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Kohler Co. (A)

Herbert V. Kohler, Jr., Chairman and CEO of Kohler Co., faced a difficult decision at the beginning of April 2000. A trial was scheduled to start in a few days to determine the value of Kohler Co., one of the oldest and largest privately held firms in the U.S, with 17,500 employees and over $2 billion in sales. Well known as a maker of plumbing fixtures, Kohler Co. also had a long history as a manufacturer of small engines and generators. More recently, the company had diversified into furniture and luxury resorts and expanded operations from its Kohler, Wisconsin headquarters into 12 countries.

The upcoming trial was to resolve a dispute between the company and some of its shareholders. The dispute originated in the recapitalization of Kohler Co. two years earlier, in May 1998. The recapitalization required non-family shareholders to sell their shares back to the company. Family shareholders could either sell their shares to the company or exchange them for a special class of shares that could not be sold to outsiders. While the Wisconsin court had upheld the company's recapitalization plan, a group of shareholders had filed a lawsuit against Kohler Co., charging that the buyout price offered by the company undervalued their shares by a factor of five.

Although Kohler considered the share price offered to be fair, he recognized that taking the dispute to trial could be risky. While the statutory valuation standard to be applied in dissenters' rights cases in Wisconsin in determining the value of the shares held by the dissenters was known to be the "fair value" of such shares, there was legal ambiguity about the precise meaning of "fair value" in this context.

The economic implications for Kohler Co. and the family were considerable. In addition to raising the overall cost of the recapitalization, a share price determined by the court would potentially establish a precedent for two very different purposes. First, the assets of the Kohler Foundation, established in 1940, were almost entirely composed of Kohler Co. stock. The Foundation, by law, annually pledged a minimum of 5% of its assets to charitable causes. If a court-determined share price for Kohler Co. shares was markedly different from the company's own valuation, then the Foundation's current plans and its longer-term development could be affected. Second, a court-determined share price would likely be considered by the IRS among the factors used to determine the value of Kohler Co. stock owned by the estate of Kohler's only brother, Frederic, who had died in March 1998.

Professor Belén Villalonga and Professor Raphael Amit of the Wharton school prepared this case with the assistance of Research Associate Kathleen Luchs. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

If Kohler wanted to avoid getting the court involved in the valuation of Kohler Co. shares, then he would have to settle with the plaintiffs very quickly. This alternative raised the question of at how high a price he should be willing to settle.

Kohler Co. and the Kohler Family

The origins of Kohler Co. as a manufacturer of plumbing fixtures in Sheboygan, Wisconsin were famously traced to the day in 1883 when Austrian immigrant John Michael Kohler hit on the idea of enamelling a cast iron horse trough /hog scalder, adding legs to it, and selling it as a bathtub. Up to that time, the foundry owned by Kohler since 1873 had produced farm implements and yard ornaments. Its innovative bathtub proved popular and the Kohler name became closely associated with quality plumbing fixtures.

In 1900 the manufacturing operations moved four miles west into the countryside to the village of Riverside. John Michael's second son, Walter J. Kohler Sr., became Kohler Co.'s President and CEO in 1905, following the deaths of his father and older brother. Soon thereafter, Walter Kohler started the conversion of Riverside into a utopian village with a 50-year master plan designed by notable urban and land planners of the day. The development included houses that were sold to workers at cost, recreational areas and open spaces, and a facility named The American Club that housed immigrant factory workers and helped their social integration into the U.S. In 1912, when the village of Riverside was incorporated, residents voted to change its name to Kohler Village.

Walter Kohler headed the company for 35 years. Under his leadership, Kohler Co. introduced numerous innovations and became one of the leading plumbing fixtures manufacturers in the country. **Exhibit 1** lists some of these innovations, along with other milestones in the history of Kohler Co. under each of its leaders. Drawing on its engineering and technical expertise, Kohler Co. began manufacturing electric generators in the 1920s, and soon became well established in that business as well. Walter Kohler served a term as Governor of Wisconsin, and the Kohler family became well known in the state for both their business and their charitable enterprises.

When Walter Kohler died in 1940, his half-brother, Herbert V. Kohler, Sr., assumed leadership of Kohler Co. until his death in 1968. Although Herbert was the offspring of their father's second marriage, Walter considered him his "three quarters" brother because their mothers were sisters. (See **Exhibit 2** for the Kohler family tree.) The company converted some of its facilities to the production of military equipment during World War II, but returned to making its traditional plumbing fixtures after the war. Kohler Co. continued to grow and innovate during the post-war years. In the late 1950s, the company expanded beyond its Wisconsin roots, building a new plant in Spartanburg, South Carolina. In 1965 it introduced new colors in its plumbing fixtures and advertised them with "The Bold Look of Kohler" slogan, still in use. The family's charitable endeavors also continued, with the establishment of the Kohler Foundation to support educational and cultural programs in Wisconsin, and the John Michael Kohler Arts Center in Sheboygan.

When Herbert Kohler, Sr. died in 1968, his 29-year old son, Herbert Jr., was considered too young to lead the company. Thus it was Lyman Conger, a vice-president and Kohler Co. veteran, who became Chairman and CEO. Conger was the first non-family member to head the company, and his tenure was relatively brief. In 1972, Herbert V. Kohler, Jr. became Chairman and CEO, resuming the family's leadership of Kohler Co. just before the celebration of the centennial of its founding.

From Family Business to "Family of Businesses"

Herbert Kohler, Jr. guided Kohler Co.'s development, diversification and international expansion in the following years. In the 1970s, Kohler Co. upgraded its cast iron production at a time when some competitors were abandoning traditional cast iron fixtures to focus on new materials such as acrylics. Kohler Co. also offered fixtures in the new materials, but its upgraded cast iron technology established it as a leader in high quality plumbing fixtures. The company continued to launch new products, such as shower enclosures and whirlpool baths. It also introduced technological improvements, including toilets that used less water and automatic temperature controls for baths.

