

# Powering

Tomorrow's World



**RAYOVAC**<sup>®</sup>

2001 Annual Report



# Who We Are

**Rayovac's Mission** is to deliver our industry's most powerful solutions to consumers, customers, employees and shareholders.

**Rayovac's Vision** is to become a technology-focused, market-driven, global consumer products company.



## Table of Contents |

**Editorial Contents** 1 Fiscal 2001 Highlights 2 To Our Shareholders 5 Leaders in the Industry 7 Leading the Charge 9 Listening to Our Customers 11 Leveraging Our Value Proposition 13 Penetrating Global Markets 15 Taking Charge of the Future 16 Corporate Information

**Financial Overview** 17 Management's Discussion and Analysis of Financial Condition and Results of Operations 25 Consolidated Balance Sheets 26 Consolidated Statements of Operations 27 Consolidated Statements of Comprehensive Income 28 Consolidated Statements of Shareholders' Equity 30 Consolidated Statements of Cash Flows 31 Notes to Consolidated Financial Statements 48 Management's Statement of Responsibility for Financial Statements 48 Forward-Looking Statement 49 Independent Auditors' Report 50 Information for Investors

**Rayovac Maximum® Delivers More Power for Your Dollar**

Rayovac is the leading value brand in the alkaline battery category. Rayovac Maximum alkaline batteries deliver competitive performance, but cost less.



**Rayovac Lights the Way**

Rayovac lights the way for retailers and consumers with flashlights and lanterns that deliver powerful performance, unique features and stylish designs.



# Powering Tomorrow's World



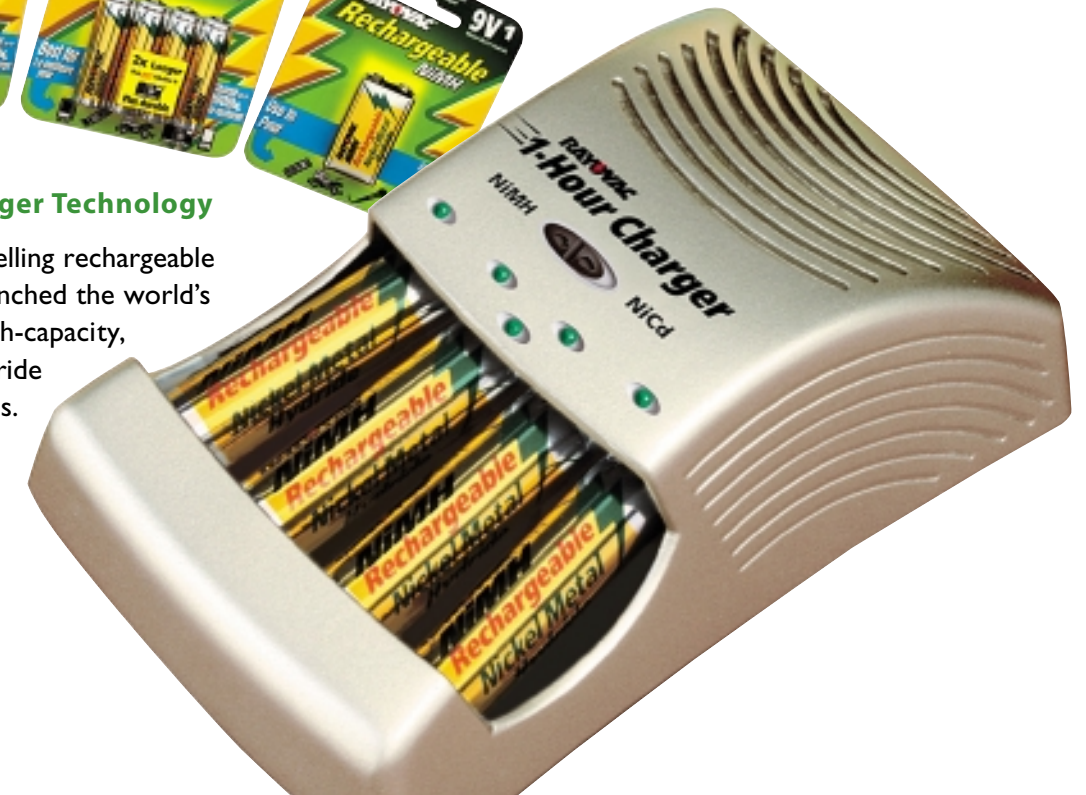
**Rayovac is the World Leader in Hearing Aid Batteries**

Rayovac leads the way in hearing aid battery technology. Rayovac is the number-one selling brand in the world, with a 60 percent market share.



