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DOREL INDUSTRIES REPORT

CORPORATE ANALYSIS



BUS-J501
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SYNOPSIS

Dorel Industries was established in 1962, and consists of 3 major divisions (Juvenile, Home Furnishings, and Recreational/Leisure). It owns a wide array of strong brands, including Cosco, Schwinn, Ironhorse, and Mongoose. While Dorel is a strong player in the bicycle industry, it recently announced (In January of this year) that it would be shuttering its bicycle assembly facilities in the United States and moving to Asia in order to become more competitive. Annual sales are roughly \$2.6 billion, and with a restructuring of the Recreational/Leisure unit, Dorel expects to save at least \$6 million annually. Dorel's primary competitors include Kid Brands, Inc., Trek Bicycle Corporation, and Evenflo Company, Inc. Employs 6,300 people in facilities located in twenty-four countries worldwide.



STRATEGIC ISSUES

- Competitors have already outsourced to Asia
- Fourth quarter earnings expected to be much lower than levels last year due to reduced revenue(not sure this a strategic issue as much as it's a "cause/effect" having having poor strategy)
- Currently have a unrelated portfolio amongst business units
- Cash cow (Home Furnishings) is losing revenue YOY
- Unfavorable foreign exchange rates reducing net profits(Same for this)
- The board believes the company's market price is currently undervalued
- One more Item

OPTIONS

1. Focus on outsourcing and cutting costs, compete on price.
2. Continue global expansion, specifically on elevating the recreational / bicycle unit by acquiring popular brands in each region.
3. Refocus on premium products, drop cheap brands (Pacific Cycle etc.) that conflict with company identity and differentiate on quality.

INTRODUCTION TO REPORT

This report consists of five major sections. Initially a brief history of Dorel Industries will be provided, followed secondly by an analysis of its competitive and corporate strategies. Third, is a breakdown financial analysis of Dorel's financials, both as a whole and by individual units. Using this data, the report will then delve into the company's current issues and possible solutions while incorporating various tools (BCG, Five Tests analysis, etc.). The final segment of the report will include our recommendations for the company, concluding with suggested initiatives to improve Dorel's competitive and corporate strategies.

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ABOUT DOREL INDUSTRIES

In 1962, Leo Schwartz founded "Dorel Co. Ltd" in Quebec, and began producing juvenile products. It was not until 1962 that "Dorel Co. LTD" became "Dorel Industries", following a merger with Ridgewood Industries (a furniture manufacturing company). Since then, the company has continued to grow primarily through acquisitions, eventually branching out to the recreational and leisure markets by acquiring Schwinn and Cannondale

1.1 RECENT STRATEGIC MOVES (2013)

- Dorel began a massive share buyback plan in order to raise its market value.
- The company acquired a 70
- Dorel's assembly and testing facilities located in Bedford, PA are being shut down and relocated overseas in an effort to reduce expenses.

2 | BUSINESS OVERVIEW

2.1 BUSINESS DEFINITION

Dorel Industries has a diverse business definition. Dorel makes high quality furniture, juvenile and recreational products for consumers who emphasize quality and durable products. Dorel's technologies include ready-to-assemble furniture, high quality and durable bicycles as well as safe and reliable baby products.

As you can see in the below figure, Dorel's business is comprised of very distinct products amongst distinct markets. Dorel's main products include furniture, bicycles and baby products. These products relate to Dorel's business units. In terms of Dorel's target markets, United States is a very important market. However, due to the US economy downturn, this has made Dorel focus on extending their business internationally. Lastly, the technology that Dorel institutes is one of outsourcing manufacture of their products, in order to be able to compete on price, specifically for their home furnishings business unit.

One, of many, issues with this business definition is there does not appear to be synergies amongst either the manufacture of the products, the products themselves, nor the target markets of each product. As part of our recommendation, Dorel would benefit from finding a way to have more synergies amongst their most important products.

- Products
 - Furniture
 - Bicycles
 - Baby products/accessories
- Markets (respectively)
 - North American retail chains
 - Mass merchant / Independent Bike Dealer (IBD) network
 - US and International retail chains
- Technology
 - Ready-to-assemble furniture
 - High Quality products
 - Safe and durable juvenile products

2.2 BUSINESS UNIT BREAKDOWN

Dorel's business is comprised of 3 distinct business units; Juvenile, Home Furnishings and Recreational/Leisure. These 3 business units drove 2012 revenue of \$2.49 Billion, as well as \$583 Million in gross profit. A breakdown of each business unit follows.