By the 1970s, the original 50-year plan for Kohler Village had run its course, and The American Club no longer served its original purpose. In 1977, the Frank Lloyd Wright Foundation designed a new master plan for the village's next 50 years and Kohler decided to develop The American Club as a luxury inn. When the inn proved successful, the company went on to develop world class golf courses, including the renowned Blackwolf Run and Whistling Straits, and other recreational amenities in and around Kohler Village designated as "Destination Kohler."

In 1984, the company bought Sterling Faucet Co., the first of a series of acquisitions aimed at expanding its product line and gaining entry into new markets. Subsequent acquisitions enabled Kohler to offer kitchen and bathroom cabinets and specialized fittings, furniture, tile and stone designs. Kohler Co.'s acquisitions included foreign firms, and these ventures led to increased international sales, especially in Europe but also in Asia, Africa, and Central America. Kohler Co.'s acquisition strategy complemented the internal growth and development of the firm's traditional plumbing and power businesses. The company's stated mission of "improving people's sense of gracious living" through its products and services, provided the glue that brought together "the Kohler family of businesses," as Kohler Co. started to refer to its diversified business portfolio.

Kohler Co.'s diversification and international expansion were reflected in its revenue growth: sales were over $500 million in 1984; over $1 billion by 1987; and reached $2 billion in 1996. In 1997, Kohler Co. had sales of $2.2 billion and earnings of $88 million. The company's financial statements for the five years prior to the recapitalization are provided in **Exhibit 3a** (Balance Sheets); **Exhibit 3b** (Income Statements); and **Exhibit 3c** (Statements of Cash Flows). **Exhibit 4** shows 1997 Income Statements for each of the four groups that Kohler Co. organized its family of businesses around: Kitchen and Bath, Power Systems, Interiors, and Hospitality and Real Estate.

Ownership and Control of Kohler Co.

According to its Chairman and CEO, Kohler Co.'s private status underpinned its success. As a private company, Kohler Co. was able to take a long term view of its development, and to make investments that might be difficult to justify in a publicly owned firm. Kohler pointed to the company's investment in updating its cast iron technology when competitors were betting on new materials; to the development of Destination Kohler when skeptics thought it unlikely that a luxury resort could be established in a small Wisconsin factory town; and to the revitalization of Kohler Co.'s power business in spite of competition from world-class competitors such as Honda.

As a privately owned company, Kohler Co. was not required to disclose its financial results, an advantage Kohler viewed as important to the company's continued success. His early experience with financial disclosure—required when the company issued public debentures in 1972 to finance improvements in its cast iron production—convinced him that such disclosures gave away too much information to competitors and, even worse, undermined the firm's commitment to its mission and long term development. In Kohler's view, "private ownership and privacy of results help focus our people on implementing big ideas and achieving excellent long-term performance."[1] Consequently, the company did not seek any public financing after it repaid the loan in 1978.

The 1978 Reverse Stock Split

Kohler's concern about public disclosure led to another bold financial move in 1978. Most of Kohler Co.'s outstanding shares were owned by the family, but there had been some sales of shares by family members to outsiders. A Milwaukee brokerage firm made a market in these non-family Kohler Co. shares, and the total number of shareholders increased over time. By 1978, there were over 400 Kohler Co. shareholders, a development that alarmed Herbert Kohler. Once a company's shareholders numbered 500, it was subject to stricter regulatory requirements by the Securities and Exchange Commission, and had to make detailed financial disclosures. To ensure that Kohler Co. would not be subject to these rules, the company declared a 1-for-20 reverse stock split in 1978. Owners of fractional shares could increase their investment so that they held at least one full share, or sell their shares to the company. Since many of the smaller outside shareholders did sell their shares, the reverse split substantially reduced the total number of shareholders. Kohler explained the benefits of this change:

> Adoption of this proposal permits the Company to continue free of certain unnecessary regulatory burdens (and I mean unnecessary), free from exposing proprietary data to competitors, and free of what could be a long term concern for the most noxious practice in the American economic system—the corporate takeover.[2]

A small percentage of Kohler Co. stock did remain in the hands of outsiders, and over the next 20 years, Herbert Kohler, Jr. kept a watchful eye on the sales of shares, vowing to maintain Kohler Co.'s private ownership as well as its privacy.

Kohler Co.'s Ownership and Control Structure in 1998

Kohler could not, of course, control the prices of the Kohler Co. shares that traded publicly. After the reverse stock split, there were only occasional trades in the company's shares, but these shares commanded increasingly high prices. In late 1997 and early 1998, brokers in Green Bay, Wisconsin began to make a market in Kohler Co.'s shares, and the few shares that traded in it reached prices between $100,000 and $135,000. Such high share prices were accompanied by speculation about whether the company intended to go public, and drew attention to the company's existing ownership structure.

Kohler Co. had 7,445 outstanding common shares in April 1998. As shown in **Exhibit 5**, Herbert Kohler directly owned only 12.4% of the common stock and beneficially owned an additional 6% through trusts established by his father; his sister, Ruth, directly owned 13.1% and beneficially owned 6% through similar trusts. The Estate of Frederic C. Kohler directly owned 13.1%; Kohler and his sister, Ruth, were each equal beneficiaries of the Estate, but both had expressed their intent to disclaim five-eighths of their interest in the Estate, and as a result, the disclaimed interest would inure to the benefit of Herbert Kohler's children in equal shares; Herbert Kohler and his sister pledged to gift the shares they would inherit to a charitable organization. The Kohler Foundation owned 12.9% of the common stock; Herbert Kohler and his sister represented a minority of the

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[1] Cited in Richard Blodgett, *A Sense of Higher Design: The Kohlers of Kohler*, Greenwich Publishing Group, Inc., Lyme, CT, 2003, p. 168.

