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Mattress Firm's Parent Faces Accounting Probe



The South African corporation that owns Mattress Firm has lost its CEO, watched its stock price plunge by more than 80 percent and launched an investigation to determine whether it inflated reports of its financial performance as it grew through a series of acquisitions.

Steinhoff International, a retail conglomerate that last year paid \$3.8 billion to acquire the Houston-based mattress chain, is assessing the "validity and recoverability" of more than \$7 billion in assets.

PricewaterhouseCoopers has been tapped to investigate accounting irregularities. And officials in South Africa and Germany, where its stock is traded, have launched probes to determine whether the company misled investors.

Steinhoff's former CEO, Markus Jooste, resigned this week amid a disclosure that the company may have to revise financial statements from past years. After the revelations, the company's stock market value sank to \$2.7 billion, down from about \$14 billion prior to the resignation, and Moody's Investors Service revoked its investment-grade rating on the company's debt.

Steinhoff, which has publicly denied allegations of wrongdoing in the past, could not be reached for comment.

It is unclear whether the scandal will have lasting implications for Steinhoff, which through its subsidiaries operates roughly 40 global brands in addition to Mattress Firm. In a note this week, J.P. Morgan analyst Stephen Carrott warned

Steinhoff's Tanks on reports it inflated income

Mattress Firm, now the largest mattress retailer in the U.S., for years borrowed heavily to buy up dozens of competitors and increase its store count to more than 3,400 locations stores nationwide. Its \$3.8 billion purchase price included more than \$1 billion in debt.

At the time, Mattress Firm's same-store sales had been slipping. It had more than tripled its store count since 2011, and it reported a loss for two quarters prior to the acquisition even though its rapid expansion had boosted overall revenue. The trend has continued since Steinhoff took over. In financial filings, the company reported that Mattress Firm's same-store sales had fallen 10 percent in the nine-month period since its acquisition.

The industry has become intensely competitive in recent years with the rise of bed-in-a-box manufacturers, which offer lower prices by bypassing the mattress salesman in the corner store. Some direct-to-consumer retailers have also expanded into the brick-and-mortar realm, further challenging traditional stores.

investors that Jooste's resignation and the announcement of the investigation gave "very little clarity on the extent of the accounting issues" and therefore made forecasting nearly impossible. Under Steinhoff, Mattress Firm's Houston leadership has remained in place.

However, Steve Stagner, Mattress Firm's executive chairman, also serves on Steinhoff's executive committee.

In a statement, Mattress Firm president and CEO Ken Murphy said the company has faith in Steinhoff's board and the interim executive chairman, Christo Wiese, during the investigation.

"We have the full support of Steinhoff and our vendor partners, and our focus remains on continuing to do what we do best - help our customers get a better night's sleep," he said.

The revelations about its parent company come after a tumultuous year for Mattress Firm, which, under the new ownership, severed

ties with Tempur Sealy, once one of its most important suppliers. Mattress Firm sold off its inventory of Tempur-Pedic memory-foam mattresses at a steep discount.

It then crafted a five-year partnership with Serta Simmons, the nation's largest mattress maker. As part of the deal, the companies developed two new product lines that incorporate cooling technology, memory foam and more comfortable coils. Serta Simmons recently opened a 265,000-square-foot manufacturing plant in northwest Houston to keep up with demand.

Steinhoff has delayed releasing its latest financial results and postponed a meeting with lenders until later this month. It borrowed heavily to acquire a number of South African and European retailers, and its debt topped \$6 billion when it finalized its acquisition of Mattress Firm, its first U.S. company.

By Katherine Blunt, December 8, 2017
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