2.2.1 Juvenile

The Juvenile business unit is focused on the manufacture and import of high quality, safe and fashionable juvenile products. These products include car seats, strollers, high chairs, etc. Products are provided under their own brand names, as well as house brand names for their customers. This segment produced 2012 revenues of \$1.04 Million, which equates to 42

Dorel is focusing on growing this segment in Latin America, where the retail environment is beginning to prosper and birthrates in this region are on an incline. Dorel has also made very recent acquisitions for this segment to expand its breadth of offering as well as introduction to new international channels.

2.2.2 Recreational/Leisure

The Recreation/Leisure business is comprised of premium/mass market bicycles, jogging strollers, ride-on toys as well as branded performance apparel. This segment has a focus on international markets, with 50

Dorel is focused on making this segment the premier bicycle business in the market. In 2012, selling expenses for this business unit increased 13

2.2.3 Home Furnishings

The Home Furnishings business focuses on ready-to-assemble furniture, step stools, futons and imported home entertainment furniture. The primary focus for this segment is North American markets, which is evident since Dorel has five distinct segments within this business unit. This segment drove 21 percent of Dorel's 2012 revenue with \$521 million, as well as 11

This segment is the cash cow for Dorel. However, with this segment's focus being on the North American market, home-related market, this segment has suffered a bit with the US economy. Recently, Dorel moved more of its manufacturing overseas, which should help with this segment's ability to compete on price in their mass retail chains.

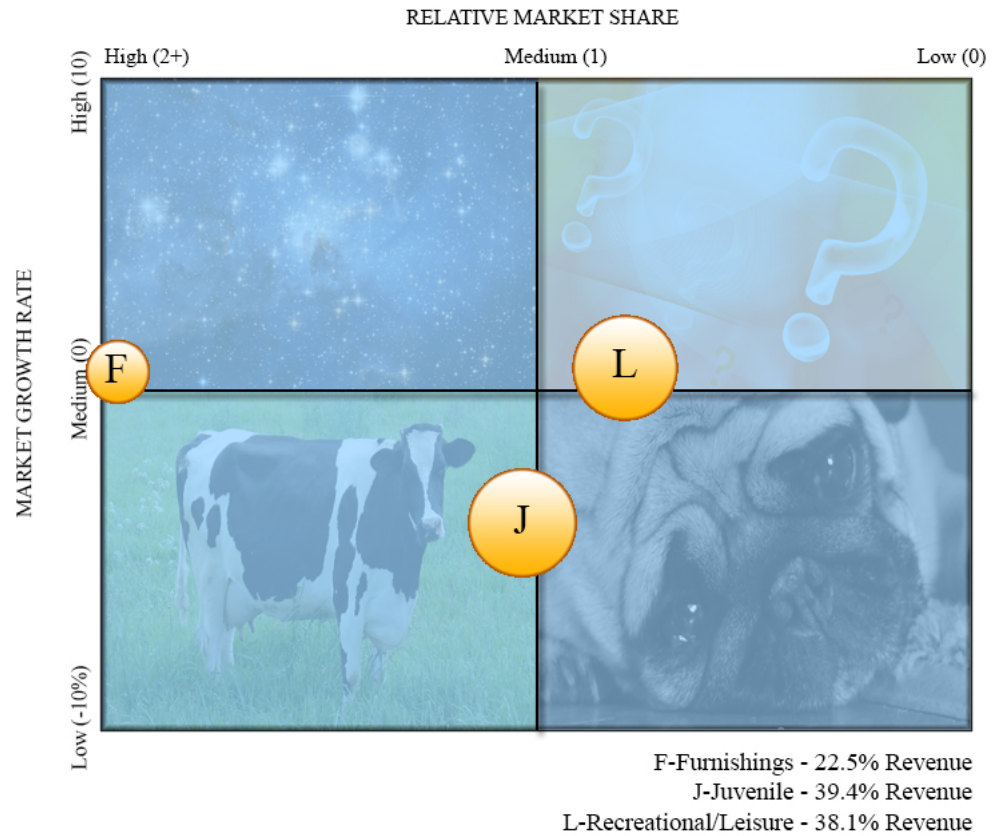
<u>Unit</u>	<u>Total Sales</u>	<u>%</u>	<u>Gross Profit</u>	<u>%</u>
Juvenile	\$1,040,765,000	42%	\$287,658,000	49%
Home Furnishings	\$521,523,000	21%	\$62,552,000	11%
Recreational/Leisure	\$928,422,000	37%	\$233,437,000	40%

