Wolverine World Wide
Company Analysis

9341 Courtland Drive
Rockford, Michigan 49351
www.wolverineworldwide.com

Prepared by:

Zach Evans
December 15, 2004

Index

Executive Summary

Wolverine World Wide, Inc., based in Rockford, Michigan, is a global designer, manufacturer, and marketer of quality, comfortable casual shoes, rugged outdoor footwear, work footwear, outdoor sport and uniform footwear. The company also operates a retail division that promotes the brands. Currently, the company's portfolio of owned and licensed brands includes: Bates Uniform Footwear, CAT Footwear, Coleman Footwear, Harley-Davidson Footwear, Hush Puppies, HyTest Footwear, Merrell Performance Footwear, Stanley Footgear and Wolverine Boots and Shoes. Wolverine's primary operations are based in the United States but they also operate in Europe, Canada, Asia, Central America, South America, the Middle East and Russia.

Wolverine's mission statement is to become "the world's premier non-athletic footwear company" and their vision to achieve this mission is to be "consumer focused, fact based, and market-driven[11]." Management is pursuing several strategic initiatives geared towards driving their vision: establishing a stronger presence in Europe, achieving product excellence from design through production, securing new sources for growth, providing "Best in Class" service to customers, and building a strong team and company culture[10].

Wolverine's financial status is strong and has positioned the company to implement its vision in order to accomplish its mission (Appendix B). Debt is at an all-time low (Appendix C) and revenues and earnings—following continued quarter-over-quarter growth—are at all time highs. The company's core operating activities are generating healthy cash flows (Appendix D), which are being used strategically to repurchase shares of common stock, finance global expansion plans, and allow for targeted acquisitions of both wholesale and retail businesses.

Industry Analysis

In 2001, personal consumption expenditures on shoes were approximately $44.7 billion, up from $8.1 billion 30-years earlier (Appendix E). While this represents growth of approximately 452 percent over that time span, footwear expenditures as a percentage of total personal consumption expenditures declined from 1.16 percent in 1971 to 0.66 percent in 2002 (Appendix F). This decline, combined with the fact that the average per capital consumption (pairs) of footwear has increased from 3.5 to 5.3 from 1960 to 2000 (Appendix G), points to one conclusion: annual inflation rates have out-paced the rise in the retail price of footwear that is being purchased. Put another way, over the past thirty years consumers have been purchasing less-expensive footwear in relation to other personal purchases[3].

The men's and women's work footwear segment of the industry is large (approximately 47 million pairs annually) and reflects above average growth for the industry as a whole (approaching ten percent). Nineteen brands control 50 percent of the business and fall into three competitive tiers (Appendix H). Wolverine, which is represented by the Wolverine, Caterpillar, and Stanley nameplates—controlled approximately 13.7 percent of this market in 2003, with the Wolverine brand controlling 8.0 percent by itself[3].

The emergence of more fashion-driven work footwear product in recent years has dramatically changed this segment of the market. Offerings from brands such as Timberland (4.4 percent), Skechers (3.4 percent), Dr. Martens (2.4 percent), and Nike (1.4 percent) now account for almost 12 percent of all work footwear sold in the US in 2003, up from approximately 11 percent a year earlier[3]. Consumers (especially younger workers) no longer need to purchase "their father's work boots" any longer. They now have options from brands that they feel comfortable wearing out after work as well as on the job site.

The men's and women's work/safety boot segment of the industry is relatively smaller (approximately 29 million pairs annually) but, once again, reflects above average growth for the industry as a whole (approaching ten percent). The top twenty brands control 80-plus percent of the business and fall into four competitive tiers (Appendix I). Wolverine, which again is represented by the Wolverine, Caterpillar, and Stanley nameplates—controlled approximately 27 percent of this market in 2003, with the Wolverine brand controlling about 16 percent by itself. Again, the emergence of fashion-forward brands

(Timberland, Skechers, et. al.) controlled approximately 13.5 percent of the market in 2003, up from about 12.5 percent in a year earlier[3].

Business Segment Analysis

CAT Footwear

The CAT Footwear brand continues to enjoy greater success in its international operations, which accounts for slightly more than 50 percent of the division's total sales, than it does domestically. Wolverine management has advised that CAT's domestic business continues to be negatively impacted by job-reductions in many industrial segments in the US. Many of the first casualties of these industrial layoffs are younger workers, who make up the bulk of CAT's target consumer (i.e. more fashion-forward consumers) [6]. As of 2003, CA T controlled about 2.8 percent of the hiking footwear segment of the market (Appendix J) and 5 percent of the sport/casual footwear market (Appendix K) in the US (see appendix)[3].

In attempt to combat the squeezing of this domestic target market, management has increased the brand's offerings of rugged/outdoor footwear. In the first half of 2004, European CAT Footwear sales experiences significant declines, as the line's spring product offering of "chunky" boot styles were not well received by European consumers[6]. In the US, only about a third of CAT sales is in the contemporary fashion segment and sell at retailers such as Nordstrom and Dillards[5].

Hush Puppies

The Hush Puppies brand was created by Wolverine in 1958[6]. The brand experienced several years of double-digit sales declines in the late-1990s. Following these lean years, management put into place a repositioning plan for the brand in 2000. The plan began in the international market, where Hush Puppies had enjoyed decades of popularity and acceptance among a wide range of consumers and retailers[6]. In a brand recognition study done by NPD in July 2002, Hush Puppies ranked fourth of all footwear brands among men and women (behind Nike, Reebok, and Adidas) and first in non-athletic brands[5].

Also in 2002, after the years of annual sales declines, the revitalization effort began to take hold in earnest, when the brand recorded a full year of positive sales, totaling an increase of 4.6 percent. The US business continued to struggle and recorded yet another sales decline in 2003. However, Hush Puppies' US operations recorded a sales gain in the second half of 2003, as its styling and marketing realignment efforts began to allow the brand to gain a viable presence in better-grade distribution channels[6].

Under new President, Skip Zimmerman, Hush Puppies recently launched the largest number of new products in its history[5]. Some analysts believe that the brand's more stylized product offerings, which have resulted in the brand achieving increased distribution at upper-tier retail channels, will continue to help drive positive sales and margin growth in both the US and international markets[6]. Currently, some 75 percent of the brand's sales are international; the US markets is Wolverine's main opportunity. Management, while committing to the repositioning of the brand, has indicated that it will take up to five years for the full turnaround of the brand to take effect[5].

Merrell

Wolverine acquired the Merrell brand in October 1997 from Sports Holding Corporation for approximately $16.3 million. Wolverine's strong distribution capabilities and its established international organization positioned the company to leverage the brand and attain rapid and dispersed representation at key retail accounts around the globe. At the time of the acquisition, Merrell was generating annual sales of about $25 million. Since the purchase, the brand has consistently generated double-digit sales increases and continues to be Wolverine's fastest-growing business[6]. One large, unnamed risk for Wolverine, is that sales of Merrell products will unexpectedly slow and dramatically affect earnings.

The growth in the Merrell brand has been strategic for Wolverine in several ways. First, Merrell is now the number-one brand in the outdoor segment and is rapidly taking market share in the casual segment from traditional athletic and non-athletic footwear brands. Second, it is the most profitable business for Wolverine. This is driven by the fact that retailers cannot include Merrell product in general markdown sales and that Wolverine does not take returns on the brand. Third, Merrell is manufactured in China, unlike some other Wolverine brands, and carries higher initial margins[5].