[2] Ibid., p. 172.

members of the Board of Trustees of the Foundation. A total of 17.7% of the stock was owned by two charitable trusts, of which a majority of the trustees by charter were required to be unaffiliated with the Kohler family and Kohler Co. About 20 other Kohler family members owned 13.7% of the shares, and the Kohler employee plan owned a few shares. Outside shareholders owned 4% of Kohler Co. stock, or 300 shares. The largest outside shareholders were two mutual funds, SoGen International and Franklin Mutual Discovery Fund, which held 80 and 30 shares, respectively. Most of the remaining outside shareholders—140 in total—owned no more than two shares. In addition, there were 142.89 shares outstanding of restricted stock held by company executives.

The 1998 Recapitalization

In early 1998, Herbert Kohler proposed a recapitalization of Kohler Co. with the purpose of buying out all the outside shareholders and restricting future sales of stock to outsiders. Several developments prompted this action. First, Kohler highly valued the company's private status, and disliked the publicity and speculation arising from the high prices that were being paid for the company's shares. Furthermore, he feared that the high share prices might prompt some family members to sell their shares, putting more shares into the hands of outsiders.

Over the previous two decades, the company had reviewed and rejected various plans drawn up by consultants and professional advisors to change the company's ownership structure. The 1998 proposal, developed under the guidance of the company's general counsel and wife of Herbert Kohler, Natalie Black, ensured that Kohler Co. would remain privately owned for years to come. The plan was consistent with Kohler and Black's view of their role as stewards of the company for future generations of Kohlers.

The plan created four new classes of shares, each with different rights. The two voting classes were the Common Voting Stock and the Restricted Stock sold to company executives. The Non-Voting Common Stock classes were Series A and Series B, the latter with superior cash-flow rights.[3] All Kohler family members and their estates and trusts for their benefit, as well as all charitable organizations and the Kohler employee plan, were eligible to exchange their existing shares for the new shares; each common share would be exchanged for 1 share of voting common stock, 244 shares of Series A nonvoting common stock, and 5 shares of Series B nonvoting common stock. Transfers of the new classes of shares were restricted to certain "permitted transferees," which included all descendants of John M. Kohler, II, their spouses, estates of such descendants, trusts for the benefit of such descendants, certain corporations, partnerships or limited liability companies majority-controlled by such descendants, charitable organizations, and Kohler Co.-sponsored benefit plans. In the event of an attempted transfer to a person other than a permitted transferee, Kohler Co. was granted an option to buy the shares at fair market value, as determined by an independent appraiser selected by Kohler Co. Each share of the old restricted stock held by company executives was converted into 250 shares of the new Restricted Stock. Each holder of the new restricted stock was entitled to 1/250th of one vote per share.

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[3] Kohler Co. had authorized 9,000 shares of Voting Common Stock, 2,196,000 shares of Non-Voting Series A Common Stock, 45,000 shares of Non-Voting Series B Common Stock, and 250,000 shares of Restricted Stock. At December 31, 1998, Kohler Co. had issued and outstanding 6,611 shares of Voting Common Stock, 1,613,084 shares of Non-Voting Series A Common Stock, 33,055 shares of Non-Voting Series B Common Stock, and 33,965 shares of Restricted Stock. Each Series B common share was entitled to a $15 per share annual preference dividend, if approved by the Board of Directors, in addition to the annual common dividends.

Those shareholders who were classified as permitted transferees were offered the opportunity to participate in the exchange of shares, and all other shareholders had the right either to accept cash equal to the fair market value of their shares as determined by an independent appraiser selected by Kohler Co., or to "dissent" and become entitled, subject to satisfaction of certain legal procedural requirements, to receive the "fair value" of their shares as determined in each initial proceeding.

Herbert Kohler, his sister Ruth, and their cousin, John Michael Kohler, IV backed the plan. The trusts for their benefit, as well as the charitable organizations and the employee plan also committed to exchange their shares. Shareholders were sent details of the plan in March 1998, and in April, the U.S. District Court in Wisconsin refused to enjoin the reorganization plan as requested by certain outside shareholders. Kohler Co.'s board of directors agreed to proceed with the plan, and the recapitalization was approved by an 88% majority of shareholders at a special shareholders meeting held in May 1998.

As stated in the proxy materials, Herbert Kohler and his sister Ruth had established in April 1998 the Kohler Stewardship Trust, a perpetuity trust, and they had committed to transfer partnership interests in the Kohler Family Limited Partnership, which owned Kohler Co. Series B nonvoting common stock, to the Stewardship Trust. The Trust Agreement contained stringent restrictions against any sale or other disposition of Kohler Co. stock. It was contemplated that the Kohler Family Partnership would offer to exchange the series B common for Kohler Co. voting common stock held by The Kohler Foundation, the other charitable organizations, certain family trusts and the Frederic Kohler estate and others. If these exchange offers were accepted by these holders of common stock, the Stewardship Trust would acquire control of a majority of the outstanding Kohler Co. voting common stock, thereby ensuring that Kohler Co. would remain an independent, privately held company.

Kohler Co. Share Price

Kohler Co., on the advice of an independent valuation firm, set the final buyout price at $55,400 per share. The valuation used management projections, and was based on the assumption that the company would maintain not only its current growth strategy, but also its basic ownership and control structure. The projections are shown in **Exhibit 6a** (Projected Balance Sheets), **Exhibit 6b** (Projected Income Statements) and **Exhibit 6c** (Projected Statements of Cash Flows).