**Rayovac Offers New Charger Technology**

Rayovac is the number-one selling rechargeable brand in the U.S., and has launched the world's first one-hour charger for high-capacity, 1600 mAh, Nickel Metal Hydride (NiMH) rechargeable batteries.



## Financial and Operating Highlights

In millions, except per share amounts.

	1997	1998	1999	2000	2001
Total revenue	\$427.2	\$487.4	\$555.1	\$693.3	\$675.5
Adjusted gross profit <sup>1</sup>	192.2	229.1	261.2	335.1	329.5
Adjusted operating income <sup>1</sup>	37.5	46.7	63.0	89.3	76.7
Adjusted EBITDA <sup>1</sup>	48.5	59.2	76.8	108.6	96.8
Net income	6.2	14.4	24.1	38.4	11.5
Adjusted net income <sup>1</sup>	9.2	21.4	30.4	38.4	31.1
Diluted net income per common share	\$ 0.30	\$ 0.51	\$ 0.83	\$ 1.32	\$ 0.39
Adjusted diluted net income per common share <sup>2</sup>	\$ 0.45	\$ 0.74	\$ 1.04	\$ 1.32	\$ 1.05

<sup>1</sup> Adjusted for recapitalization and other special charges. EBITDA represents income from operations

plus other (income) expense, net plus depreciation and amortization (excluding amortization of debt issuance costs).

<sup>2</sup> Adjusted for recapitalization, interest expense as if the IPO had taken place October 1, 1997, other special charges, and extraordinary items.

# Fiscal 2001 Highlights

- Secured major distribution gains with Toys “R” Us, The Home Depot and Lowe’s in the U.S.; Ahold, Makro and Jumbo in Latin America; and Kingfisher in Europe
- Completed a global restructuring that will generate more than \$12 million in annual savings
- Executed a 3.5 million share stock offering that improved liquidity and retired \$65 million of debt
- Increased our adjusted gross profit margin by 50 basis points
- Introduced the world’s first one-hour charger for high-capacity, 1600 mAh, rechargeable Nickel Metal Hydride (NiMH) batteries
- Developed a new zinc air battery that combines long life and unprecedented power for hearing aids used by the severely hearing impaired

To say that **Rayovac Corporation** has come a long way in the last five years is a vast understatement. In 1997, when we made our public debut on the New York Stock Exchange, we were a distant number three in the battery industry. Recognizing the Company's considerable potential, our management team implemented a strategic plan to improve financial performance, drive sustainable organic growth, and create a more valuable enterprise for our shareholders. In the process,

## To Our Shareholders:

we literally reshaped **Rayovac**, building the brand, improving merchandising and packaging, expanding distribution, growing market share, rationalizing manufacturing facilities, slashing production costs, increasing capacity, refining our supply chain, consolidating purchasing, integrating our information systems and creating a results-oriented, entrepreneurial culture. All the while, we persistently sought to stake a broader claim in a business already dominated by several large corporate competitors.

**That was then.**

**This is now.**

Front:  
Kent J. Hussey, President and Chief Financial Officer  
David A. Jones, Chairman and Chief Executive Officer

Back Left:  
Kenneth V. Biller, Executive Vice President of Operations  
Merrell M. Tomlin, Executive Vice President of Sales

Back Right:  
Luis A. Cancio, Executive Vice President of Latin America  
Stephen P. Shanesy, Executive Vice President of Global Brand Management





Rayovac's management team is keenly focused on driving sales and profitability, **maximizing investment return** and boosting shareholder value.