Wolverine has been able to successfully prevent the over-distribution of the brand and continue to obtain higher product margin contribution levels typically found in more price-sensitive segments of the market through a focused marketing approach[6]. Management needs to continue this diligence towards controlling distribution of the brand to avoid over-saturating the market and driving down retail prices. The company has been able to build a global women's business by expanding distribution in Europe.

Furthermore, Wolverine plans to continue building brand awareness by developing award-winning line extensions[8]. For the spring 2005 selling season, Merrell plans to introduce "Merrell Continuum"—a new segmentation strategy for the brand targeted toward two distinct consumer interests: "Oventure" for outdoor enthusiasts who require performance enhancement in their outdoor footwear; and "Transit" for casual usage[6].

In 2003, Wolverine began testing a Merrell-based shop-within-a-shop (SIS) concept at selected department and sporting goods retail accounts. By the end of fiscal 2003, the company had 60 SIS in operation, and is expected to end fiscal 2004 with a total of 135, including three test shops in Europe[6]. Most of Merrell's advertising dollars, four to five percent of sales, have been spent on these concept shops over the past two years. These concept shops are already showing impressive results: comp store sales have shown sales increases of anywhere between 25 and 300 percent[5]. One must consider, however, how much these increases are owed to the uniqueness of the SIS concept. As the SIS concept is expanded, same-store-sales increases may flatten out the "uniqueness" impact dissipates.

<u>Sebago</u>

In November 2003, Wolverine completed the acquisition of the Sebago Company, which has long marketed a footwear brand featuring marine and nautical-inspired products. The purchase price of the deal was approximately $16.8 million. The acquisition was initiated to provide Wolverine an entry point into not only the domestic marine footwear sector of the footwear industry but also a well-established and high-quality casual shoe brand[6]. The brand may be positioned at a price-point above that of the Hush Puppies brand, which would allow the company to leverage existing retail account relationships to increase and improve distribution.

Wolverine now has the opportunity to duplicate its success with Merrell by repositioning Sebago as the preferred footwear for all things nautical and to at least double sales over the next three to five years from the $30 million level reached in fiscal 2002. The purchase is expected to be neutral to earnings in fiscal 2004[5]. Wolverine management sees Sebago as a major long-term global growth opportunity. They believe this growth can be achieved by leveraging the brand's authenticity and premium positioning to transform it into the global reference for performance marine and American-inspired handcrafted footwear[8].

Management is expected to take several steps to grow sales and make the brand considerably more profitable[5]:

- Fold all back-office and infrastructure into Wolverine's network
- Close all domestic manufacturing and move to factories in Latin America and China
- Update Sebago's existing product lines and introduce new styles (the brand has not introduced even a new color of docksides in the past 30 years)
- Increase sales of women's footwear
- Increase international penetration

<u>Wolverine Footwear Group</u>

WWW's Wolverine Footwear Group (WFG), which includes Wolverine Boots & Shoes, Stanley, Harley-Davidson, Bates and Hytest[5], accounted for approximately 37 percent of the company's total revenue in fiscal 2003. Sales at Wolverine Boots & Shoes have recently been negatively impacted by the overall weak consumer demand for work boot products, as well as increased demand for more moderate priced products within the category[6]. The group as a whole has had relatively flat sales over the last couple of years. This trend is unlikely to reverse until a major shift back to boots occurs[5].

Wolverine Boots & Shoes competes in both the rugged work and casual boot market. While Timberland PRO, Red Wing, and Rocky all have offerings within these broad categories, Wolverine is the only brand to have significant market share in both. Much of the brand's new products are considered multi-use footwear, which is the fastest growing category in work boots. More than fifty percent of Wolverine's boot sales come from the premium boot market (i.e., above $119 at retail). This market is fully mature and any new retail penetration will likely come in the more moderately-priced boot market[5].

Wolverine sells work boots in the value segment of the market under a license with Stanley Works. The majority of these sales are done at Payless Shoe Stores, and other deep-discount retailers, with price points generally around $39. Recently, however, sales in this segment of the work boot market have been flat to down recently[5]. Over the past several years, the $30 to $100 segment of the safety footwear market has gained in relative importance while the under $30 and over $100 segments have declined in relative importance[3]. This further underscores the need for Wolverine to continue to develop its more moderately-priced footwear offerings.

Wolverine acquired the rights to market footwear under the Harley-Davidson nameplate in the third quarter of 1998. Subsequent sales of the footwear product has consistently generated substantial sales and earnings growth, driven primarily by the expansion of the Harley-Davidson dealership network, which accounts for approximately 40 percent of the brand's footwear sales. Expansion into women's product offerings has also contributed greatly to recent year's sales growth[6]. Many of these sales have been generated through better department stores such as Nordstrom and several of the Federated divisions[5].

The Bates segment of the WFG has registered two consecutive years of sales increases. This growth has been primarily driven by increased demand for its technical footwear products from the US military (Bates is the single largest footwear provider to the US Defense Department). The brand also recently received two new contracts to provide footwear to the Saudi Royal Navy. Improved consumer demand for its performance work boots products used by the brand's civilian base has also contributed to the growth. Much of the civilian sales growth has been funneled through big-box sporting goods retailers[6]. Continued expansion into the sporting goods retail distribution channel will be vital to Bates' long-term sales stability.

Other Businesses

For fiscal 2003, Wolverine's other businesses segment accounted for about 5.2 percent of total sales. The segment is composed primarily of three groups: retail stores, a leather tannery operation, and licensing agreements. The retail business is made up of both company outlets and seven Track 'N Trail (T'NT) mall-based stores. Purchased out of bankruptcy, Wolverine management believes that the T'NT stores could potentially be very profitable for the company[6]. Currently, almost 50 percent of the inventory sold at T'NT stores is Merrell branded[5]. Management should be concerned by recent softening of mall-based retail sales in general when evaluating future expansion plans of the T'NT store chain.

When run at capacity, the leather tannery operation has the highest return on assets of any business segment for Wolverine. New Balance is currently the operation's single largest external customer however, when not used to capacity the tannery can negatively impact company earnings. Currently, Wolverine has no plans to dispose of the operation at this time. Licensed products include:

watches, eyewear, apparel, belts and accessories, and plush animals (the famous Hush Puppies basset hound) [5].

Strategic Analysis

Wolverine management describes the firm's strategic direction as "pursuing a comprehensive set of strategic initiatives to leverage and strengthen our most important asset—our portfolio of global brands"[11]. First among these strategies is establishing a stronger presence in Europe. Combined European businesses have doubled their earnings in the recent past, an achievement driven by margin expansion and operating synergies related to their centralized services operation[8].

Management also aims to achieve product excellence from design through production. To accomplish this, product development processes have been re-engineered to produce more frequent introductions of tightly focused product collection. The retail industry, in a poll administered by *Footwear Plus* magazine, recognized Wolverine's commitment to design excellence by naming Merrell "Outdoor Brand of the Year" and Wolverine "Work Boot Brand of the Year" for 2003, making the second and fifth consecutive years, respectively, that each brand achieved this status[8].

Securing new sources of growth is another strategic goal of the firm. Wolverine's vision is to expand Sebago from its current niche into the global reference for performance marine and American-inspired handcrafted footwear for men and women. Management is also committed to building a stronger consumer-direct business. Even though the company primarily focuses on wholesaling, they believe that company-controlled distribution provides the flexibility to showcase brands in ways not possible in other retail venues. The Internet has also become a strong platform with consumer-direct web sites now established for most brands and retail operations[8].

