Rayovac Announces First Quarter Fiscal 2003 Results

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*Pro Forma Diluted EPS of 33 Cents Exceeds First Call Consensus

MADISON, Wis., Jan. 22 /PRNewswire-FirstCall/ -- In the first quarterly financial disclosure of the combined Rayovac (NYSE: ROV) and consumer battery business of VARTA AG (VARTA), Rayovac Corp. announced today its Fiscal 2003 first quarter results. The Company reported diluted earnings per share of a loss of two cents and pro forma diluted EPS of 33 cents, exceeding First Call consensus estimates. This compares to diluted earnings per share of one cent and pro forma diluted EPS of 32 cents for the comparable prior year period. The pro forma diluted EPS excludes the impact of restructuring charges and a charge related to the Company's refinancing of its credit facilities. See attached Table 3, Reconciliation of GAAP to Pro Forma Financial Data, for a reconciliation of first quarter net income and earnings per share, on a GAAP basis, to pro forma net income and earnings per share.

(Photo: http://www.newscom.com/cgi-bin/prnh/20020716/ROVLOGO)

"This marks the beginning of a significant new chapter in our Company history, as we combine the resources of Rayovac with the consumer battery business of VARTA," said Dave Jones, Rayovac chairman and CEO. "We are extremely pleased with our progress in merging the two operations and solidifying this partnership, and encouraged by the favorable reaction of employees, customers and suppliers. We are now in a strong position to capitalize on the growth potential of this new global enterprise."

First Quarter Results

Results for the first quarter of Fiscal 2003 include those of the consumer battery business of VARTA, which was acquired on October 1, 2002. Quarterly comparative historical data for the acquired operations is not available in U.S. generally accepted accounting principles format. All comparisons to Fiscal 2002 exclude VARTA consumer in the prior year.

For the first quarter, sales were $260.2 million, compared to $161.9 million for the same period last year. The majority of sales increase was attributable to the VARTA acquisition. Operating income increased to $10.6 million, compared to $3.5 million for the same period last year. Fiscal 2002 results included a $16.1 million bad debt provision related to the Kmart bankruptcy. Fiscal 2003 benefited from the VARTA acquisition offset by $15.4 million of restructuring charges described further below, and higher corporate expenses.

Pro forma operating income was $26.0 million, up $6.4 million or 33 percent from last year. The pro forma increase was attributed to the benefit of the VARTA acquisition and higher gross profit margins, partially offset by lower sales in North America and higher corporate expenses.

Interest expense increased to $10.1 million from $4.2 million last year, the result of higher debt levels associated with the VARTA acquisition. Non-operating expense includes the write-off of $3.1 million of unamortized debt issuance costs from the replaced credit facility. The new $625 million facility was used to finance the acquisition of the VARTA business and will provide sufficient liquidity to support larger working capital needs as well as flexibility for future growth opportunities.

Diluted earnings per share was a loss of two cents compared to a one cent profit last year. Pro forma diluted earnings per share was 33 cents compared to pro forma diluted earnings per share of 32 cents last year. See attached Table 3, Reconciliation of GAAP to Pro Forma Financial Data, for a complete reconciliation of operating income and net income, on a GAAP basis, to pro forma operating income and net income for the first quarter and the comparable period last year.

On October 10, 2002, the Company announced a series of restructuring initiatives to optimize the global resources of the combined VARTA and Rayovac companies, eliminate surplus manufacturing capacity and functional overhead, and to rationalize its main North America packaging and distribution facilities into a single modern facility. The Company recorded a special charge of $15.4 million in the quarter to reflect the costs incurred with these initiatives and expects total charges to be $25 million to $30 million with the balance to be incurred over the next year. Cash costs of the program will be approximately $15 million to $20 million with $35 million to $40 million of annual savings when fully implemented in fiscal year 2005.

During the quarter, the Company settled litigation in which it was charged with infringing patented alkaline technology owned by another major battery manufacturer. The Company recorded a net $1.5 million charge to general and administrative expenses related to this settlement.

