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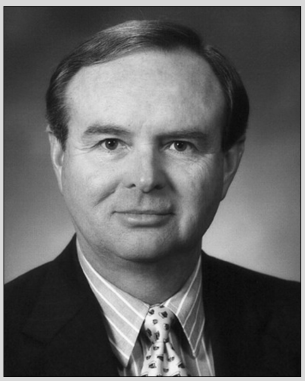
THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Spectrum Brands, Inc. (SPC)



KENT J. HUSSEY is President, Chief Operating Officer and a Director of Spectrum Brands, Inc. and has served as President and Chief Operating Officer since May 1998. He joined the company in 1996 as Executive Vice President of Finance and Administration, Chief Financial Officer and Director. From 1994 to 1996, Mr. Hussey was Executive Vice President of Finance and Chief Financial Officer of ECC International, a producer of industrial minerals and specialty chemicals. From 1991 to 1994, he served as Vice President of Finance and Chief Financial Officer of The Regina Company. He served as President, Chief Operating Officer and Chief Financial Officer of Astechnologies Inc. from 1985 to 1990. Prior to that, Mr. Hussey worked for United Technologies Corporation, where he held a number of senior financial management positions. He serves on the Board of Directors for several companies, including: American Woodmark, a $600 million manufacturer and distributor of kitchen cabinets and vanities for the remodeling and new home construction markets; and Musicnotes, Inc., a leading Internet-based sheet music store. Mr. Hussey holds a Bachelor of Arts degree in Psychology from the University of Rochester in New York and an MBA in Corporate Finance from the Stern School of Business of New York University.

(TAP201) TWST: We'd like to begin with a brief historical sketch of Spectrum Brands and a picture of the principal things you're doing at the present time.

Mr. Hussey: We're now known as Spectrum Brands, the name that we adopted in 2005. We were formerly Rayovac Corporation, and we're very proud of the fact that we're celebrating the 100th anniversary of our corporation. It started as the French Dry Battery Company in 1906 in Madison, Wisconsin, and we've been in continuous operation since then. The company has undergone a fairly dramatic transformation in the last seven or eight years — hence the name change last year.

When the current management team took over the company in 1996, we were a $400 million North American consumer battery company. So we were carrying on pretty much in the tradition of the previous 90 years or so. Nine years later, with increasing challenges in the global consumer battery business, we have globalized our business by making a number of acquisitions in the consumer battery space in Europe, Latin America and in Asia. More recently, we began to diversify our company into a number of other very exciting consumer product categories that we think offer great growth and where we can apply our competitive strengths to fuel top-line growth and reduce costs.

Our company has about $2.7 billion in annual revenues. We operate in seven categories, including shaving and grooming, personal care products, lawn and garden products, household insecticides, consumer pet supplies, portable lighting products and, of course, the historical mainstay of the company, which is consumer batteries.

TWST: How much synergy is there in the running of them?

Mr. Hussey: More than you might think. Number one, they're all consumer products. Many of them are sold in the same channels of distribution. So whether you're buying a can of insecticide, a battery or various pet supply products, you'll find many Spectrum Brands' products carried by major global retailers like Wal-Mart in the United States or Carrefour in Europe. So there are common things in most of the products that we sell, and you would call them consumer packaged goods. The only exception would be the large bagged products in our lawn and garden business, such as fertilizers and enriched soils. But virtually all of the other products are consumer packaged goods that are found on the shelves of major retailers. Many of them are consumable products. Certainly that's the case with consumer batteries and with many of the lawn and garden products and pet supplies that we sell. So there are a number of similarities.

TWST: Do you have a wide range of suppliers?

Mr. Hussey: Yes, we do. We manufacture products ourselves where we have enough scale and some technological advantage and/or where we can be a low-cost global producer. In other cases, we actually source products from suppliers around the world with a heavy concentration of suppliers out of Asia, as most consumer product companies do today. Products like our shaving and grooming portfolio and some of our pet supplies and battery products are actually outsourced to the Asia Pacific region.

TWST: What do you see as the main opportunities that lie ahead for the company?