<u>Unit</u>	<u>Operating Profit</u>	<u>%</u>	<u>Unit Strength</u>
Juvenile	\$73,313,000	43%	High
Home Furnishings	\$25,593,000	15%	Very Low
Recreational/Leisure	\$71,958,000	42%	High

<u>Unit</u>	<u>Unit Rating</u>	<u>Industry Potential</u>	<u>Industry Rating</u>
Juvenile	3	5	2
Home Furnishings	1	3	2
Recreational/Leisure	4	5	4

3

MODIFIED BCG



NOTE: Market growth rate/market share is in comparison to Dorel's primary competitor in each division. (Recreational/Leisure compared with Huffy Corporation, Juvenile to Kid Brands, Inc. and Home Furnishings compared with IKEA). Because there are other unaccounted for competitors (privately owned, unable to obtain financials), it is likely that all 3 divisions are actually lower on the graph than shown here. It is unlikely that any of the units are actually approaching "Star" status. Additionally, the size of each circle is relative in proportion to the percentage of revenue that it is bringing into Dorel.

3.1 BCG ANALYSIS

This BCG graph illustrates some of Dorel's current issues. After accounting for market share being lower than shown, the Juvenile unit is at best a slowly dying cash cow, trending towards dog territory. The recreational/leisure unit is questionable, but has the potential to be a star. And lastly, the furnishings unit may be growing quickly, but is currently bringing in the smallest amount of revenue.

4

FIVE TESTS

NOTE: We have decided to rate the company on a scale of 1-5 for each of the five tests based on its current standing, as well as the rating we believe it can achieve with improved guidance on its corporate strategy.

4.1 VISION

At present, Dorel scores an abysmal one out of five on vision. The company has over extended into several very unrelated markets, does not seem to have any type of BHAG, and is relying on acquisitions instead of innovation in order to gain market share. When the company was founded in 1962, it was built on three core principles- safety, quality, and value. In direct contrast to those pillars, in recent years Dorel has in an attempt to reduce cost has compromised on quality and safety. This resulted in several recalls, including over half a million baby cribs in 2010 after several injury reports and even one death. In the recreation & leisure unit, Dorel has taken a brand (Schwinn) once known for high quality and reduced it's brand recognition to mediocre at best. It is currently unclear what vision Dorel's management is even aiming for, as aside from acquiring new brands and outsourcing overseas to reduce costs, there is very little on the horizon for the company.

4.2 INTERNAL CONSISTENCY

Dorel's internal consistency suffers from the same issues as it's vision, in that it currently serves three very different markets. However, each niche consists of a variety of brands that are consistent and complementary to each other. As an example, Dorel's Recreational/Leisure division has acquired several major bicycle brands, including Mongoose, Schwinn, and GT. While overall the internal consistency and fit within Dorel might not be strong, because of the strength within each unit we have given Dorel a four on consistency.

4.3 EXTERNAL FIT

In terms of external fit and consistency, we gave Dorel a five out of five. Because Dorel has already established itself in three different segments, and because of the amount of revenue currently coming in with its cash cows (Furnishings/Juvenile), Dorel has the capital and experience to dominate any of the three markets it is in, but only if it can return to the core values that the company was founded on.

4.4 CORPORATE ADVANTAGE

In the corporate advantage test we scored Dorel at four out of 5. The reasons for a good score on corporate advantage is the similarities in activities that undergo in making, selling and servicing their products. Dorel has in recent time made attempts at leveraging their supply chain (cost reduction) and distribution network (customer satisfaction) in meeting their targets for manufacturing and sales. Innovation i. e research and development however cannot be leveraged across business units because they compete in unrelated markets.

4.5 FEASIBILITY

In the Feasibility test we scored Dorel a two out of 5. The back up justification again ties in to the comment for Vision. It is not clear what is the envisioned future for Dorel, where is the company headed? Dorel has a good potential to develop in the market of Juvenile products, they have recently made investments in that direction as well. The juvenile market is growing at 3 percent every year and Dorel is already a market leader in the North American continent. However, it is not clear what in the end game for Dorel, hence feasibility of their strategy is difficult to assess.