Segment Results

North America sales were $107.2 million, down 12 percent from the $122.4 million reported last year. This decline reflected lower alkaline battery sales mainly due to lower post-bankruptcy sales to Kmart, discontinuation of sales to an OEM customer and continued intense category promotional activity. Heavy-duty sales also declined, reflecting reduced distribution and declining market trends for this battery segment. North America segment profitability improved to $19.7 million, up from the $7.4 million reported last year. This increase of $12.3 million was mainly due to a bad debt reserve of $16.1 million related to the Kmart bankruptcy in the same period a year ago and improved gross profit margins, partially offset by the unfavorable impacts of lower sales volumes in the current year.

The benefits of the VARTA acquisition were reflected in the Europe/Rest of World results, where sales were $118.6 million, up from $13.5 million last year. Also contributing to these favorable results was the continued strength of Rayovac's European hearing aid and general battery businesses. Segment profitability increased to $15.0 million, largely due to the benefits of the VARTA acquisition.

In Latin America, sales increased to $34.4 million from $26.0 million in the same period last year. The sales improvement was attributable to the

VARTA acquisition offset by continuing economic weakness and political instability in the region, most notably in Venezuela. Due in part to these factors, Latin America segment profitability was unchanged versus the prior year as lower profit in the Andean and Mexico regions offset the benefits of the VARTA acquisition.

Corporate expenses increased $3.7 million, reflecting higher legal expenses associated with the litigation settlement and a general increase in costs associated with the integration of the VARTA business.

Non-Operating Expense

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement No. 145. This statement in part addresses the income statement treatment of gains and losses related to debt extinguishments and states such expenses can no longer be treated as extraordinary items, unless certain criteria are met. The Company adopted the provisions of the Statement on October 1, 2002, and $3.1 million of unamortized debt issuance costs associated with the refinancing of the Company's credit facility is recorded in non-operating expense.

With the recent VARTA consumer battery transaction, Rayovac is one of the world's largest consumer battery and lighting device companies. Rayovac and VARTA products are sold in more than 115 countries. The Company also markets the number one selling rechargeable brand of battery in the U.S. and in Europe, and is the world leader in hearing aid batteries. Rayovac trades on the New York Stock Exchange under the ROV symbol.

Certain matters discussed in this news release, with the exception of historical matters, are forward-looking statements within the meaning of the Private Litigation Reform Act of 1995. These statements are subject to a number of risks, uncertainties and other factors that could cause results to differ materially from those anticipated as of the date of this release. Actual results may differ materially from these statements as a result of (1) changes in external competitive market factors, such as introduction of new product features or technological developments, development of new competitors or competitive brands or competitive promotional activity or spending, (2) changes in consumer demand for the various types of consumer batteries, (3) changes in the general economic conditions where we do business, such as stock market prices, interest rates, currency exchange rates, inflation and raw material costs, (4) our ability to successfully implement manufacturing and distribution cost efficiencies and (5) various other factors, including those discussed herein and those set forth in the Company's most recent Form 10-Q, Annual Report on Form 10-K and the prospectus supplement for the Company's most recent offering of its common stock.

RAYOVAC CORPORATION
Condensed Consolidated Operations
For the three months ending December 29, 2002 and December 30, 2001
(Unaudited)
(In millions, except per share amounts)

	THREE MONTHS		
	F2003	F2002	INC(DEC) %
Net sales	$260.2	$161.9	60.7%
Cost of goods sold	156.9	99.2	
Special charges	9.7	--	
Gross profit	93.6	62.7	49.3%
Selling	48.5	27.4	
General and administrative	24.9	28.6(a)	
Research and development	3.9	3.2	
Special charges	5.7	--	
Total operating expenses	83.0	59.2	
Operating income	10.6	3.5	202.9%
Interest expense	10.1	4.2	
Non-operating expense	3.1(b)	--	
Other income, net	(1.7)	(0.9)	
(Loss) income before income taxes	(0.9)	0.2	
Income tax benefit	(0.3)	(0.2)	
Net (loss) income	$(0.6)	$0.4	
Average shares outstanding	31.8	31.8	
Basic earnings per share	$(0.02)	$0.01	
Average shares and common stock equivalents outstanding	31.8	32.4	
Diluted earnings per share	$(0.02)	$0.01	

