Business Review

1996 was a very challenging year for Remington's firearm business. After enjoying more than five consecutive years of progressive growth in unit sales and dollar volume, the company experienced a 19.2% downturn in volume last year. This softness was primarily the result of declining demand by the Marts. Wal*Mart's focus to lower working capital and increase turns, along with their heavy inventory carryover from 1995 resulted in a 47% decline in dollar shipments for 1996. K-Mart, a credit cripple, conducted business predicated on a bank budget which resulted in a 52% decline in dollar shipments. Combined, ***the Marts accounted for a $27.5 million dollar reduction in firearm shipments from the previous year.*** Business with our other channel partners was essentially unchanged from 1995.

Overall, ***the 19% reduction in shipments resulted in a 12% decline in dollar sales for the company in 1996. Taking the hardest hit, shotgun unit sales were down 28% resulting in a 25% decline in dollar volume. Another hard hit area was the Centerfire rifle category which experienced a 7% reduction in units and a 1% reduction in dollars.*** Despite a record year for bolt action sales, repeating rifle sales were off by 45% in units and 42% in dollars which ruined category performance results.

Second and third quarter orders continued to decline resulting in a revenue growth that was significantly below plan. As a result, decisions were made to reduce Ilion's manufacturing workforce in October, followed by a 30 day plant shutdown in December. Although tough, ***these decisions had a positive impact on year end inventories, allowing only a 12% increase in units over 1995, with closing results similar to 1994.***

The following matrix provides a quick look at statistical specifics regarding 1996's performance when compared to the previous six years.

	1990 Actual	1991 Actual	1992 Actual	1993 Actual	1994 Actual	1995 Actual	1996 Actual	1997 Budget
Unit Sales	397.0	490.0	581.0	633.0	661.5	761.9	615.8	650.0
Sales Dollars (MM)	117.3	130.3	153.5	163.3	176.2	202.6	178.5	181.9
Gross Margin (MM)	39.0	25.1	35.6	44.8	53.8	68.7	52.1	57.3
Gross Margin % Sales	33.2	19.3	23.2	27.4	30.5	33.9	29.2	31.5
Operating Income	(2.8)	(4.5)	.3	8.1	14.0	28.4	(1.3)	19.7
Ending Inventory (Units, MM)	263.6	164.2	111.9	70.3	95.2	82.1	92.0	115.3