Outside shareholders, joined by some family shareholders, timely exercised their dissenters' rights to have the "fair value" of the Kohler Co. stock determined in a judicial proceeding. The prices at which Kohler Co. shares had traded recently, the book value of a share, and the possibility of an eventual IPO all pointed to a much higher price per share. The dissenters included SoGen, Franklin Mutual, and also Julilly and Marie Kohler (sisters of John Michael Kohler IV), who held 300 shares. SoGen had bought 63 of its 80 shares in March 1998 from a Kohler family member at $103,600 per share. Franklin had acquired its 30 shares in April 1998 from Julilly and Marie Kohler at $100,000 per share. An appraiser for SoGen claimed that a Kohler Co. share could be worth as much as $400,000.[4] **Exhibits 7 and 8** provide additional information that could be used to assess the value of Kohler Co.: **Exhibit 7a** describes some of Kohler Co.'s publicly traded competitors, and **Exhibit 7b** provides financial data about them. **Exhibit 8** reports prevailing yields on U.S. government securities.

On the other hand, several factors suggested that the share price established by Kohler Co. might be reasonable. Kohler Co. had no immediately compelling reason to buy back its shares. The merger

[4] Avrum D. Lank, "Kohler stock plan approved; some family members vote no," *The Milwaukee Journal Sentinel*, May 9, 1998.

transaction did not result in any significant change in the voting control or ownership percentage of the shareholders supporting the plan. As a consequence of the transaction, Kohler Co. was likely to remain a privately-held company for the foreseeable future. The outside shareholders—the only ones forced to sell their shares—held a small minority of the company's equity and had no control over its management. Their only claim on the company was to its declared dividends, which had always been modest—around 10 percent of earnings for the last thirty years because of the Company's stated need to reinvest 90% in the businesses. This policy reflected the importance to a private company of reinvesting its earnings to enable future growth. There was only a thin public market in the company's shares, which, in Kohler Co.'s view, sold at inflated prices only because of unwarranted speculation that the company might go public. Herbert Kohler had long insisted that Kohler Co. would remain private, and saw little justification for either family or outside shareholders to anticipate a windfall return on their shares.

The Court Challenge

After the approval of Kohler Co.'s recapitalization in May 1998, over 100 owners of 811 shares exercised their right to challenge the company's valuation of their shares and brought suit against the company. The group claimed that Kohler Co. shares, at the time of the recapitalization, were worth $273,000, almost five times the price that was offered by the company.

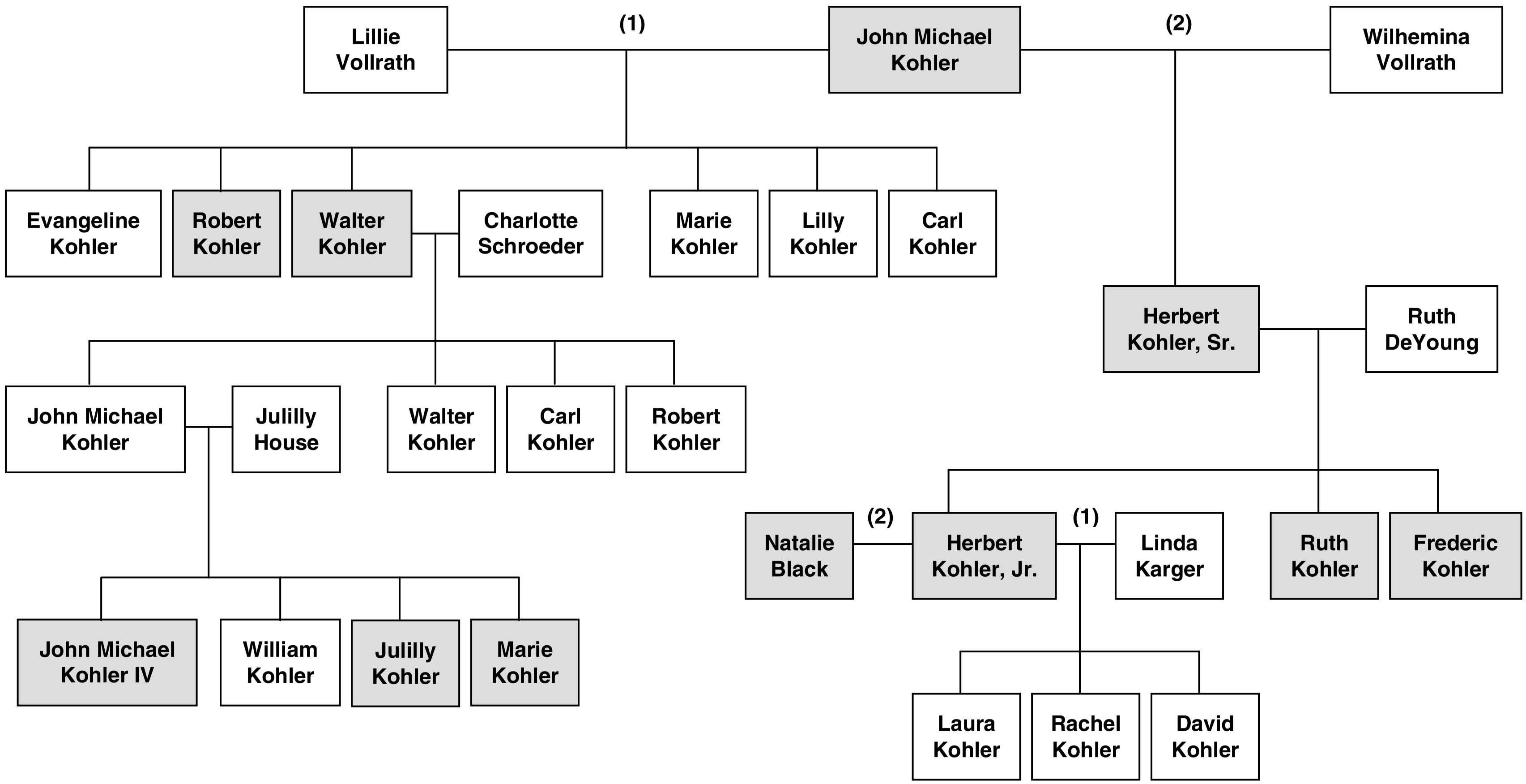
Now, two years later, the case was to be heard by the Wisconsin circuit court. As he prepared for the hearing, Herbert Kohler weighed the risks of letting the court determine the value of Kohler Co. shares against those of settling with the dissenting shareholders. Should he propose a settlement and, if so, at what share price? In reaching a decision, he somehow had to balance the interests of the company, the family, and the charitable foundations that owned shares in Kohler Co.