(a) The three-month period ending December 30, 2001 reflects a $16.1 million bad debt reserve attributable to the Kmart bankruptcy.
(b) The three-month period ending December 29, 2002 reflects the write-off of unamortized debt issuance costs of $3.1 million attributable to the refinancing of the Company's credit facility as part of the VARTA acquisition.

RAYOVAC CORPORATION
Supplemental Financial Data
For the three months ending December 29, 2002 and December 30, 2001
(Unaudited)
(In millions, except per share amounts)

Supplemental Financial Data	F2003	F2002
Cash	$22.9	$18.8
Receivables, net	$216.9	$142.5
Days Sales Outstanding (c)	75	80
Inventory, net	$143.0	$83.0
Inventory Turnover (d)	4.4	4.8
Total Assets	$992.2	$548.2
Total Debt	$483.0	$246.1
Total Shareholders' Equity	$177.8	$159.6

	THREE MONTHS	
Supplemental Segment Sales & Profitability	F2003	F2002
Net Sales		
Europe/ROW	$118.6	$13.5
North America	107.2	122.4
Latin America	34.4	26.0
Total net sales	$260.2	$161.9
Segment Profit		
Europe/ROW	$15.0	$1.1
North America	19.7	7.4
Latin America	3.6	3.6
Total segment profit	38.3	12.1
Corporate	12.3	8.6
Special charges	15.4	--
Interest expense	10.1	4.2
Non-operating expense	3.1	--
Other income, net	(1.7)	(0.9)
(Loss) income before income taxes	$(0.9)	$0.2

(c) Reflects receivables, net, divided by average daily sales during the quarter.
(d) Reflects cost of sales for the quarter (excluding special charges) divided by net inventories multiplied by four.

RAYOVAC CORPORATION
Reconciliation of GAAP to Pro Forma Financial Data
For the three months ending December 29, 2002 and December 30, 2001
(Unaudited)
(In millions, except per share amounts)

	THREE MONTHS	
	F2003	F2002
Operating Income Reconciliation:		
Operating Income	$10.6	$3.5

	F2003	F2002
Pro forma adjustments:		
Kmart bankruptcy reserve	--	16.1(a)
Special charges	15.4(e)	--
Pro forma operating income	$26.0	$19.6

	THREE MONTHS	
	F2003	F2002
Net Income Reconciliation		
Net (loss) income	$(0.6)	$0.4
Pro forma adjustments (net of tax):		
Kmart bankruptcy reserve	--	10.0(a)
Write-off of debt issuance costs	1.9(b)	--
Special charges	9.5(e)	--
Pro forma net income (f)	$10.8	$10.4
Pro forma diluted EPS	$0.33	$0.32
Average shares & equivalents outstanding (f)	32.5	32.4
Pro forma EBITDA (g)	$36.0	$5.4

(e) In October 2002, the Company announced a series of restructuring initiatives which included the closure of the Company's Mexico City, Mexico manufacturing operations, which were absorbed by the Company's Guatemala City, Guatemala operations; costs associated with the commencement of the closure of operations at its Middleton, Wisconsin distribution center and its Madison, Wisconsin packaging center and combination of the two operations into a new leased complex currently being built in Dixon, Illinois; and a series of restructuring initiatives impacting sales, marketing, operations and administrative functions in Europe, North America and Latin America.

(f) The effect of restricted stock and unexercised stock options outstanding for the quarter ending December 29, 2002 were included in the diluted EPS calculation, as their effect was dilutive.

(g) Pro forma EBITDA represents income from operations plus pro forma adjustments to operating income, plus other income, net, plus depreciation and amortization (excluding amortization of debt issuance costs).

SOURCE Rayovac Corp.