Revamp won't ease Fruit's debt squeeze

Asking lenders to renegotiate payment terms

By DEBORAH L. COHEN

Fruit of the Loom Inc. is ripe for change, but recent management moves don't diminish the company's financial problems.

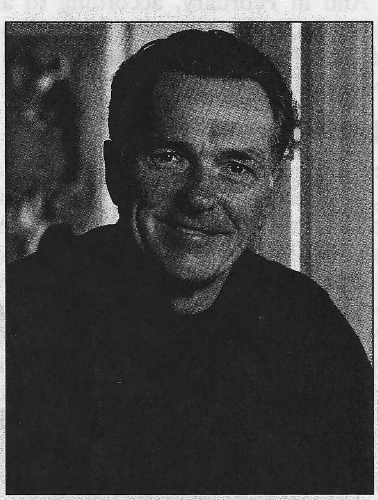
A reorganization announced last week relegating CEO William F. Farley to a peripheral role as one of three co-chairmen comes just as Chicago-based Fruit faces deadlines on debt payments—payments Wall Street isn't convinced the company can meet, given tight cash flow and a forecast of continued weak earnings.

The manufacturer of underwear and activewear disclosed in an August Securities and Exchange Commission filing that it might not meet "certain financial covenants" by the end of the third quarter. It is carrying debt of $1.4 billion.

Last week, Fruit executives told analysts that it expects to meet with its lenders, led by North Carolina-based BankAmerica Corp., within 30 to 45 days to renegotiate payment terms.

"Their general situation is very challenging right now," says Ira Taub, a bond analyst with New York-based Bear Stearns & Co. "Those guys have a lot of debt."

Fruit's board is looking for a savior in a new CEO who can solve the company's complex manufacturing problems and hold the banks at bay. It also is seeking to fill a vacant chief operating officer post.



TODD WINTERS

Stepping down: *Investors fault dealmaker William F. Farley for the operating problems at Fruit of the Loom, which he has controlled for 14 years.*

First, the company must contend with a $45-million interest payment, due in October.

Company executives told analysts Fruit will have no problem meeting the deadline, but Dennis Rosenberg, a New York-based analyst with Credit Suisse First Boston Corp., is concerned. "They're tight on liquidity," he says.

Moody's Investors Service Inc. Friday downgraded Fruit's debt ratings, citing the bank covenants.

Fruit said it expects to meet payments through funds generated from asset sales of roughly $12 million in the second half, improved cash flow and revolving credit of more than $30 million.

Still, drawing outside manage-

See FRUIT *on Page 110*

Fruit's liquidity squeeze

FRUIT *from Page 3*
ment to the troubled company will be tough, as the 56-year-old Mr. Farley remains connected to Fruit beyond his standing as one of three members of an office of the chairman. He holds a 30.5% voting stake and 4% of the company's outstanding shares. And in February, according to an SEC filing, Fruit guaranteed a $65-million loan of Mr. Farley's, which analysts say could prove a liability.

Farley held responsible

Under the restructuring, Dennis Bookshester, a director and former vice-chairman at Carson Pirie Scott & Co., shares the chairmanship with Mr. Farley, along with Sir Brian Wolfson, another board member and chairman of New York-based Natural Health Trends Corp.

Analysts say Mr. Bookshester, 60, is unlikely to be in the job long. "Mr. Bookshester is not going to stay," contends Credit Suisse's Mr. Rosenberg.

Analysts say the company badly needs a top-notch executive who can sort out a tangle of manufacturing problems and improve marketing to boost the brand's flagging image.

Investors and company watchers hold Mr. Farley, a dealmaker who took control of Fruit 14 years ago, responsible for its operating problems and dampened profits. Fruit warned last week that its second-half results will "fall significantly below expectations."

"Not a lot of his decisions were terribly logical," says Harry Bernard, a partner with San Francisco-based apparel consulting firm Colton Bernard Inc. Mr. Farley was ill-equipped to handle a manufacturer with extensive operations, he says. For example, Fruit late last year cut production on fleece apparel, miscalculating the demand.

Analysts remain puzzled over Fruit's inability to provide on-time delivery to large discount retail customers. On-time delivery ranges from 50% to 95%, the company told analysts.

Fruit recently relocated its sewing operations to the Caribbean and Central America, while keeping knitting operations in the U.S., a move that helped reduce labor costs but led to fragmented logistics and forced the company to incur high air freight costs, Mr. Rosenberg says.

In addition, it has had to rely increasingly on contract manufacturers to fill orders.

"They closed a lot of production facilities and they thought they could jump into the market and get what they needed and get what they wanted," says Seth Bodner, executive director of the New York-based National Knitwear and Sportswear Assn.

Fruit's gross margins are down to 23% for the first half of the year, from 33% in the year-earlier period, according to Bear Stearns' Mr. Taub.

"As a shareholder, it's certainly very frustrating to see basic things not happening," says Donald Yacktman, president of Chicago-based Yacktman Asset Management, who held 800,000 shares through June. "It's rare that you see companies with the kinds of production problems this one has."

Mr. Bookshester was unavailable for an interview and told analysts last week that Fruit was "not prepared to comment on the business plan or forecast."

Takeover unlikely

Through the first half of 1999, Fruit posted a loss of $11.3 million, or 16 cents a share, on sales of $960.4 million, compared with earnings of $96.5 million, or $1.33 a share, on sales of $1.09 billion in the year-earlier period. Sales in 1998 totaled $2.17 billion, up about 1% from 1997.

Though Fruit's brand name is considered an asset, the manufacturing problems make a takeover unlikely in the near future, despite the cheap valuation of the company's stock. Its shares—which in the early '90s traded near $50—have fallen from a 52-week high of $22.88 last September to a 52 week-low of $5.44.

Mr. Bookshester told analysts that the company is not for sale.

But down the road, analysts say, parts or all of Fruit could be attractive to North Carolina-based VF Corp. or New York-based Warnaco Group Inc.