Exhibit 1 Milestones in Kohler Co.'s History

1873-1900 **John Michael Kohler**	➢ 1873 Kohler Co. founded in Sheboygan, Wisconsin ➢ 1883 Company manufactures first enameled cast iron bathtub ➢ 1900 New foundry opens in Riverside, Wisconsin
1900-1905 **Robert Kohler**	➢ New foundry destroyed by fire
1905-1940 **Walter Kohler**	➢ 1911 Introduction of one-piece bathtub ➢ 1912 Kohler Village incorporated ➢ 1917 50-year Master Plan for Kohler Village by Olmsted Brothers ➢ 1918 American Club opens as housing for single male workers ➢ 1920 Kohler enters electric generator market ➢ 1925 Manufacture of faucets and brass accessories begins ➢ 1927 Introduction of matching colors for bathtubs and toilets ➢ 1934 AFL strike; Kohler Workers' Assoc. becomes employees' bargaining agent
1940-1968 **Herbert V. Kohler, Sr.**	➢ 1940 Kohler Foundation established ➢ 1948 Kohler Co. enters small engine market ➢ 1958 Plant opened in Spartanburg, South Carolina ➢ 1965 New colors for plumbing fixtures introduced ➢ 1967 "Bold Look of Kohler" advertising theme launched
1968-1972 **Lyman Conger**	➢ 1971 Investment in cast iron production facilities
1972- **Herbert V. Kohler, Jr.**	➢ 1973 100th Anniversary of company ➢ 1977 New 50-year Master Plan for Kohler Village by Frank L. Wright Foundation ➢ 1978 1-for-20 stock split ➢ 1981 American Club re-opens as a resort hotel ➢ 1984 Acquisition of Sterling Faucet ➢ 1986 Acquisition of first furniture company ➢ 1987 Sales reach $1 billion ➢ 1991 Vitreous china plant opens in Monterrey, Mexico ➢ 1994 Resort at Kohler Village expanded with opening of The Inn on Woodlake ➢ 1995 Joint venture established in China ➢ 1996 Sales reach $2 billion ➢ 1997 Generator plant opens in Singapore

Source: www.kohler.com.

Exhibit 2 Abbreviated Kohler Family Tree [a]



Source: Company documents.

[a] Highlighted family members are those mentioned in the text

Exhibit 3a Kohler Co. Balance Sheets 1993-1997 (in $ thousands, as of Dec. 31 except 4/30/1998)

	1993	1994	1995	1996	1997	4/30/1998
ASSETS						
Cash and Cash Equivalents	46,252	32,955	22,329	20,039	26,117	2,454
Accounts Receivable	244,852	280,028	298,046	322,136	339,238	360,810
Inventory	201,208	221,791	248,777	247,820	249,957	265,606
Future Income Tax Benefits	8,413	14,781	16,813	16,510	15,346	0
Prepaid Expenses and Deposits	39,961	33,976	40,157	44,638	56,028	78,857
Total Current Assets	540,686	583,531	626,122	651,144	686,686	707,728
Property, Plant & Equipment, Gross	885,493	944,920	1,059,183	NA	NA	NA
Accumulated Depreciation	(520,936)	(572,451)	(633,419)	NA	NA	NA
Total PP&E, Net	364,557	372,469	425,764	437,818	447,714	444,841
Other Assets:						
Intangibles	113,049	106,741	169,182	253,059	217,830	211,326
Deferred Income Taxes	10,493	13,215	13,778	19,550	61,273	0
Other Assets	23,262	24,035	31,619	21,205	34,338	95,906
Total Other Assets	146,804	143,991	214,579	293,814	313,441	307,232
Total Assets	**1,052,047**	**1,099,991**	**1,266,465**	**1,382,776**	**1,447,841**	**1,459,801**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Short-term Borrowings	30,349	5,861	19,170	15,425	15,099	0
Accounts Payable	159,439	166,792	188,258	198,707	229,170	209,972
Accrued Liabilities	65,165	72,917	68,899	84,825	97,736	118,800
Current Maturities of LTD	7,201	5,903	5,672	23,541	8,824	48,629
Total Current Liabilities	262,154	251,473	281,999	322,497	350,827	377,401
Post-retirement Obligations	55,607	56,248	56,463	56,462	56,166	0
Other Long-term Liabilities	54,694	58,877	67,584	53,344	58,905	111,852
Long-term Debt	140,601	132,209	202,138	251,699	220,116	183,815
Total Long-term Liabilities	250,902	247,334	326,185	361,505	335,187	295,667
Total Liabilities	513,056	498,807	608,184	684,002	686,014	673,068
Capital Stock	32,555	32,561	34,171	34,234	34,235	34,235
Retained Earnings	526,437	586,727	634,447	682,691	763,838	791,109
Treasury Stock, at Cost	(15,064)	(15,190)	(13,266)	(14,304)	(14,007)	(14,127)
Foreign Currency Adjustment	(4,936)	(2,914)	2,929	(3,846)	(22,239)	(24,484)
Total Stockholder's Equity	538,992	601,184	658,281	698,774	761,827	786,733
Total Liabilities and Equity	**1,052,048**	**1,099,991**	**1,266,465**	**1,382,776**	**1,447,841**	**1,459,801**

Source: Company documents.