Mr. Hussey: It's really a brand new 100-year-old company, as we say in our annual report. For a company of our size, we think we have built a very impressive global footprint with significant operations in over 120 countries. When I say operations, I mean sales, marketing, distribution, and customer relationships — virtually everywhere we do business. We also have global manufacturing operations. Clearly, all of North America and Latin America, and all of Eastern and Western Europe are well-covered by our operations today, and increasingly we're growing in Asia Pacific, which includes Australia, New Zealand, Singapore, China, and Japan. So we really do span the globe, impressively so for a $2.7 billion company.

Along the way, we've made very significant investments in our IT infrastructure. We use SAP everywhere in the world. It's a very sophisticated technology platform that allows us to achieve significant operating synergies and operate our organization on a global scale. When it comes to purchasing, sourcing and manufacturing activities, we have a global operation that allows us to optimize and achieve low-cost best supply to meet the needs of those various diverse markets that we serve.

TWST: Would you comment on your acquisition strategy?

Mr. Hussey: Obviously, when we got into the acquisition strategy in the early stages, it was basically focused in our core competency, consumer batteries. We acquired a company called ROV Ltd. in 1999, which was a major player in Latin America. Then we acquired VARTA, the largest independent battery company in Europe, in 2002. That gave us a significant presence in Europe.

More recently, we've been looking for other attractive consumer product growth categories where we can leverage our sales and marketing expertise and our existing customer relationships. Remington was the first example of a diversification move where we acquired a great old brand name. We think brands are extremely important in the consumer products space. Remington was a company that was positioned as the value alternative to premium brands from Philips/Norelco and from Braun. The company had a lot of innovation in terms of improving its products and connecting with consumers and giving them better value than the premium brands. That was a go-to-market strategy that mirrored the way we went to the market in consumer batteries. So that acquisition has proven to be very effective.

More recently, with our United Industries acquisition, we once again have entered a category by acquiring a company that's the value alternative to the premium brand, which is Scotts Miracle-Gro. In every case, we try and offer the consumer a product that's equal to or better than the competition in terms of quality and performance but at a value price, so we give the consumer a better value. That's the common theme of how we go to market in many of the categories we compete in.

TWST: What about possible challenges or problems? What might you worry about over the next few years?

Mr. Hussey: In our core consumer battery category, there has been a slowdown in growth. That's due to a number of factors, probably the most significant being the fact that more and more electronic devices are being miniaturized, use less electrical power, and now come with a built-in rechargeable battery system. So that has reduced demand for replacement batteries, which is our core market. With the slowdown in that business, we've had to look elsewhere for growth, so we've entered these new categories.

When you make acquisitions in categories that are outside your core competency, there's a certain amount of learning that takes place, developing your own business model and dealing with new competitors in new marketplaces. So far, we think we've been very successful, but we're still in the early stages of the acquisitions in lawn and garden and pet supplies. Those acquisitions are going very well; they're being effectively integrated into our corporate structure. But obviously, we have to demonstrate to investors that we're going to get a good return on those investments in the years to come, and we have to deliver on the promise of higher growth rates in our core battery business.

TWST: Are there any other elements in your strategic agenda?

Mr. Hussey: Right now, we're very inwardly focused, having made two big acquisitions last year — United Industries and Tetra. We accessed the capital market in the form of debt to finance those acquisitions. So we're focused on getting at the synergies that we've identified by combining those businesses into our global business model. We're targeting about $100 million of synergy savings by the time we finish this integration, and the improved profitability and cash flow we're going to generate from that activity, as well as the ongoing cash flow generation from these businesses, will be used to pay down debt. Our major focus is completing the integration of the businesses, reducing debt and getting back to a capital structure that we think is more appropriate for a public consumer product company.

TWST: Would you tell us about recruiting, training and development, and about the corporate culture in general?

Mr. Hussey: One of the key attributes in our culture is reflected in a decision we made early on — namely that, from an operations point of view, we view the world as a single global operations platform, and that's the way we run that section of our business.

However, when it comes to go-to-market activities, such as sales and marketing and distribution, we view those as requiring a regional focus, and we've divided our business up geographically so that, for example, we have a European management team made up of people from Europe who speak the language. It's the same thing in Latin America and in Asia. By acquiring talented management in those local markets, we think we can stay close to the customer, understand the cultures, the languages and dynamics that are unique to those marketplaces, and compete more effectively with the competition there.