Wolverine is committed to providing "best in class" service to all of their customers. The goal is to leverage customer service into a competitive advantage by making the company the easiest global footwear company with which to do business. Online Account Service (OAS), which provides the customer the ability to order product and review account information 24 hours-per-day, seven-days-a-week, has become increasingly important to the business performance. US-based customers now place 70 percent of their orders through OAS and other electronic means. Wolverine has also undertaken a benchmarking program to track the progress of customer service initiatives through a biennial survey of important retail partners with the results being used to improve service levels[8].

Wolverine has a strategic goal of building a strong team and corporate culture throughout the organization. Management strengthened the firm's global sales and marketing teams during 2003 through the recruitment of several highly-skilled top managers and executives with solid industry track records. Furthermore, over 700 associates participated in company-provided training in 2003. Management is also committed to strong corporate governance. In 2003, Wolverine received high scores for corporate governance from the Institutional Shareholder Services organization[8].

Short-Term (3-Year) Goals

- Producing mid- to upper-single digit revenue growth, which puts Wolverine on pace to break the $1.0 billion mark in 2005. Growth is expected to be generated through global expansion and market share gains from branded operations.
- Generating earnings growth at approximately 1.5 times the rate of revenue growth through gross margin expansion while continuing to keep selling, general, and administrative costs in check.
- Driving the global growth of company brands through investments in marketing and product development. Management plans to increase investments at a rate higher than revenue growth by reinvesting a portion of margin gains into brand-building activities. Advertising costs for 2001 to 2003 were: $29,757,000, $33,584,000, and $35,254,000, respectively.
- Extracting the maximum value from the company's asset base through the execution of working capital management programs, which are focused on accelerating inventory turns and lowering days sales outstanding[8].

Financial Analysis

2003 Annual Report Highlights

In 2003, nearly 41 million pairs of footwear bearing the Wolverine brand names were purchased by consumers in more than 150 countries. Dividends were increased for the tenth consecutive year, resulting in a 20 percent average annual increase over the past decade. Percent of debt to total capitalization dropped to 12.2 percent, its lowest level in more than a decade. Asset management programs produced solid results, with year-end accounts receivable and inventory balances dropping 6.0 percent and 2.4 percent respectively, below year-end 2002 levels[8].

Since 1999, Wolverine has produced over $360 million in cash from operating activities that have been used to fund acquisitions, pay dividends, retire debt, and execute a Board-authorized share repurchase program. The firm's market capitalization grew nearly 35 percent during 2003, a rate nearly a third greater than the performance of the S&P 500. Over the past decade, revenue and earnings grew at annual rates of 10.7 and 15.2 percent, respectively[8].

Third Quarter 2004 Results

On October 6, 2004, Wolverine World Wide reported third-quarter financial results, posting an eleventh consecutive quarter of both record revenue and net earnings. For the quarter, revenues were $260.9 million, a 13.2 percent increase over third quarter 2003 revenue of $230.6 million. Earnings per share were $0.55, compared to $0.40 for the third quarter of 2003, an increase of 37.5 percent. For the first three quarters of 2004, revenue reached $684.5 million, a 12.9 percent increase over the $606.1 million reported for the first three quarters of 2003. Year-to-date EPS have grown to $1.12, up 38.3 percent from $0.81 for the same period of 2003[14].

On a year-to-date basis, all of Wolverine's operating units have generated earnings gains. Furthermore, management-implemented expense controls and expanding gross margins have resulted in a 130 basis point improvement in operating margin. The company has aggressively managed their assets and further improved their balance sheet by paying down senior debt totaling $4.3 million and closed the quarter with a strong cash position of $39.1 million[14].

Earlier in October 2004, Wolverine's Board of Directors authorized the repurchase of two million shares of common stock, reflecting the board's continued confidence in the company's future growth prospects. This is in addition to the two million shares authorized to be repurchased in October 2000. According to the Board, the repurchase is seen as one of the ways to employ free cash flow and further enhance shareholder value. The share repurchases are authorized to be made over a two-year period at times and amounts considered appropriate by management based on factors including "price and market conditions as permitted by security laws and other legal requirements"[13].

Wolverine's strong financial performance in recent years with consistent results may be attributable to a relatively conservative balance sheet. For fiscal 2004, Susquehanna Financial Group anticipates the company generating approximately $57 million in cash from operations, with free cash flow reaching roughly $40 million. They also believe the company will continue to use its cash position to increase shareholder value through share repurchases, dividend payout, and lowering of debt totals[6].

Conclusion – $100,000 Investment in Wolverine World Wide

On September 7, 2004 I purchased 4,050 shares of Wolverine World Wide common stock at a price of $24.69 per share. This amounted to a total investment of $99,994.50 plus commissions totaling $749.96. Using a buy-and-hold strategy, I then sold all 4,050 shares of common stock on December 7, 2004 at a price of $30.02 per share. This amounted to receipts totaling $121,581.00 less commissions of $911.86. For the two month period during which I owned the stock, I made a profit of $19,924.68, or 19.78 percent. Annualized, my rate of return would be approximately 119 percent.

I believe that Wolverine is as good of an investment now as it was when I purchased the stock on September 7th. The company is widely considered an industry leader in the non-athletic segment of the footwear industry and has assembled a very strong management team that appears to be totally committed to increasing shareholder value. Wolverine is on pace to break the $1 billion mark in annual revenues in 2005 and has the opportunity to turn the Sebago brand into another version of their wildly-successful Merrell brand.

Financially, margins continue to improve, inventory levels are decreasing, return on assets is increasing, and debt levels are near all-time lows. While the company does face risks from international expansion or the unexpected slow-down of Merrell's explosive growth, management appears ready and able to successfully guide the company around these pit-falls. My level of respect for the company has only grown through this analysis process and I fully expect Wolverine World Wide to continue on its path to long-term success.

Sources

1. Duffy, J., & Esposto, R. (2004). *Wolverine World Wide Inc*. (Available from Thomas Weisel Partners).
2. Evans, Z. (2004, November 24). [Interview with Tim O'Donovan, CEO and President, Wolverine World Wide, Inc.].
3. Footwear Consulting Group. (2004, June). *Work / Western / Outdoor Boot / Hiking Market Profiles January – December 2002 vs. 2003*. Franklin, TN: Mike Kormos.
4. FOXNews.com. (n.d.). *Executive Compensation: Wolverine World Wide Inc*. Retrieved November 3, 2004, from http://prod.ecomponline.com/cobrand/cobrand.asp?cobrand_id=1&symbol=www
5. Krasik, S. (2003). *Initiation Report: Wolverine World Wide, Inc*. (Available from CL King & Associates).
6. Shanley, J., & Svezia, C. (2004). *Footwear and Athletic: Wolverine World Wide, Inc*. (Available from Susquehanna Financial Group LLLP).
7. Standard & Poor's. (2004, October). *Quantitative Stock Report: Wolverine World Wide*.
8. Wolverine World Wide (2003). *2003 Annual Report*. Retrieved September 1, 2004, from http://www.wolverineworldwide.com/investors_reports.asp
9. Wolverine World Wide (n.d.). *Board of Directors*. Retrieved September 1, 2004, from http://www.wolverineworldwide.com/investors_board.asp
10. Wolverine World Wide (n.d.). *Investors*. Retrieved September 1, 2004, from http://www.wolverineworldwide.com/investors.asp
11. Wolverine World Wide (n.d.). *Investor's FAQs*. Retrieved September 1, 2004, from http://www.wolverineworldwide.com/investors_faq.asp
12. Wolverine World Wide (n.d.). *Stock Ownership by Management*. Retrieved September 1, 2004, from http://www.wolverineworldwide.com/downloads/StockOwnershipbyManagement.pdf
13. Wolverine World Wide (2004, October 5). *Wolverine World Wide, Inc. Announces Approval of 2 Million Share Buyback*. Retrieved October 11, 2004, from http://phx.corporate-ir.net/phoenix.zhtml?c=88408&p=irol-newsArticle&t=Regular&id=623912