Exhibit 3b Kohler Co. Income Statements 1993-1997 (in $ thousands, as of Dec. 31)

	1993	*1994*	*1995*	*1996*	*1997*	*4 months 4/30/1998*
Net Sales	**1,542,114**	**1,771,959**	**1,833,902**	**2,014,818**	**2,213,403**	**757,473**
Cost of Sales	1,164,305	1,333,933	1,412,155	1,532,192	1,637,385	559,273
Gross Profit	377,809	438,026	421,747	482,626	576,019	198,200
Selling & Administrative Exp.	267,303	292,786	302,433	342,945	380,091	134,004
Amortization of Intangibles	9,448	12,079	8,564	11,332	21,618	6,763
Operating Income after Deprec.	101,058	133,161	110,750	128,349	174,310	57,433
Non-operating Income (Expense)	(10,486)	(9,840)	(8,801)	(10,975)	(5,746)	(2,379)
Interest Income	1,877	2,151	3,623	2,101	2,237	0
Interest Expense	12,337	11,798	10,972	18,547	14,031	4,812
Pretax Income	**80,112**	**113,674**	**94,600**	**100,928**	**156,770**	**50,243**
Income Tax Expense	31,648	46,955	41,200	46,992	68,796	21,644
Net Income	**48,464**	**66,719**	**53,400**	**53,936**	**87,974**	**28,599**

Source: Company documents.

Exhibit 3c Kohler Co. Cash Flow Statements 1993-1997 (in $ thousands, as of December 31)

	1993	1994	1995	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Income	48,464	66,719	53,400	53,936	87,974
Adjustments to Reconcile Net Income to Cash Flow from Operating Activities:					
Depreciation and Amortization	65,287	70,771	69,977	79,464	86,178
Deferred Income Taxes	(6,868)	(8,709)	(605)	(3,722)	(7,769)
Provision for Loss on Accounts Receivable	4,192	4,921	4,626	4,789	3,673
Other Non-cash Items	3,631	2,039	248	(1,146)	(23)
(Increase) Decrease in Accounts Receivable	(9,498)	(37,321)	(4,261)	(8,683)	(40,937)
(Increase) Decrease in Inventory	(7,328)	(16,239)	(14,433)	3,950	(12,272)
(Incr.) Decr. in Prepaid Expenses and Other Assets	(19,513)	4,484	(11,732)	4,525	(49,091)
Incr. (Decr.) in Accounts Payable and Accrued Exp.	30,932	12,146	(683)	658	63,038
Net Cash Flow from Operating Activities	**109,299**	**98,812**	**96,538**	**133,772**	**130,770**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Property, Plant and Equipment	(67,155)	(64,603)	(86,970)	(76,348)	(90,707)
Sales of Property, Plant and Equipment	3,084	4,648	4,685	6,051	7,604
Acquisition of Businesses	0	0	0	(129,478)	0
Other Investments	(18,725)	(3,141)	(84,480)	0	0
Net Cash Flow from Investing Activities	**(82,795)**	**(63,096)**	**(166,765)**	**(199,775)**	**(83,103)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Borrowings Under Revolving Credit	103,232	5,055	102,973	78,000	(66,000)
Other Borrowings	0	0	0	10,567	49,245
Other Principal Payments	(94,447)	(48,587)	(31,067)	(21,498)	(26,962)
Sales of Treasury Stock	202	235	176	34	351
Purchases of Treasury Stock	(246)	(361)	(727)	(1,071)	(55)
Dividends Paid	(4,059)	(4,539)	(6,995)	(5,697)	(5,688)
Net Cash Flow from Financing Activities	**4,681**	**(48,197)**	**64,360**	**60,334**	**(49,109)**
Effect of Exchange Rate Changes on Cash	(942)	(817)	(4,758)	3,380	7,519
Increase (Decrease) in Cash and Equivalents	30,243	(13,297)	(10,626)	(2,290)	6,077
Cash and Equivalents, Beginning of Year	16,010	46,252	32,955	22,329	20,039
Cash and Equivalents, End of Year	**46,253**	**32,955**	**22,329**	**20,039**	**26,117**

Source: Company documents.

Exhibit 4 Kohler Co. Income Statements 1997 by Group (in $ thousands, as of December 31)

	Kitchen & Bath Group	Power Systems Group	Interiors Group	Hospitality & R. Estate Group	Elim. & Corp. Var.	Kohler Co. Consol.
Net Sales	**1,485,831**	**540,260**	**145,414**	**50,789**	**(8,891)**	**2,213,403**
Cost of Sales	1,045,038	461,140	92,564	43,041	(4,398)	1,637,385
Gross Profit	440,793	79,120	52,850	7,748	(4,492)	576,019
Selling & Administrative Exp.	284,097	44,600	45,580	4,872	942	380,091
Amortization of Intangibles	0	0	0	0	21,618	21,618
Operating Income after Depr.	156,696	34,520	7,270	2,876	(27,052)	174,310
Non-operating Income (Exp.)	(6,400)	(269)	514	0	409	(5,746)
Interest Income	1,477	180	142	12	426	2,237
Interest Expense	10,181	2,428	1,633	1,040	(1,251)	14,031
Pretax Income	**141,591**	**32,004**	**6,292**	**1,848**	**(24,965)**	**156,770**
Income Tax Expense	54,179	11,605	2,291	727	(6)	68,796
Net Income	**87,411**	**20,398**	**4,001**	**1,121**	**(24,957)**	**87,974**

Source: Company documents.