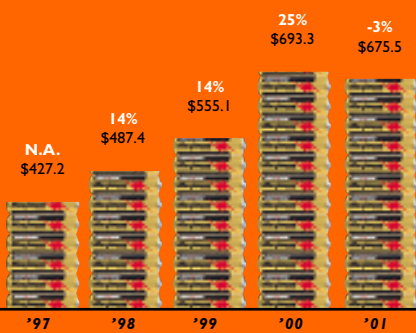
# CAGR

4 Year Compound Annual Growth Rate

## Revenue Growth

Year Over Year Change  
[In Millions]

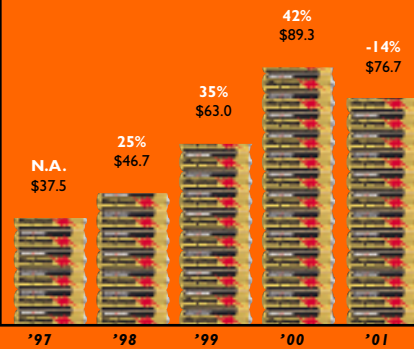
CAGR = +12%



## Adjusted Operating Income

Year Over Year Change  
[In Millions]

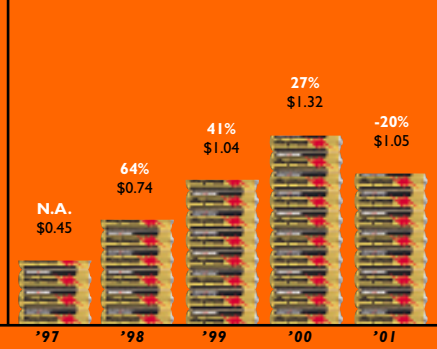
CAGR = +20%



## Adjusted Diluted EPS

Year Over Year Change  
[In Dollars]

CAGR = +24%



# Leaders in the Industry



*Rayovac is developing and introducing technologically advanced battery products that serve the rapidly changing needs of consumers.*

Entering fiscal 2002, we claim leadership positions in a variety of battery categories from rechargeables to hearing aids. We also hold a greater share of the important high-volume alkaline segment, where we have the competitive advantage of a compelling value proposition. Simply put, our goal is to supply alkaline products that deliver long-lasting power, but that are priced 10–15 percent lower.

While this value proposition has been key to our winning strategy, it is only a part of it. We have also cultivated relationships with retailers by offering them improved profit margins, unrivaled customer service, powerful promotions and exciting new products. As a result, Rayovac products are now distributed in more than 112,000 U.S. retail locations, up from 36,000 in 1996.

## Achieving Powerful Operating Performance

In fiscal 2001, Rayovac continued to deliver exceptional operating performance. We expanded distribution with major customers in the U.S., Latin America and Europe, and we achieved market share increases in key battery categories. We launched award-winning and next-generation products, and we introduced innovative technologies. We strengthened consumer awareness of the Rayovac brand through new advertising and marketing programs, and we garnered industry accolades for our consistent delivery of superior customer service. These collective factors drove marked growth in our core business, as measured by increased sales in alkaline, rechargeable and hearing aid batteries.

At the same time, we took steps to position ourselves for improved cost efficiency, while focusing on future global expansion. We completed a global restructuring of operations, rationalizing our manufacturing facilities in the U.S. and Latin America, and generating more than \$12 million in annual cost savings. We also bolstered our Company's financial position through a stock offering that helped us to improve liquidity, retired \$65 million of debt, and strengthen our capital base.

While we are extremely proud of these accomplishments, we are disappointed with our fiscal 2001 financial results, which broke a four-year streak of record earnings for Rayovac. Total revenues slipped three percent to \$675.5 million, compared with \$693.3 million in 2000. Adjusted net income declined 19 percent to \$31.1 million, down from \$38.4 million last year. Adjusted diluted earnings per share dropped 20 percent to \$1.05, from \$1.32 in 2000.









The rechargeable battery market presents **tremendous growth opportunities** for Rayovac, the top-selling brand.

## Unit Share Gains—U.S.

Rayovac's Dramatic

	1996	2001	Share Point Gain	Market Position
 Alkaline	11%	15%	+4	#3
 Heavy Duty	46%	58%	+12	#1
 Rechargeable	<u>66%</u>	<u>77%</u>	+11	#1
Total General Battery	<u>14%</u>	<u>19%</u>	+5	
 Hearing Aid	50%	60%	+10	#1

-  The U.S. retail rechargeable battery market represents approximately \$100 million in annual sales, a total that is expected to double by 2005.
-  Rechargeable battery sales increased 44 percent during 2001, making rechargeables the fastest growing segment of the overall battery market.
-  Rayovac has a 77 percent market share of the U.S. rechargeable battery market.