Wolverine World Wide (2004, October 6). *Wolverine World Wide, Inc. Announces Third Quarter Earnings Per Share Up 37.5% and Increases 2004 Estimates*. Retrieved October 11, 2004, from http://phx.corporate-ir.net/phoenix.zhtml?c=88408&p=irol-newsArticle&t=Regular&id=623974

Appendix A - Interview with Tim O'Donovan, CEO and President, Wolverine World Wide[2]

As part of my research on Wolverine World Wide, I wanted to explore five challenges that I believe are facing Wolverine in the marketplace. To accomplish this, I requested—and received—permission to submit questions to Tim O'Donovan, CEO and President of Wolverine World Wide, Inc. for his response. Below are my questions, his answers, as well as some additional commentary.

Question 1: Given the continuing fragmentation of mass media outlets and the effect on strategies utilizing mass media marketing, how have Wolverine's marketing strategies changed to keep up?

"Our business today has ten brands available to consumers in more than 150 countries around the world. There are substantial diversities in the cultures and consumer groups who purchase, or may purchase, products under our brand names. While there are a variety of approaches taken both by us and our network of licensees and distributors to win consumers in these markets, we have adopted several central principles that guide our approach and investment.

"A focused and adequately funded product development process is the fundamental first step in winning consumers and one of our central principles. This requires a great deal of market and consumer information to execute well. Whom are we developing product for, what need does it meet, will this create a unique position in the marketplace, support the brand and be available where our target consumer shops comfortably?

"Having moved through this process, we are ready to go to market. We know through research that consumers are skeptical, and often discount or ignore, advertising messages communicated through traditional print, radio and TV outlets. Approximately 80% of final purchase decisions are made at the point of sale and word of mouth is statistically the largest factor influencing consumer purchases. As a result, we do not place heavy emphasis on traditional mass media campaigns.

"Our second principle is to 'influence the influencers' that is we concentrate our marketing resources on retailers and the point of sale. We focus substantial marketing resources on Point of Purchase programs, Shop in Shop programs, in store training for retail sales staff, technical resource guides and co-op advertising all focused towards driving sales through our retail partners' stores and building our brands and consumer base. By investing in our retail partners and their staff, we create an extended sales team who support our brands and increase the profitability of both our businesses.

"The last guiding principle is to invest resources in grass roots programs, projects and events. Like the product development and point of sale principles, this reaches out to touch the consumer directly, where they live in ways that matter to them personally. We can be painting a run down school building in Manhattan, underwriting an outdoor festival or hosting community events. These efforts build relationships that nurture our brands, our consumers and our employees benefiting everyone."

While I agree that traditional, mass-media advertising has lost some of its power to motivate consumers to purchase, I do believe that there is still value available to be leveraged. Part of the appeal of mass media is its ability to generate the kind of buzz Wolverine seeks among individual consumers. Even though many discount the power of Super Bowl commercials to enhance purchase likelihood, the commercials have in fact become, in some circles, more enjoyable to watch and discuss than the game itself. I am not advising that Wolverine rush out and spend millions of dollars on a 30-second spot on Super Bowl Sunday. I do believe, however, a well-executed creative ad delivered via mass media can positively generate the word-of-mouth advertising being sought after.

Question 2: Has Wolverine's public support and focus on consumer-direct retail outlets (Track 'N Trail) and web sites (as mentioned in the 2003 annual report), affected traditional retail relationships? If so, how? How has the company managed these conflicts?

"Wolverine World Wide has been in the retail business for many years and today our retail operations represent approximately 5% of annual sales. It is our intention to continue to develop our retail business and generally maintain the mix of wholesale and retail in the future as evidenced by the acquisition of the Track 'N Trail name several years ago and the subsequent launch of T'N T stores. We believe that good distribution—retail operations that offer consumers first quality products in a non-promotional environment—are always welcome in the marketplace.

"We realize many benefits from our retail business beyond sales and earnings. Our stores offer us the opportunity to get close to our consumers and hear them first hand. We can test products and programs prior to large scale initiatives and investments. We also know what our retailers are experiencing as they run their businesses and this helps us to appreciate and serve them through our wholesale operations. Our retail operations build our brands and in the end this is good for everyone who is involved with the brand.

"When the opportunity to offer consumers direct sales through e-commerce became viable we moved carefully into this arena. Today we have a variety of paths consumers can follow to purchase from us through our brand sites, through our T'NT online store or to be linked to a key retail partner. The central idea online is the same as in our brick and mortar operations, good distribution, as defined above, is good distribution and ultimately benefits everyone."

I agree with Mr. O'Donovan that a company-owned retail distribution channel—absent of promotions—is good for most brands. What this distribution channel does is creates a 'stress free' zone for the company's brands where they do not have to compete with other labels for a consumer's attention. Instead, all effort can be focused on promoting the brand for what it is: a bundle of value that the consumer wants or needs. I believe the value to the consumer goes one step further as well: many companies are beginning to realize the value of allowing their consumers to purchase when and where they want, even if that venue happens to lie outside their traditional distribution channels.

What happens though when a consumer walks into a company-owned store and sees a pair of shoes retailing for $99 that they just bought at a department store for $79? After the initial rush of joy at finding a deal passes, how does the company bridge the gap being rendered between the consumer's perceived value and the company's desired value? This is where I believe Wolverine needs to tread lightly. If the market is telling them that a particular shoe should retail for $79, how can they continue to pursue a $99 retail price point?

Question 3: Given the movement towards lower priced footwear (especially lower-priced work boots), how is the Wolverine brand being positioned to compete in the long term? Do you worry about being able to maintain retail price points? Do you expect to see this trend reverse in the near future with consumers moving back towards premium priced work boots?

"The Wolverine brand was the original brand upon which our business was built. The brand consistently ranks as one of the top three work brands in the US and enjoys a strong franchise with consumers built over many years centered on value, design and technical innovation including our DuraShocks comfort technology. The value proposition for the brand is not threatened by a decline in average selling prices.

"The challenge is on our supply chain to continue to provide consumers with the quality and value they expect, at a price they are willing to pay. This can be done and is not a challenge for the footwear industry only. Dell is a good example of a great and profitable brand in an industry with declining average selling prices.

"We can simultaneously build the brand, maintain good margins and delight consumers. We have developed footwear initiatives that diversify the product offerings into other product categories, rugged casual and outdoor sport. We have extended the brand into apparel with both work and rugged casual lines that are performing well at retail today. We believe that the Wolverine brand has the potential to become an important lifestyle brand in the North American market and are laying the groundwork to achieve this."