Exhibit 5 Ownership of Kohler Co., April 1998

Name	Number of Shares	Percentage of Ownership
Herbert V. Kohler	924	12.4%
Trust for the benefit of Herbert V. Kohler	450	6.0%
Lineal Descendants of Herbert V. Kohler	50	0.67%
Ruth DeYoung Kohler	974	13.1%
Trust for the benefit of Ruth DeYoung Kohler	450	6.0%
Estate of Frederic Kohler	975	13.1%
John Michael Kohler	146	2.0%
Trust for the benefit of John Michael Kohler	86	1.2%
Kohler Foundation	960	12.9%
Kohler Trust for the Arts and Education	1,046	14.0%
Kohler Trust for Preservation	277	3.7%
Other Kohler Family Members	780	10.5%
Kohler Employee Plan	27	0.36%
Outside Shareholders	300	4.0%
Total Outstanding Common Shares	7,445	100.0%
Restricted Shares	142.89	
Total Shares Outstanding	7,587.89	

Source: Company documents.

Exhibit 6a Kohler Co. Projected Balance Sheets 1998-2002 (in $ thousands, as of December 31)

	1998	1999	2000	2001	2002
ASSETS					
Cash and Cash Equivalents	63,512	56,838	55,621	70,976	95,207
Accounts Receivable	351,713	355,124	376,927	393,929	410,560
Inventory	258,962	261,669	272,065	281,550	294,261
Future Income Tax Benefits	15,744	16,194	18,764	19,730	21,719
Prepaid Expenses and Deposits	57,150	56,007	63,369	66,272	68,809
Total Current Assets	747,081	745,832	786,746	832,457	890,556
Other Assets:					
Property, Plant & Equipment, Net	476,419	498,839	516,899	531,993	554,161
Intangibles	197,387	184,511	171,635	158,759	145,883
Deferred Income Taxes	21,072	23,035	21,331	26,407	29,070
Other Assets	25,414	25,094	26,804	28,102	29,214
Total Other Assets	720,292	731,479	736,669	745,261	758,328
Total Assets	**1,467,373**	**1,477,311**	**1,523,415**	**1,577,718**	**1,648,884**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Short-term Borrowings	15,099	15,099	15,099	15,099	15,099
Accounts Payable	225,771	225,664	239,481	251,384	261,007
Accrued Liabilities	79,862	77,926	78,705	79,492	80,287
Current Maturities of LTD	8,824	8,824	8,824	8,824	8,824
Total Current Liabilities	329,556	327,513	342,109	354,799	365,217
Post-retirement Obligations	56,166	56,166	56,166	56,166	56,166
Other Long-term Liabilities	60,201	61,586	63,125	64,388	65,804
Long-term Debt	235,115	195,115	150,115	105,115	70,115
Total Long-term Liabilities	351,482	312,867	269,406	225,669	192,085
Total Liabilities	681,038	640,380	611,515	580,468	557,302
Capital Stock	34,234	34,234	34,234	34,234	34,234
Retained Earnings	835,228	889,857	968,900	1,058,364	1,156,852
Treasury Stock, at Cost	(60,888)	(64,921)	(68,995)	(73,109)	(77,265)
Foreign Currency Adjustment	(22,239)	(22,239)	(22,239)	(22,239)	(22,239)
Total Stockholder's Equity	786,335	836,931	911,900	997,250	1,091,582
Total Liabilities and Equity	**1,467,373**	**1,477,311**	**1,523,415**	**1,577,718**	**1,648,884**

Source: Company documents: Management projections.

Exhibit 6b Kohler Co. Projected Income Statements 1998-2002 (in $ thousands, as of Dec. 31)

	1998[a]	1999	2000	2001	2002
Net Sales	**1,511,000**	**2,240,528**	**2,393,187**	**2,509,100**	**2,608,385**
Cost of Sales	1,125,884	1,690,366	1,780,531	1,862,103	1,933,387
Gross Profit	385,116	550,162	612,656	646,997	674,998
Selling & Administrative Exp.	268,748	411,254	428,161	446,143	460,518
Amortization of Intangibles	13,680	12,876	12,876	12,876	12,876
Operating Income after Depreciation	102,688	126,032	171,619	187,978	201,604
Non-operating Income (Expense)	(6,299)	(10,173)	(10,783)	(11,430)	(12,116)
Interest Income	2,307	4,569	5,670	7,500	9,932
Interest Expense	11,521	14,325	12,987	10,286	8,134
Pretax Income	**87,175**	**106,103**	**153,519**	**173,762**	**191,286**
Income Tax Expense	38,585	46,071	66,659	75,448	83,057
Net Income	**48,590**	**60,032**	**86,860**	**98,314**	**108,229**

Source: Company documents: Management projections.

[a] Eight-month period ending Dec. 31, 1998.

Exhibit 6c Kohler Co. Projected Statements of Cash Flow 1998-2002 (in $ thousands, as of Dec. 31)