# Leading the Charge



*In 2001, Rayovac met consumers' needs by introducing the world's first one-hour NiMH battery charger for new long-lasting, high-capacity NiMH rechargeable batteries.*

In a year distinguished by exceptional operating performance, why did we experience such uncharacteristically disappointing financial results? Frankly, 2001 presented many challenges that were simply beyond our control, including a rapidly weakening economy, declines in both business and consumer spending, and economic instability in Latin America. Furthermore, a meltdown in the computer, telecommunications and electronics sectors curbed specialty battery sales, offsetting the gains we made in alkaline, rechargeable and hearing aid battery sales. Overall, these forces created a soft market for battery sales in 2001 that impacted our business across-the-board. The situation was exacerbated by the fact that the Y2K consumer-buying binge of 1999 had artificially raised the bar on 2001 revenue expectations for battery companies, making year-over-year revenue comparisons unrealistic.

While our 2001 financial results do not diminish our operating achievements, they are still unacceptable to a company that has posted impressive compound annual growth rates for the last four years. Rayovac's entire management team is determined to return to these robust growth rates. Because management performance objectives are closely tied to improving earnings per share, we are keenly focused on driving sales and profitability, maximizing our investment return, and boosting shareholder value now and in the future.

## Leading the Charge

One way we will deliver on this promise is by continuing to develop and introduce technologically advanced battery products that serve the rapidly changing needs of consumers. One area of sharp focus for us is the rechargeable battery market, which presents tremendous growth opportunities for Rayovac, the top-selling brand. The fastest-growing segment of the "total batteries" category in the U.S., rechargeable sales are growing three times faster than alkaline batteries.

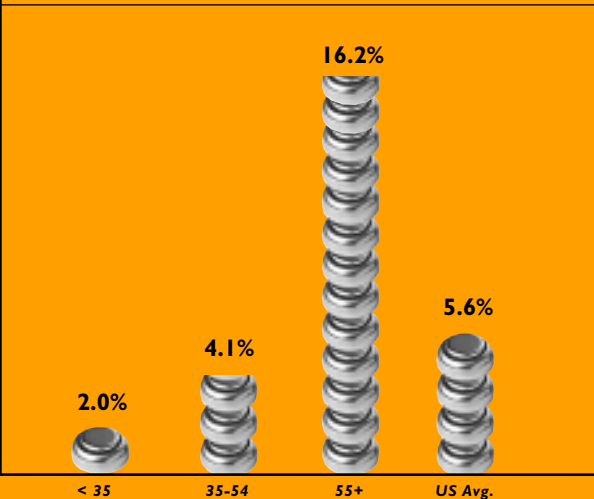
In 2001, Rayovac revolutionized the rechargeable battery category by introducing the world's first one-hour Nickel Metal Hydride (NiMH) battery charger and new long-lasting, high-capacity NiMH rechargeable batteries. Our one-hour NiMH battery charger delivers the fastest charge available in the world today, while our new NiMH rechargeable batteries last two times longer than any alkaline battery in high-drain digital cameras. The new batteries can also be charged up to 1,000 times, making them a smart, cost-effective alternative to alkalines and rechargeables of the past.



Rayovac is **the world leader** in hearing aid battery sales, and has more hearing aid battery patents than all of our competitors combined.

## Growth of U.S. Population by Age (2000-2006)

### Baby Boomers Are Aging...



- Sales of hearing aid batteries are approximately \$600 million worldwide and approximately \$200 million in the U.S.
- The market segment of consumers older than 55 is expected to grow by more than 16 percent between 2000 and 2006.

⚡ Approximately 28 million people suffer from some form of hearing loss.

⚡ Yet, only 6+ million people wear hearing aids.

# Listening to Our Customers

With their advanced technology, excellent quality and undisputed value, Rayovac's new rechargeable products have delivered a power-packed one-two punch, leaving our competitors on the sidelines. The Home Depot, Lowe's, Wal-Mart, Target, Walgreens, Best Buy, K-Mart and CompUSA are just a few of the major retailers that have stocked Rayovac's one-hour system. *Popular Science* magazine named the one-hour charger as one of "250 products you can't live without." *The New York Times* called Rayovac's charger "superb" and "a great improvement over previous chargers." Most important, Rayovac has captured the coveted title of top-selling rechargeable brand in the U.S.

## Maximum Improvements

We have worked diligently to improve the performance and quality of our alkaline products, which constitute more than half of our revenues. As a result of our ongoing efforts, our alkaline batteries last more than 50 percent longer today than they did in 1997.