While I do agree that there is a great deal of cost savings that can be gleaned from an efficient supply chain, I believe that the Dell analogy may be a bit faulty. The reason for this is that Dell operates within an industry that has experienced declining component costs for many years. As processing power, storage capacity, etc. increases, costs have shown an inverse relationship. The prices of footwear components, on the other hand, have been steadily increasing. Prices for leather, outsoles (many of which are made from petroleum bi-products), and steel toe caps are three examples where this trend can be seen.

As stated in my industry analysis, consumers are spending—in total—more money on footwear purchases but are also spending a smaller percentage of their income on that footwear. The market is exerting downward-pressure on footwear prices but not allowing average prices to keep pace with inflation. While I do believe that there will continue to be consumers who are willing to pay a premium price for a premium work boot, I think that Wolverine, as a company, is doing the right thing by exploring the lower-priced work boot segment (through their Stanley license) as well as segments other than traditional work boots.

Question 4: With the acquisition of the Sebago brand, how will Wolverine maintain the "authentic American" brand image while moving production off-shore?

"Manufacturing supply chains are long, global networks that have evolved to satisfy the efficiency demands of the marketplace. The marketplace is very efficient and business must continually mine further value from existing chains, or reinvent them, to compete successfully. We are living in a time where we have the opportunity to look backwards at highly localized production and forward to fully global production across many industries. Any brand that wants to compete successfully today must deliver on its inherent value proposition, whatever that may be, and do so without having to rely on a country of origin or localized supply chain.

"Today consumers buy Swedish brand automobiles, owned by an American company, with Japanese transmissions, and sub-assemblies from Germany. Consumers generally focus on brand attributes and their value more than country of origin in making purchase decisions. We are confident that we can continue to satisfy Sebago consumers and win many more by upholding the core values of the brand while we evolve the supply chain to remain competitive and profitable."

While I agree that consumers are becoming less concerned about the point of origin for any number of products they purchase, it is a delicate line that any firm which off-shores production must walk. I believe that this will be especially important in regards to the Sebago label. Mr. O'Donovan talks about a brand's "inherent value proposition," which I recognize as extremely valuable. However, is not the "authentic American" brand image part of Sebago's value proposition? For the majority of consumers this will not be an issue. However, for the consumer that desires to purchase Sebago's American heritage, I believe the "Made in China" stamp on the shoe may be a bit of a obstacle that will need to be dealt with.

Question 5: Given your emphasis placed on European expansion for all brands, how will Wolverine manage the increased volatility inherent in international sales as well as increasingly anti-American sentiment displayed in some foreign countries such (as France and Germany) in recent history?

"Operating a successful business means managing risk. Wolverine World Wide started to expand internationally almost 50 years ago through licensing agreements under our Hush Puppies brand. We continued this expansion and added our Bates, Caterpillar, Harley-Davidson, Merrell and Sebago brands to the list. More recently we have begun to acquire the wholesale businesses in a select few countries.

"We have been managing the fluctuations in multiple markets for years along with currency valuation swings and the effect they can have, positive or negative, on performance. So while our expansion represents a change from our previous business we believe we can bring our knowledge and experience gained over the years to our new business, successfully and profitably.

"We are developing teams of local market 'experts' who understand language, culture and consumer taste within the regions of our owned businesses. While this represents additional risk beyond the license model, we believe that the upside potential for our brands within these markets, especially the UK and Europe, is large, outweighs the downside risk, and merits our investment. As the largest market for better grade footwear, the arena where we excel, it is a prudent investment for us to develop our brands there today through owned wholesale businesses.

"Regarding political swings and sentiments, we do not believe the current situation will have any material effect on our brands or businesses."

I believe that further expansion in European markets is a good business move for Wolverine. At some point all firms must face market saturation, regardless of how large or small their target market is. It is at this juncture that firms must decide how big they truly wish to become. I believe that Wolverine has made the right decision to begin re-purchasing their international wholesale businesses from the licensees. While I am confident that most, if not all, of the licensees were good stewards of Wolverine's brands, I believe that centralized control of the businesses may have a positive effect on the company as a whole.

This centralized control does not come without risks, however. I believe it will be prudent for Wolverine to continue their development of local talent and market "experts" that will be able to provide everyone, from production through sales and marketing, with invaluable insights into the minds of their respective consumers. Too much control, however, may stunt the growth of the international business as corporate management may be less willing to take on some international risks that the local teams deem necessary. The hope is that these teams will allow Wolverine to avoid repeating missteps such as CAT's recent product failures in Europe.

Appendix B - Five-Year Operating and Financial Summary[8]

	2003	Growth	2002	2001	2000	1999
Summary of Operations						
Revenue	$ 888,926	7.47%	$ 827,106	$ 720,066	$ 701,291	$ 665,576
Cost of products sold	$ 562,338	5.53%	$ 532,878	$ 463,030	$ 477,318	$ 445,232
Selling and administrative expenses	$ 246,652	13.58%	$ 217,154	$ 182,178	$ 198,953	$ 159,749
Interest expense (net)	$ 5,474	-15.34%	$ 6,466	$ 6,742	$ 9,909	$ 10,346
Income taxes	$ 23,262	-1.43%	$ 23,599	$ 23,307	$ 4,325	$ 17,166
Net earnings	$ 51,716	7.94%	$ 47,912	$ 45,240	$ 10,690	$ 32,380
Net earnings as a percente of revenue	5.8%	0.00%	5.8%	6.3%	1.5%	4.9%
Cash dividends declared	$ 8,588	19.41%	$ 7,192	$ 6,643	$ 5,797	$ 4,944
Per share of common stock:						
Basic net earnings	$ 1.32	10.92%	$ 1.19	$ 1.11	$ 0.26	$ 0.80
Diluted net earnings	$ 1.27	10.43%	$ 1.15	$ 1.07	$ 0.26	$ 0.78
Realignment charges	$ -	0.00%	$ -	$ -	$ 0.71	$ 0.23
Cash dividends declared	$ 0.22	22.22%	$ 0.18	$ 0.16	$ 0.14	$ 0.12
Stockholders' equity	$ 9.22	14.53%	$ 8.05	$ 8.24	$ 7.53	$ 7.48
Shares used for computing earnings per share:						
Basic	39,176	-2.66%	40,246	40,738	40,606	40,303
Diluted	40,721	-2.01%	41,556	42,159	41,255	40,954
Financial Position at Year-End						
Cash and cash equivalents	$ 55,356	104.43%	$ 27,078	$ 35,820	$ 8,434	$ 1,446
Accounts receivable (net)	$ 146,879	-6.02%	$ 156,285	$ 152,330	$ 161,957	$ 170,732
Inventories	$ 164,904	-2.42%	$ 168,998	$ 177,041	$ 144,192	$ 168,011
Total current assets	$ 386,636	6.03%	$ 364,643	$ 374,802	$ 325,086	$ 349,301
Property, plant and equipment (net)	$ 96,007	-1.30%	$ 97,274	$ 98,994	$ 102,665	$ 116,283
Total assets	$ 578,881	8.81%	$ 531,994	$ 543,678	$ 494,568	$ 534,395
Total current liabilities	$ 85,766	6.97%	$ 80,177	$ 74,521	$ 54,004	$ 48,539
Short-term borrowings	$ -	0.00%	$ -	$ 90	$ 896	$ 148
Long-term debt	$ 59,923	-17.82%	$ 72,915	$ 90,848	$ 92,194	$ 139,201
Stockholders' equity	$ 430,094	16.53%	$ 369,097	$ 374,152	$ 337,238	$ 332,105
Working capital	$ 300,870	5.77%	$ 284,466	$ 300,281	$ 271,082	$ 300,762