5 | FINANCIAL ANALYSIS

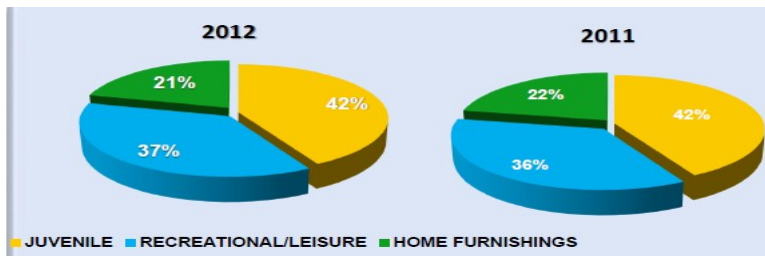
5.1 REVENUE

The tables below show selected financial information for the eight most recently completed quarters.

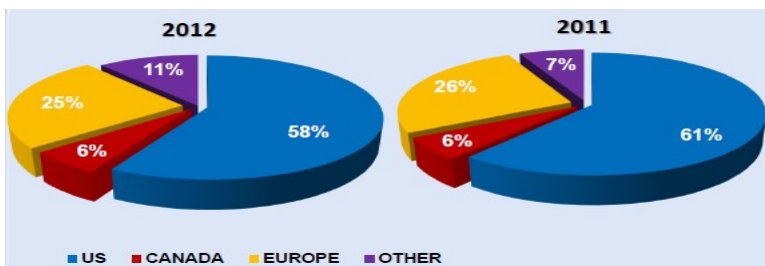
Operating Results for the Quarters Ended				
	September 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 30, 2012
Total revenue	\$607,298	\$600,449	\$594,168	\$622,604
Net income	\$11,105	\$13,224	\$22,316	\$29,119
Earnings per share:				
Basic	\$0.35	\$0.41	\$0.70	\$0.92
Diluted	\$0.34	\$0.41	\$0.70	\$0.91

Operating Results for the Quarters Ended				
	September 30, 2012	June 30, 2012	Mar. 31, 2012 *	Dec. 30, 2011
Total revenue	\$613,295	\$633,711	\$621,100	\$561,608
Net income	\$19,986	\$30,345	\$29,059	\$27,362
Earnings per share:				
Basic	\$0.64	\$0.95	\$0.91	\$0.85
Diluted	\$0.63	\$0.95	\$0.90	\$0.85

REVENUE & NET INCOME By looking at data from the last 8 quarters, we have determined that annual revenue has fallen by 6 million in 2013 as compared to 2012, and net income has decreased as well by 44% (Comparing 2013 Q3 earnings of \$11.1 million vs. 2012 Q3 earnings of \$20 million)



REVENUE BY UNIT In 2012, revenue decreased by 1% in home furnishings, and increased by 1% in recreational/leisure



REVENUE BY GEOGRAPHICAL DISTRIBUTION Revenue has been consistently decreasing in the United States, while slowly increasing in other countries

(Dorel is currently pushing its recreational/leisure unit into several new markets in Latin America, and is also has some highly successful brands in India).

5.2 STOCK PRICE

5.2.1 Last 2 Years



Over the last few years, Dorel has performed fairly well, outpacing indices for the last two years.

5.2.2 Current Year (2014)



However, after very weak Q4 performance at the end of 2013, Dorel's stock price has fallen substantially this year.

5.3 FINANCIAL PERFORMANCE BY UNIT

Juvenile Segment**Third Quarters Ended September 30**

(in thousands)	2013	2012
Total revenue	\$ 238,983	\$ 249,126
Gross profit	\$ 64,911	\$ 69,080
Operating profit	\$ 5,027	\$ 16,889

Home Furnishings Segment**Third Quarters Ended September 30**

(in thousands)	2013	2012
Total revenue	\$ 136,724	\$ 135,216
Gross profit	\$ 15,528	\$ 15,184
Operating profit	\$ 5,839	\$ 5,813

Recreational/Leisure Segment**Third Quarters Ended September 30**

(in thousands)	2013	2012
Total revenue	\$ 231,591	\$ 228,953
Gross profit	\$ 54,185	\$ 55,295
Operating profit	\$ 14,105	\$ 12,516

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