During 2001, we continued to build our share of this crucial market. Through our technology agreement with Matsushita, a world leader in alkaline battery technology, we purchased and installed another high-speed, high-tech AA alkaline production line. Our Fennimore, Wis. facility is one of the most modern and technologically advanced alkaline plants in the world. With AAs comprising more than half of the overall alkaline battery market, this new production line will allow us to meet our future AA size needs.

## Now Hear This

Rayovac is the world leader in hearing aid battery sales, with a greater than 60 percent global market share. We also have more hearing aid battery patents than the total held by all of our competitors combined. In 2001, we advanced our leadership position with the development of a new zinc air hearing aid battery that offers unprecedented power for the "high demand" hearing aids that remedy severe hearing impairments. In the past, people with acute hearing loss sacrificed shorter battery life for more power. Our new battery will deliver longer life and better sound quality, regardless of what hearing aid is used. Our notable success in this arena contributed to growth in hearing aid battery sales to the hearing care professional and retail distribution channels in fiscal 2001.



*Rayovac's innovative packaging solutions add tangible value to both retailers and consumers.*



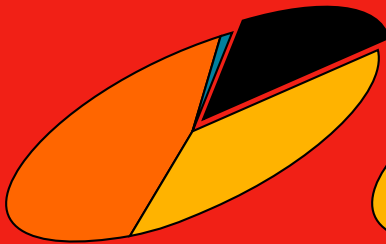
Our alkaline batteries last more than **50 percent longer** today than they did in 1997.

# Expanded Retail Distribution

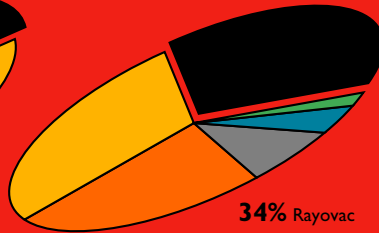
Rayovac Is the #1 General Battery Brand in the Mass Merchandiser Channel

1996

2001



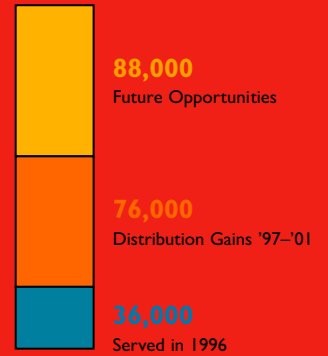
46% Duracell  
33% Energizer  
20% Rayovac  
1% PL/Other



34% Rayovac  
29% Energizer  
24% Coppertop  
7% Duracell Ultra  
4% PL/Other  
2% e<sup>2</sup>

Rayovac U.S. Distribution Outlets Have Tripled

Number of Outlets



- ⚡ The U.S. retail battery market comprises \$3.3 billion in annual sales. Unit growth since 1990 has risen nine percent and dollar growth has increased six percent.
- ⚡ Rayovac has achieved a gain of nearly four share points in the important alkaline category since 1996.
- ⚡ Rayovac is the top-selling brand in the mass merchandiser channel, where two out of every five batteries are sold.

# Leveraging Our Value Proposition



*Rayovac Maximum Alkaline batteries deliver competitive performance, at an everyday price that is 10-15 percent lower than that of our competitors.*

## Driving Home the Power of the Brand

Rayovac has successfully leveraged our strong value brand proposition in the retail battery marketplace over the last five years. Rayovac competes effectively with other leading brands because we appeal to a different kind of consumer: A value-conscious shopper for whom a combination of price and performance drives the point-of-sale decision.

Despite a soft market and competitors that consistently outspend us on advertising and promotions, we successfully expanded our U.S. market share again in 2001. In the important mass merchandiser channel, where two of every five batteries are sold, Rayovac is the top-selling brand, further evidence of the appeal of our value proposition.

In addition, consumer recognition of the Rayovac brand grows every year. Consumer awareness of Rayovac has risen 20 percentage points since 1997, and is comparable to that of our competitors. Today, nine out of every 10 consumers know the Rayovac brand and are familiar with our advertising.

## Making Global Distribution Gains

Rayovac's clear value to the consumer also extends to our retailer customers, a fact that we prominently demonstrated in 2001 by forging major distribution gains with both new and existing customers. The Home Depot and Lowe's, the nation's two leading home improvement suppliers, and Toys "R" Us, the nation's largest toy retailer, now sell Rayovac products. And Wal-Mart, the world's largest retailer, recently selected Rayovac to produce private-label AA and AAA batteries for Wal-Mart's 26,000 checkouts chainwide.