Note: All figures are in thousands, except per share data and percentages

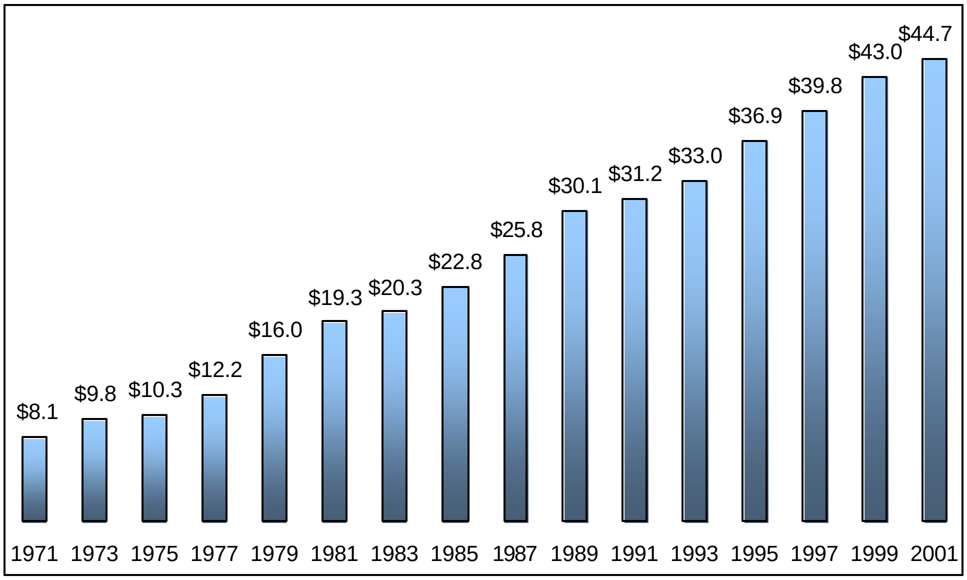
Appendix C - Consolidated Balance Sheets[8]

(Thousands of Dollars)	2003	Growth	2002
Assets			
Current Assets			
Cash and cash equivalents	$ 55,356	104.43%	$ 27,078
Accounts receivable, less allowances	$ 146,879	-6.02%	$ 156,285
Inventories			
Finished products	$ 143,127	-2.12%	$ 146,229
Raw materials and work-in-process	$ 21,777	-4.36%	$ 22,769
	$ 164,904	-2.42%	$ 168,998
Deferred income taxes	$ 6,528	118.18%	$ 2,992
Other current assets	$ 12,969	39.60%	$ 9,290
Total current assets	$ 386,636	6.03%	$ 364,643
Property, plant and equipment			
Land	$ 1,080	-2.17%	$ 1,104
Buildings and improvements	$ 64,235	1.99%	$ 62,982
Machinery and equipment	$ 128,954	4.42%	$ 123,499
Software	$ 44,081	14.83%	$ 38,389
	$ 238,350	5.48%	$ 225,974
Less accumulated depreciation	$ 142,343	10.60%	$ 128,700
	$ 96,007	-1.30%	$ 97,274
Other assets			
Goodwill and other non-amortizable intangibles	$ 42,130	26.56%	$ 33,288
Cash surrender value of life insurance	$ 24,880	9.95%	$ 22,628
Prepaid pension costs	$ 19,451	0.00%	$ -
Assets held for exchange	$ 3,539	-25.01%	$ 4,719
Other	$ 6,238	-33.93%	$ 9,442
	$ 96,238	37.33%	$ 70,077
Total assets	$ 578,881	8.81%	$ 531,994
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable	$ 26,328	-10.88%	$ 29,542
Salaries, wages and other compensation	$ 16,696	35.78%	$ 12,296
Income taxes	$ 1,513	-57.68%	$ 3,575
Taxes, other than income taxes	$ 3,416	-20.96%	$ 4,322
Other accrued expenses	$ 21,793	41.40%	$ 15,412
Current maturities of long-term debt	$ 16,020	6.59%	$ 15,030
Total current liabilities	$ 85,766	6.97%	$ 80,177
Long-term debt, less current maturities	$ 43,903	-24.15%	$ 57,885
Deferred compensation	$ 5,736	20.96%	$ 4,742
Accrued pension liability	$ -	-100.00%	$ 19,870
Deferred income taxes	$ 13,068	16235.00%	$ 80
Minority interest	$ 314	119.58%	$ 143
Stockholders' equity			
Common stock, $1 par value: authorized 80,000,000 shares;			
issued including treasury shares: 2003 - 46,662,593	$ 46,663	1.80%	$ 45,840
Additional paid in capital	$ 101,706	11.77%	$ 90,994
Retained earnings	$ 382,603	12.70%	$ 339,475
Accumulated other comprehensive income (loss)	$ 8,540	136.31%	$ (23,522)
Unearned compensation	$ (4,138)	7.96%	$ (3,833)
Cost of shares in treasury: 2003 - 7,209,313	$ (105,280)	31.84%	$ (79,857)
Total stockholders' equity	$ 430,094	16.53%	$ 369,097
Total liabilities and stockholders' equity	$ 578,881	8.81%	$ 531,994

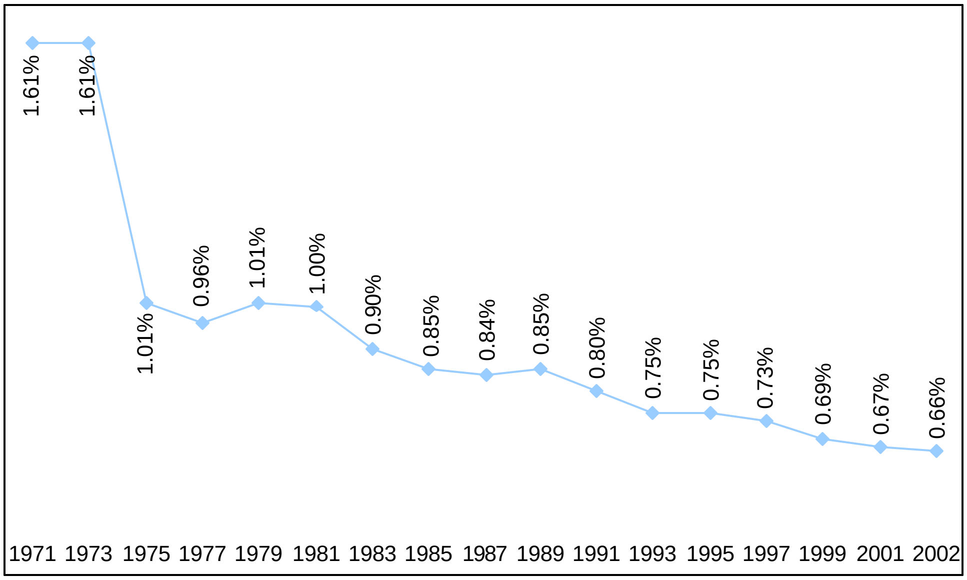
Appendix D - Consolidated Statements of Cash Flows[8]

