage everyone to come and see us at Analysts' Day. We appreciate your interest. Look forward to the next call.

OPERATOR: If we were unable to get to your question during this call, please call **Newell Rubbermaid** Investor Relations at 815-381-8150. Today's call will be available on the web at [www.newellco.com](http://www.newellco.com) and on digital replay at 800-642-1687. And 706-645-9291 internationally, two hours following the conclusion of today's conference through November 28th. This concludes today's conference. You may now disconnect.

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