

Conn-Selmer (aka Steinway) Reports Q3 2007 Results

Contributed by Colin Murray
Saturday, 15 December 2007
Last Updated Saturday, 15 December 2007

Steinway Reports Q3 2007 Results

Band Segment Sales Up 14%

WALTHAM, MA – November 8, 2007 – Steinway Musical Instruments, Inc. (NYSE: LVB), one of the world’s leading manufacturers of musical instruments, today announced results for the quarter and nine months ended September 30, 2007.

Revenues for the third quarter increased 9% over the prior year period, led by a 14% increase in sales in the Company’s band business. Gross profit increased \$2.0 million, or 8%, as improved piano margins lessened the impact of lower band margins. Operating profit increased 4% over the prior year.

For the quarter, the Company generated EPS of \$0.35 compared to \$0.12 in the prior year period. The \$0.35 EPS compares to Adjusted EPS of \$0.14 in the third quarter of 2006. Adjustments for 2006 are detailed in the attached financial tables.

Band Operations

Sales of professional trumpets and trombones continued to improve in the third quarter, leading to a 14% increase in revenues over the prior year period. Production levels at the Company’s Elkhart brass plant remain on target, but continued costs resulting from the strike and lower levels of production of woodwind instruments led to a reduction in overall band gross margins to 19.5% from 20.7% in the comparable quarter. For the nine-month period ended September 30, 2007, sales declined to \$125.7 million, or 7%, as a result of dealer consolidation and customer inventory reduction. Gross margins improved to 20.7% from 19.3% on improved sales mix of higher margin professional instruments and lower inventory reserve charges.

Turning to band operations, Messina said, “We’re happy to report that third quarter revenues in our band segment were back to pre-strike levels. For the first time this year, we shipped more band instruments than in the comparable prior year period. We were pleased that production and sales of professional brass instruments increased, but the dealer consolidation we discussed earlier this year continues to affect woodwind sales. We reduced production at our two woodwind facilities due to weaker than expected orders.”

“In the third quarter of 2006, we began hiring replacement workers for our Elkhart brass plant and the size of our production staff has more than doubled over a year ago,” noted Messina. “We are making significant progress in product quality as well as unit output. However, this quarter we incurred a similar amount of

inefficient production expenses as last year due to the higher number of replacement workers and some additional training as we shifted our production mix from our standard models to more specialized instruments. We need to progress further on production efficiency in our domestic manufacturing facilities to see increased margins.”

Looking at the fourth quarter, Messina commented, “The fourth quarter is the beginning of the selling season in our band business. Although it is too early to evaluate our programs and product offerings, we expect band sales in the fourth quarter to improve over the prior year. Looking at our piano business, the U.S. piano market remains challenging. Our domestic inventories remain too high and our domestic production levels will need to be reduced. Overseas, we expect our fourth quarter business to be stable.”

On yesterday’s decertification vote at the Company’s Elkhart brass facility, Messina said, “After continuous

appeals and delays by the UAW, our employees have finally had an opportunity to vote. Of the votes counted, 105 were for decertification and 63 were for retention of the union. There are 144 challenged ballots which have not been counted. The outcome of the vote will be determined by these ballots. The disposition of the challenged ballots will be decided in the coming weeks by the National Labor Relations Board. We continue to focus on producing and delivering the finest brass musical instruments in the world. The outcome of this vote is not expected to materially affect our business going forward.”

Conference Call

If you'd like to hear what management discussed in a conference call on November 8, 2007, click [here](#).

About Steinway Musical Instruments

Steinway Musical Instruments, Inc., through its Steinway and Conn-Selmer divisions, is one of the world’s leading manufacturers of musical instruments. Its notable products include Bach Stradivarius trumpets, Selmer Paris saxophones, C.G. Conn French horns, Leblanc clarinets, King trombones, Ludwig snare drums and Steinway & Sons pianos.