(Thousands of Dollars)	2003	Change	2002	2001
Operating Activities	$ 51,716	7.94%	$ 47,912	$ 45,240
Net Earnings				
Adjustments necessary to reconcile net earnings				
to net cashh provided by operating activities:				
Depreciation	$ 17,664	6.20%	$ 16,633	$ 15,991
Amortization	$ 283	24.67%	$ 227	$ 1,630
Deferred income taxes (credit)	$ (902)	-517.59%	$ 216	$ 5,169
Other	$ (1,538)	-157.65%	$ 2,668	$ (2,539)
Changes in operating assets and liabilities				
Accounts receivable	$ 15,534	364.23%	$ (5,879)	$ 9,178
Inventories	$ 17,069	-31.41%	$ 24,884	$ (31,655)
Other operating assets	$ 529	149.16%	$ (1,076)	$ 2,425
Accounts payable	$ (5,820)	787.20%	$ (656)	$ 7,450
Other operating liabilities	$ 7,668	128.90%	$ 3,350	$ 1,046
Net cash provided by operating activities	$ 102,203	15.77%	$ 88,279	$ 53,935
Investing Activities				
Business acquisitions, net of cash acquired	$ (14,780)	-45.99%	$ (27,366)	$ (1,410)
Additions to property, plant and equipment	$ (16,015)	15.42%	$ (13,875)	$ (11,298)
Other	$ 58	-90.44%	$ 607	$ 235
Net cash used in investing activities	$ (30,737)	-24.36%	$ (40,634)	$ (12,473)
Financing Activities				
Proceeds from short-term borrowings	$ -	0.00%	$ -	$ 6,706
Payments of short-term debt	$ -	-100.00%	$ (90)	$ (7,512)
Proceeds from long-term borrowings	$ 66,194	-29.74%	$ 94,215	$ 113,972
Payments of long-term debt	$ (81,176)	-27.67%	$ (112,226)	$ (115,318)
Cash dividends	$ (8,588)	19.41%	$ (7,192)	$ (6,643)
Purchase of common stock for treasury	$ (25,656)	-23.70%	$ (33,626)	$ (9,145)
Proceeds from shares issued under stock incentive plans	$ 7,570	243.78%	$ 2,202	$ 3,864
Net cash used in financing activities	$ (41,656)	-26.55%	$ (56,717)	$ (14,076)
Effect of foreign exchange rate changes	$ (1,532)	-564.24%	$ 330	$ -
Increase (decrease) in cash and cash equivalents	$ 28,278	-423.47%	$ (8,742)	$ 27,386
Cash and cash equivalents at beginning of the year	$ 27,078	-24.41%	$ 35,820	$ 8,434
Cash and cash equivalents at end of the year	$ 55,356	104.43%	$ 27,078	$ 35,820
Other Cash Flow Information				
Interest paid	$ 5,461	-17.67%	$ 6,633	$ 7,656
Net income taxes paid	$ 22,725	24.86%	$ 18,201	$ 7,854

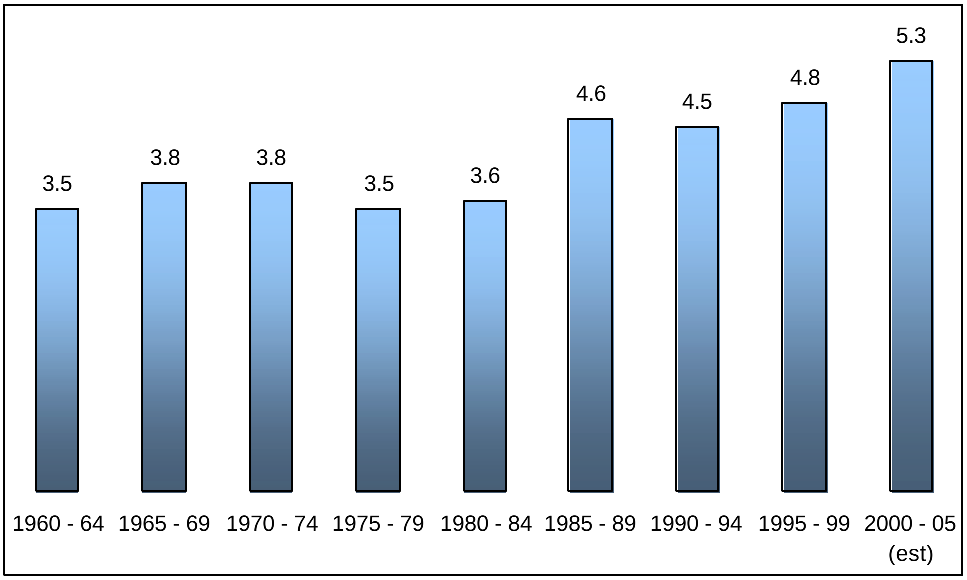
Appendix E - Personal Consumption Expenditures on Shoes[3]



Appendix F - Footwear Expenditures as a Percentage of Total Personal Expenditures[3]



Appendix G - Average Per Capita Consumption (Pairs)[3]



Appendix H - Breakdown of the Women's and Men's Work Footwear Industry Segment[3]

Major Players 7.5% - 10.0%	Moderate Players 2.5% - 4.5%	Minor Players 1.0% - 2.0%
Red Wing	Timberland	Shoes for Crews
Wolverine	Skechers	Route 66
	Caterpillar	Herman Survivors
	Stanley	Wrangler
	Dr. Martens	Nike
	Rugged Outdoor	Faded Glory
		Georgia Boot
		Rockport
		Thom McAn
		Rocky
		Justin

Appendix I - Breakdown of the Women's and Men's Work/Safety Footwear Industry Segment[3]

Major Players 16% - 18%	Large Players 3.5% - 7%	Moderate Players 2.0% - 3.0%	Minor Players 1.0% - 1.9%
Red Wing	Timberland	Herman Survivors	Georgia Boot
Wolverine	Caterpillar	Wrangler	Rocky
	Stanley	Route 66	Justin
	Rugged Outback	Dr. Martens	Dickies
		Skechers	Texas Steer
			Mack
			Iron Age
			Nike
			Faded Glory

Appendix J - Breakdown of the Hiking Footwear Industry Segment[3]

Top Brands-Market Share	2002	2003
Timberland	23.0%	27.5%
Nike	4.8%	5.7%
Skechers	4.0%	5.1%
Hi-Tec	3.0%	3.1%
Caterpillar	2.7%	2.8%
Faded Glory	4.1%	2.6%
Merrell	1.9%	2.5%
Rockport	2.4%	2.3%
New Balance	1.8%	1.9%
Reebok	2.0%	1.9%
LL Bean	2.0%	1.8%
Yukon	1.7%	1.7%
Brahma Boot	1.0%	1.7%
Columbia	0.7%	1.2%
Route 66	2.9%	1.2%

Appendix K - Breakdown of the Sport/Casual Footwear Industry Segment[3]

Top Brands-Market Share	2002	2003
Timberland	51.8%	57.5%
LL Bean	11.8%	9.1%
Skechers	5.5%	8.6%
Columbia	4.5%	5.7%
Caterpillar	8.9%	5.0%
Pro Wings	3.1%	3.8%
Rocky	1.3%	2.7%
The North Face	0.5%	2.1%
Wolverine	3.3%	1.9%
Red Wing Boots	3.3%	1.6%
Lacrosse	0.7%	0.9%
Danner	2.8%	0.5%
Herman Survivors	2.6%	0.4%
Double-H	0.0%	0.2%

Appendix L

Board of Directors[9]