We also have a very entrepreneurial style in our business. We delegate a great deal of autonomy to our four strategic business units so they can make their own business decisions and execute their own business plans. We at corporate headquarters are really here to provide oversight, to interact with them on the development of corporate strategies, provide capital, and support the segment management teams in terms of execution of their strategies. We pay for performance. Each of our businesses has its own business plan and management is awarded an annual bonus based on the achievement of key financial metrics each year.

There are also long-term incentives for senior management that are tied to the performance of our stock. Management incentive comp is tied to restricted shares and a portion of those shares vests only if we achieve certain long-term financial targets. So we treat our management team as owners of the business, with a significant component of compensation tied to their performance as well as the performance of our company on a collective basis.

TWST: How long have you been with the company?

Mr. Hussey: I was one of the early members of the current management team. If you go back in history, Rayovac was acquired from a private owner back in 1996 by the Thomas H. Lee group out of Boston. They recruited Dave Jones, who is our current Chairman and CEO, to take the helm of the business, and I joined Dave literally a week later, initially as the CFO of the company back in 1996, and then I became the President and Chief Operating Officer in 1998. So I've been with the current management team for about nine years.

TWST: As President and Chief Operating Officer, what occupies most of your own attention on a week-by-week basis?

Mr. Hussey: Over the last few years, I was primarily engaged in and actively working on all of the acquisitions we've been talking about — finding them, negotiating them, financing them and then overseeing the integration of these businesses. So, particularly since the two big acquisitions last year, a significant portion of my time has been spent working with the teams that we have established that are implementing the integration of our North American business unit up in Madison, Wisconsin.

We also have a parallel activity going on to integrate our global pet business unit, made up of the United Pet Group, which was part of the United Industries acquisition, and Tetra, which was a subsequent acquisition that we completed in the middle of last year. So we are in the process of moving both of those businesses onto our global operations platform and migrating them onto our SAP IT platform. Implementing a lot of new systems, procedures and business processes is a fairly daunting task, but it has been going extremely well. The organizations are in place and functioning, but there is still more work to do to rationalize the manufacturing and distribution infrastructure. A lot of that activity is going on now; we plan to be finished with this big integration as we exit fiscal 2007.

TWST: Would you tell us about the backgrounds of a couple of other members of the senior management team?

Mr. Hussey: Dave Jones, who is the Chairman and CEO, spent his formative years in the manufacturing side of General Electric, where he spent many years in their appliance division. He worked for a company called Electrolux, which was an equity-sponsored firm, in the 1980s, and he became CEO of a company called Regina back in the late 1980s. He was also CEO of another equity-sponsored company called Thermoscan in the mid-1990s. That company was owned by Thomas H. Lee and was ultimately sold to Gillette. He has been the Chairman and CEO of Spectrum Brands since 1996.

Remy Burel is the President of our European operations and is a Frenchman running a German-based business. He was educated at the Kellogg School in Chicago where he received his MBA. He worked for Gillette for a number of years, was in charge of marketing for Braun, their dry shave business, and also worked in a number of other large multi-national companies. He was the senior executive officer at VARTA and was running their dry battery business when we bought that business, and when we completed the acquisition, we retained Remy and his entire management team to run our business in Europe.

Dave Lumley is our newest senior executive. He joined us about a month ago from Newell Rubbermaid where he was President of their Rubbermaid division. He has extensive experience in the consumer products industry, having worked for Brunswick Corporation and several other consumer products companies, and he comes to us with a breadth of operations and marketing experience. Dave has been here for about a month now and we're very excited about having a person with his background and experience as the leader of our North American business unit.

TWST: What you would expect the company to look like in about three years?

Mr. Hussey: We have a publicly stated vision that we would like to continue to grow as a global consumer products company. We created a vision a few years ago to get to $3 billion in annualized revenues, and we're at about $2.7 billion now. So we have pretty much achieved that early vision. As we continue to compete with large global players like P&G, Unilever and Colgate, having size and scale will be important. We want to continue to grow organically in the businesses that we're participating in now, and potentially further fuel growth through additional acquisitions into other attractive consumer product categories that fit our business model. Our new vision is that we would approach $5 billion in revenues in the three- to five-year time horizon.