During 2001, Latin American retailers also continued to buy into the Rayovac value proposition. We added new customers, such as Ahold, Makro and Jumbo, and increased our business with existing Latin American retailers, including Wal-Mart, Casino and Carrefour. Already the best-selling zinc carbon brand in most countries in Latin America, Rayovac gained significant market share in alkaline batteries during fiscal 2001.



Rayovac's strategy of helping retailers grow sales and profits, while offering quality products at a value price is **a winning proposition.**

# Latin America

Shares Increasing

	2001 Unit Share	Gain	Market Position
 Zinc Carbon	37%	+5 pts	#1
 Alkaline	9%	+8 pts	#3
General Battery	29%	+6 pts	#2

Source: Management Estimates (Excluding Brazil)



In Latin America, we gained leading retailers Ahold, Makro and Jumbo.

# Penetrating Global Markets



Already the best-selling zinc carbon battery brand in most Latin American markets, Rayovac secured additional distribution in 2001 for a range of battery products with several major Latin American retailers.

Rayovac also began to grow in Europe. We scored our largest European distribution gain to date when the U.K.-based Kingfisher Group, one of the world's top retail consortiums with holdings in the U.K., France, Germany, Belgium and the Netherlands, selected Rayovac as a supplier of branded alkaline and heavy-duty batteries in more than 2,000 locations across four continents.

The selection of Rayovac by retailers in both Europe and Latin America is evidence of the growing global awareness of the Rayovac brand. It's clear that Rayovac's strategy of helping retailers grow category sales and profits, while offering quality products at a value price is a winning proposition that transcends borders, languages and cultures.

## Charged Up for the Future

Rayovac's success speaks volumes to our shareholders. It demonstrates that our strategy of providing the best solutions for both consumers and customers can fuel significant growth despite a highly competitive environment. It shows that we can consistently outperform larger global competitors. And it illustrates that as the "value brand" in the battery industry, Rayovac is well positioned to outshine the competition in tough economic times. Over the mid-to-long term, we believe that the battery marketplace will rebound fully, and when it does, Rayovac will be well positioned to return to the strong growth pattern that generated four years of record sales and earnings. Our confidence in the future stems from our numerous core strengths:

- We operate in a \$20 billion global market, which has grown historically at a compound annual growth rate of six to seven percent.
- We have an unparalleled ability to drive retail distribution gains. In the U.S., we have significant opportunities in food, drug, specialty electronics and convenience stores, as well as in clubs. We have only just begun to penetrate key markets in South America and we continue to build on our strong base in Mexico and Central America. We are also well positioned to leverage substantial distribution opportunities in Europe.
- We are actively seeking to spur growth by acquiring attractive regional/specialized battery companies that align effectively with our existing business.
- We have the momentum to continue to grow market share, particularly in the alkaline, rechargeable and hearing aid battery segments.



Our success over the last five years affirms that we have the potential to **enhance shareholder value** and maintain our historic growth levels into the future.

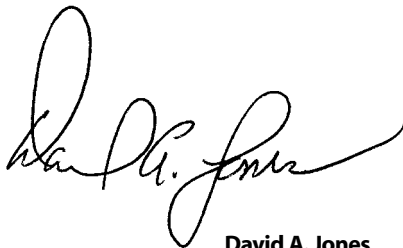


# Taking Charge of the Future

- We have a well-established and widely recognized brand that represents a compelling combination of value and performance.
- We are developing the industry's most technologically advanced products, including the next generation of zinc air batteries as well as a new NiMH rechargeable battery and charger system.
- We have an exceptional, highly motivated senior management team that is driven by performance-based incentives and guided by a seasoned and skilled Board of Directors.
- We are a lean, nimble and flexible company that is free of corporate bureaucracy, allowing us to make decisions swiftly in anticipation of changing market conditions.

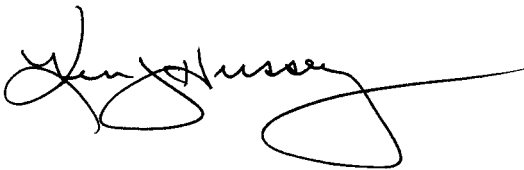
Our greatest strength, however, lies in the cultural fiber of our Company. We have a dynamic, entrepreneurial, high-energy culture that fosters creativity, enthusiasm and competitiveness. These are the characteristics that define Rayovac and our people. Moreover, they are the very qualities that have propelled our Company a very long way in a very short time.