Director	Year Appointed
Geoffrey B. Bloom	1987
Donald V. Fites	1999
Alberto L. Grimoldi	1994
David T. Kollat	1992
Brenda J. Lauderback	2003
Phillip D. Matthews	1981
David P. Mehney	1977
Timothy J. O'Donovan	1993
Elizabeth A. Sanders	1994
Paul D. Schrage	1997

2003 Executive Compensation[4]

Name & Title	Salary	Bonus	Total Direct Compensation
Steven M. Duffy Executive Vice President	$358,827	$189,611	$548,438
Dean V. Estes Vice President	$329,135	$184,863	$513,998
Stephen L. Gulis, Jr. EVP, CFO and Treasurer	$323,942	$251,283	$575,225
Blake W. Krueger EVP and Secretary	$364,019	$271,438	$635,457
Timothy J. O'Donovan CEO, President, and Director	$647,885	$742,188	$1,390,073

Stock Ownership by Management[12]

Name of Beneficial Owner	Stock Options	Total Beneficial Ownership
Geoffrey B. Bloom	404,801	644,704
Steven M. Duffy	206,634	266,873
V. Dean Estes	153,543	232,966
Donald V. Fites	47,589	57,589
Alberto L. Grimoldi	38,456	42,547
Stephen L. Gulis, Jr.	214,424	318,338
David T. Kollat	42,252	85,283
Blake W. Krueger	200,661	295,076
Brenda J. Lauderback	9,454	9,454
Phillip D. Matthews	38,456	70,713
David P. Mehney	42,252	123,002
Timothy J. O'Donnovan	440,553	867,315
Joseph A. Parini	38,456	45,641
Elizabeth A. Sanders	53,643	64,018
Paul D. Schrage	42,255	47,255
All directors and executive officers as a group	2,094,489	3,361,658

Appendix M – Financial Ratios

Ratio	2003	2002	2001
Asset Turnover	1.60	1.54	1.39
Average Collection Period	62.24	68.10	79.66
Beta	0.65	n/a	n/a
Cash Ratio	0.65	0.34	0.48
Current Ratio	4.51	4.55	5.03
Days Inventory	108.36	118.51	126.61
Debt Ratio	12.23%	16.50%	19.54%
Debt-Equity Ratio	0.14	0.20	0.24
Dividend Yield	1.09%	1.21%	1.10%
Internal Growth Rate	66.09%	63.81%	n/a
Market-to-Book Ratio	1.84	1.62	1.59
Net Profit Margin	5.82%	5.79%	6.28%
Net Working Capital	$ 300,870	$ 284,466	n/a
Payout Ratio	16.6%	15.0%	14.7%
Plowback Ratio	83.4%	85.0%	85.3%
Price-Earnings Ratio	15.32	12.45	13.15
Quick Ratio	2.4	2.3	2.5
Return on Assets	9.31%	8.91%	8.71%
Return on Equity	12.94%	12.89%	12.72%
Sustainable Growth Rate	30.52%	29.49%	32.11%
Times-Interest-Earned	15.76	13.18	11.89

Appendix N – Financial Calculations (WACC, MVA, & EVA)

Weighted Average Cost of Capital (WACC)

Cost of Debt	9.14%
Debt	$ 59,923
Cost of Equity[1]	9.27%
Equity	$ 430,094
WACC	9.25%

Market Value Added (MVA)

Shares Outstanding	46,663
Stock Price	$ 20.22
Common Stock	$ 46,663
Retained Earnings	$ 382,603
Additional Pain In Capital	$ 101,706
Market Value Added	$ 412,546

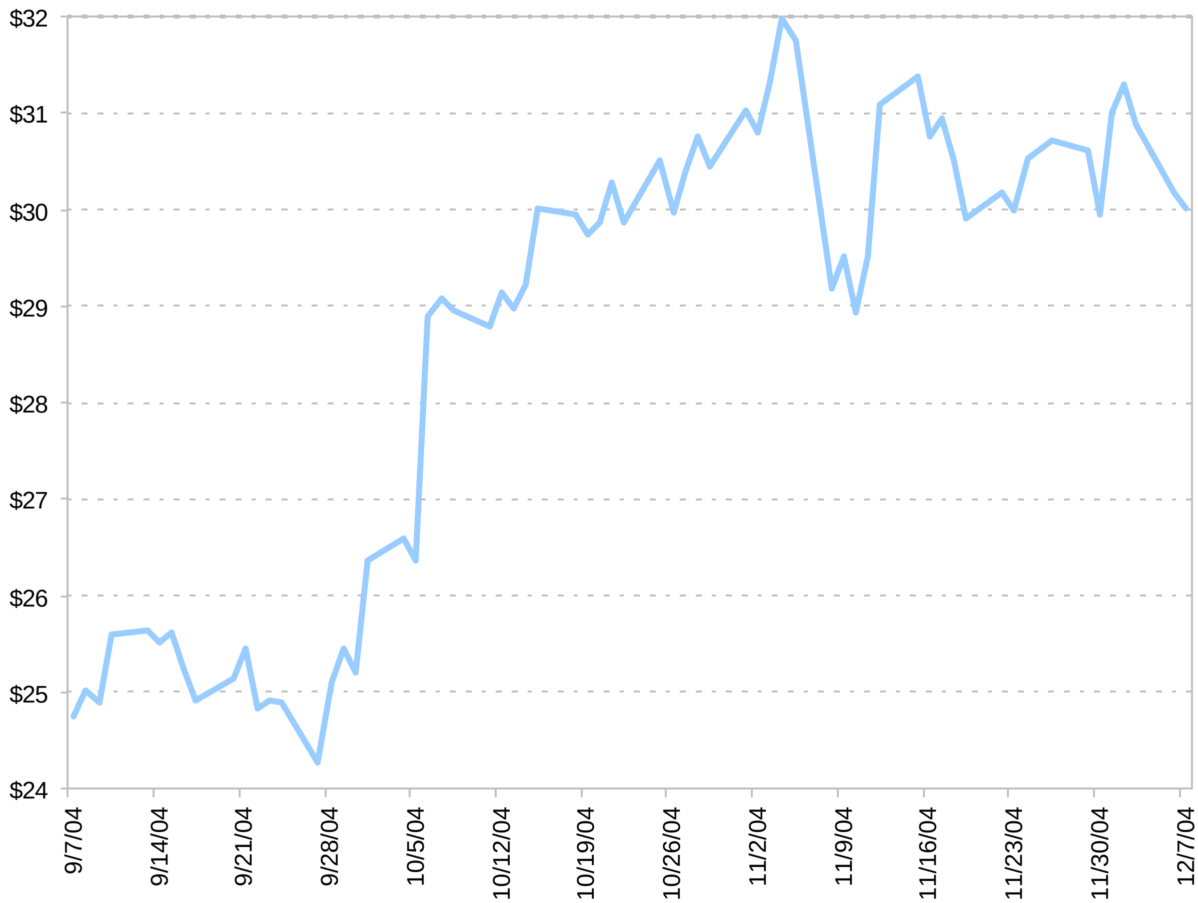
(in millions)

Economic Value Added (EVA)

EBIT	$ 75,100
Corporate Tax Rate	31.00%
Net Working Capital	$ 300,870
Net Plants and Equipment	$ 96,007
After-Tax Cost of Capital	9.25%
Economic Value Added	$ 15,094

(in millions)

Appendix O – WWW Daily Stock Chart (9/7/04 – 12/7/04)



Appendix P – WWW Daily Volume Chart (9/7/04 – 12/7/04)