We also want to improve the performance of our business and we are constantly focused on finding ways to be more efficient, to leverage our investments and to improve our product mix by bringing exciting new products to the market — all of that aimed at improving both our gross margins and operating margins. We are at about a 12% operating margin today, which we think is respectable, but we believe that we can and should do better. Our target for that three- to five-year horizon is to get to a 15% operating margin. As the value player in many of the categories we're in, we think that would be excellent performance for us. So we're supremely focused on doing all of the things that we need to do both strategically and tactically to move in that direction over the next several years.

TWST: What about your relations with the investment community? Do you think that they have fully grasped what you've been about?

Mr. Hussey: Yes, I think so. I think we've been transparent and open about our desire to globalize and diversify the business. This past year has been a bit of a challenge for us as we've been digesting two large new acquisitions and simultaneously dealing with some difficult challenges in our core battery business that caused us to underperform. As you know, last year we had to reduce our earnings projections several times during the back half of the year, and that seemed to be extremely upsetting to the investment community, understandably so.

You never like to have to reduce your earnings projections as you go through a year. But we were hit very hard both in North America and in Europe in the consumer battery business somewhat unexpectedly, which caused us to have to adjust those numbers. I like to remind people, to put things in perspective, that the reason we made these significant acquisitions was to diversify our business because we saw the challenges facing us in consumer batteries. So we believe the strategy that we're executing is exactly the right strategy — to diversify the company and reduce our dependence on what is becoming an increasingly competitive battery category.

I think most people understand and appreciate our long-term strategy, but they want to see our ability to execute and perform at a high level in multiple categories. We have grown very rapidly from one or two categories — batteries and flashlight products — to a fairly large portfolio of seven product categories with the recent acquisitions. That's a challenge I think we're up for, and we'll be able to demonstrate to people pretty convincingly within 12 months that we have our arms around these categories. We have a very solid positioning in them and we should be able to execute our business model and deliver better financial results over time. That's ultimately what investors are looking for.

TWST: What would be the two or three best reasons for the long-term investor to look closely at Spectrum Brands?

Mr. Hussey: I think we're going to be a significant participant in a number of attractive consumer product categories, long term. We are particularly excited about the pet supply category. We're one of two major global players today that have a great business model. We plan to invest significantly in growing our presence in pet supplies. It is a global category with few significant competitors, and we have our sights set on going from a little over $0.5 to $1 billion in revenue, with above average margins, over the next three- to five-years. So we think our investment in those kinds of growth opportunities, as well as in places like lawn and garden and personal care, will enable us to outperform our peer competitors in the consumable product space, both in terms of topline growth and earnings growth over the next several years.

We also have a significant opportunity to drive costs down through integration synergies over the next couple of years, and as we utilize our strong cash flow to reduce debt and corresponding interest expense, we have the opportunity to impact earnings in a significant way.

TWST: Regarding the decline of the battery business, was the company late in seeing the writing on the wall?

Mr. Hussey: I think we saw it coming a while ago. Quite honestly, as we came through a very competitive period in the 2000 to 2003 era, we believed that we were seeing a temporary competitive slowdown in the category because the major players, particularly in North America, were jostling for market share. We expected that once that competitive environment settled down, we would see a resumption of the historical growth rates. That has not happened, and after a year or two of not seeing growth return to the category, I think we finally faced the fact that some of the factors I talked about earlier — the changing nature of electrical devices — represent a long-term trend that we are going to have to deal with in terms of long-term growth rates.

In Europe, we knew private label was a major part of the battery category in that market. What surprised us was the speed at which private label grew in some of the specific countries in Europe as they grappled with some of the economic issues they've had over the last several years, particularly in Germany, France, Italy and a few other countries, So now we're adjusting our business model in Europe to take that into account in terms of sizing our business, our infrastructure and our go-to-market strategy to focus on a smaller lower growth market opportunity for us. We do believe that we can change our business model so that that region continues to be a good, profitable, cash flow generating business.

TWST: Thank you.

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