In 1996, Rayovac Corporation had the lofty goal of outperforming established battery industry players to become one of the world's premier portable power companies. Just five years later, we lead many of the markets in which we compete, and our goal is well within our grasp. In fact, we are convinced that it is achievable if our future holds the same degree of success as our past. As we work to ensure this, we extend our deep appreciation to our shareholders, employees and customers. We never lose sight of the fact that we are here because of you—and that your ongoing support is a fundamental ingredient to our success. ■



**David A. Jones**

*Chairman and Chief Executive Officer*



**Kent J. Hussey**

*President and Chief Financial Officer*



### **Board of Directors**

<b>David A. Jones</b>	<i>Chairman and Chief Executive Officer</i>
<b>Kent J. Hussey</b>	<i>President and Chief Financial Officer</i>
<b>Scott A. Schoen</b>	<i>Managing Director of Thomas H. Lee Co., Compensation and Nominating Committees</i>
<b>Thomas R. Shepherd</b>	<i>Chairman, TSG Equity Partners, LLC, Audit, Compensation and Nominating Committees</i>
<b>Warren C. Smith, Jr.</b>	<i>Managing Director of Thomas H. Lee Co., Compensation and Nominating Committees</i>
<b>John S. Lupo</b>	<i>Former Executive Vice President, Sales &amp; Marketing, Bassett Furniture, Inc., Audit Committee</i>
<b>Phillip F. Pellegrino</b>	<i>Senior Vice President and President of Sales, Kraft Foods, Audit Committee</i>

### **Officers**

<b>David A. Jones</b>	<i>Chairman and Chief Executive Officer</i>
<b>Kent J. Hussey</b>	<i>President and Chief Financial Officer</i>
<b>Merrell M. Tomlin</b>	<i>Executive Vice President of Sales</i>
<b>Stephen P. Shanesy</b>	<i>Executive Vice President of Global Brand Management</i>
<b>Kenneth V. Biller</b>	<i>Executive Vice President of Operations</i>
<b>Luis A. Cancio</b>	<i>Executive Vice President of Latin America</i>
<b>Paul G. Cheeseaman</b>	<i>Sr. Vice President of Technology</i>
<b>Paula A. Bauer</b>	<i>Vice President of Supply Chain Management</i>
<b>F. Chris Brooks</b>	<i>Vice President of Sales</i>
<b>Rick Dempsey</b>	<i>Vice President, Information Services</i>
<b>Kenneth G. Drescher</b>	<i>Vice President, Managing Director of Europe</i>
<b>Patrick L. Gore</b>	<i>Vice President of Purchasing</i>
<b>Mark R. Joslyn</b>	<i>Vice President of Human Resources</i>
<b>James T. Lucke</b>	<i>Vice President, Secretary and General Counsel</i>
<b>Randall A. Raymond</b>	<i>Vice President and General Manager, Global Hearing Aid</i>
<b>Dale R. Tetzlaff</b>	<i>Vice President of Finance</i>
<b>Stephen L. Tuscic</b>	<i>Vice President of Sales</i>

# Rayovac Corporate Locations

Rayovac Corporation

## North America

*Madison, Wisconsin  
Fennimore, Wisconsin  
Portage, Wisconsin  
Middleton, Wisconsin  
Fresno, California  
La Vergne, Tennessee  
Bentonville, Arkansas  
Wilmington, Delaware  
Naples, Florida  
Boca Raton, Florida  
Mississauga, Ontario*

## Latin America

*Buenos Aires, Argentina  
Santiago, Chile  
Bogota, Colombia  
San Jose, Costa Rica  
Santo Domingo, Dominican Republic  
San Salvador, El Salvador  
Guatemala City, Guatemala  
Comayaguella, Honduras  
Mexico City, Mexico  
Valencia, Venezuela*

## Europe/Rest of World

*Washington, U.K.  
Maidstone, U.K.  
Paris, France  
Hellbreite, Germany  
Bleiswijk, Holland  
Milano, Italy  
Barcelona, Spain  
Hong Kong, P.R.C.*

## Rayovac Corporation

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