	1998a	1999	2000	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Income	48,590	60,032	86,860	98,314	108,229
Adjustments to Reconcile Net Income to Cash Flow from Operating Activities:					
Depreciation and Amortization	56,113	87,661	91,786	94,593	97,355
Deferred Income Taxes	36,816	(1,964)	1,704	(5,075)	(2,664)
Provision for Loss on Accounts Receivable	0	2,000	2,000	2,000	2,000
Other Non-cash Items	0	(2,000)	(2,000)	(2,000)	(2,000)
(Increase) Decrease in Accounts Receivable	9,097	(3,410)	(21,803)	(17,002)	(16,631)
(Increase) Decrease in Inventory	6,644	(2,707)	(10,396)	(9,485)	(12,711)
(Increase) Decrease in Future Income Tax Benefits	(15,744)	(450)	(2,570)	(966)	(1989)
(Incr.) Decr. in Prepaid Expenses and Other Assets	21,707	1,463	(9,072)	(4,201)	(3,649)
Incr. (Decr.) in Accounts Payable and Accrued Exp.	(23,139)	(658)	16,136	13,952	11,835
Net Cash Flow from Operating Activities	**140,085**	**139,967**	**152,645**	**170,130**	**179,775**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Property, Plant and Equipment	(87,691)	(105,000)	(105,000)	(105,000)	(115,000)
Sales of Property, Plant and Equipment	0	7,795	8,029	8,189	8,353
Acquisition of Businesses	0	0	0	0	0
Other Investments	0	0	0	0	0
Net Cash Flow from Investing Activities	**(87,691)**	**(97,205)**	**(96,971)**	**(96,811)**	**(106,647)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Borrowings Under Revolving Credit	26,594	15,000	15,000	15,000	15,000
Other Principal Payments	0	(55,000)	(60,000)	(60,000)	(50,000)
Sales of Treasury Stock	4,033	0	0	0	0
Foreign Currency Adjustment	2,245	0	0	0	0
Purchases of Treasury Stock	0	(4,033)	(4,074)	(4,114)	(4,156)
Dividends Paid	(1,765)	(5,403)	(7,817)	(8,848)	(9,741)
Net Cash Flow from Financing Activities	**31,106**	**(49,436)**	**(56,891)**	**(57,962)**	**(48,897)**
Increase (Decrease) in Cash and Equivalents	83,500	(6,674)	(1,217)	15,357	24,231
Cash and Equivalents, Beginning of Year	2,454	63,512	56,838	55,621	70,976
Cash and Equivalents, End of Year	**85,955**	**56,838**	**55,621**	**70,978**	**95,207**

Source: Company documents: Management projections.

[a] Eight-month period ending Dec. 31, 1998.

Exhibit 7a Descriptions of Comparable Companies

Company	Description
American Standard	Global manufacturer of air conditioning systems (60% of 1997 sales), bathroom and kitchen fixtures and fittings (24% of 1997 sales), and braking and control systems for trucks, buses and utility vehicles (16% of 1997 sales).
American Woodmark	Manufacturer of kitchen cabinets and vanities.
Masco	Largest domestic manufacturer of kitchen and bath products, including faucets (mainly under their Delta brand), cabinets, appliances, showers and tubs, and other plumbing supplies. Other home improvement and building products include ventilating equipment, water pumps, and insulation.
Briggs & Stratton	World's largest producer of 3-to-22 horsepower gasoline engines for outdoor power equipment, including lawn and garden equipment (81% of 1997 sales); and generators, pumps and pressure washers for industrial, agricultural and consumer applications.
Cummins Engine	Leading worldwide designer and manufacturer of diesel engines, gas engines and engine components for equipment used in automotive, power generation, industrial and filtration markets around the world.
Detroit Diesel	Manufactures and services diesel and alternative fuel engines for the automotive and power generation markets worldwide.

Source: Compiled by casewriters from company documents.

Exhibit 7b Selected Financial Data about Comparable Companies (in $ millions)

	American Standard	American Woodmark	Masco	Briggs & Stratton	Cummins Engine	Detroit Diesel
Stock Market Data as of 4/30/1998						
Ticker	ASD	AMWD	MAS	BGG	CUM	DDC
Shares Outstanding (thousands)	71,929	7,811	169,634	24,514	42,036	24,701
Stock Price ($)	48.69	30.25	58.00	45.25	54.38	23.00
Market Value of Equity	3,502.0	236.3	9,838.8	1,109.3	2,285.7	568.1
Market Value of Equity, Average of Latest 36 Mths.	2,762.9	82.0	5,937.3	1,210.0	2,053.6	502.5
Beta Over Latest 36 Months	0.82	0.76	1.28	0.66	1.09	1.30
Std Deviation of Stock Returns [a]	7.7%	14.7%	6.4%	5.7%	8.5%	10.4%
Financial Data as of 3/31/1998 [b]						
Latest Twelve Months:						
Total Debt	2,404.0	13.4	1,187.9	259.6	1,250.0	107.4
Sales	6,139.5	327.0	3,945.0	1,327.2	5,821.0	2,233.0
EBITDA	699.3	37.6	838.4	178.3	487.0	105.5
Cash Flow [c]	462.5	27.4	553.4	127.2	390.2	82.8
EBIAT	292.6	17.1	437.3	80.4	224.2	41.0
Average of Latest Three Years:						
Total Debt	2,216.6	12.3	1,341.3	155.4	686.7	127.3
Sales	5,767.8	262.7	3,414.0	1,282.2	5,431.0	2,090.7
EBITDA	667.0	30.7	721.9	187.0	448.3	100.2
Cash Flow [c]	420.9	22.1	473.6	132.1	377.5	78.2
EBIAT	263.5	13.7	367.4	87.1	221.0	40.5

Source: Compiled by casewriters from company documents and Bloomberg.

[a] Standard deviation of total monthly stock returns over the latest 36 months. The standard deviations of returns over the same period for stock portfolios are: i) 6.3% for an equal-weighted portfolio of the three kitchen and bath companies, (ii) 6.2% for an equal-weighted portfolio of the three engines and generators companies, (iii) 5.5% for an equal-weighted portfolio of all six companies, (iv) 5.8% for an 80/20 portfolio of (i) and (ii), and (v) 3.3% for the U.S. equity market.

[b] Financial Data for American Woodmark are as of 4/30/1998

[c] Cash Flow is defined as EBIAT plus Depreciation

Exhibit 8 Prevailing Yields on U.S. Government Securities

	Dec-97	Apr-98
1 Year Bonds	5.53%	5.38%
5 Year Bonds	5.77%	5.61%
10 Year Bonds	5.81%	5.64%
20 Year Bonds	6.07%	6.00%

Source: Board of Governors of the Federal Reserve System.