

TEMPUR PEDIC INTERNATIONAL INC
Form S-1/A
November 09, 2004
Table of Contents

As filed with the Securities and Exchange Commission on November 9, 2004

Registration No. 333-120151

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Tempur-Pedic International Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	2510 (Primary Standard Industrial Classification Code Number) 1713 Jaggie Fox Way Lexington, Kentucky 40511 800-878-8889	33-1022198 (I.R.S. Employer Identification Number)
--	--	---

(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

Robert B. Trussell, Jr., President and Chief Executive Officer

Tempur World, Inc.
1713 Jaggie Fox Way
Lexington, Kentucky 40511
800-878-8889

Edgar Filing: TEMPUR PEDIC INTERNATIONAL INC - Form S-1/A

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

John R. Utzschneider, Esq.

Rod Miller, Esq.

Bingham McCutchen LLP

Weil, Gotshal & Manges LLP

150 Federal Street

767 Fifth Avenue

Boston, MA 02110

New York, NY 10153

617-951-8000

212-310-8000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Aggregate Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Common Stock, par value \$0.01 per share	11,500,000	\$ 16.26	\$ 186,990,000	\$ 23,692(3)

- (1) Includes 1,500,000 shares of common stock that the underwriters have the option to purchase from the selling stockholders solely to cover over-allotments, if any.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low sales prices of the common stock as reported on the New York Stock Exchange on October 29, 2004.
- (3) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated as of November 9, 2004

PROSPECTUS

10,000,000 Shares

Common Stock

This is an offering of 10,000,000 shares of common stock of Tempur-Pedic International Inc. All of the shares of common stock in this offering are being sold by the selling stockholders identified in this prospectus. We will not receive any proceeds from the sale of the shares offered by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol TPX. The last reported sale price of our common stock on November 8, 2004 was \$16.94 per share.

Investing in the shares involves risks. Risk Factors begin on page 8.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to selling stockholders(1)	\$	\$

(1) Expenses, other than underwriting discounts, associated with the offering will be paid by the Company.

The selling stockholders have granted the underwriters a 30-day option to purchase up to an aggregate of 1,500,000 additional shares of common stock on the same terms and conditions as set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about _____, 2004.

LEHMAN BROTHERS

GOLDMAN, SACHS & Co.

UBS INVESTMENT BANK

PIPER JAFFRAY

ADAMS HARKNESS

, 2004

Table of Contents**TABLE OF CONTENTS**

	Page
	<hr/>
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	8
<u>Special Note Regarding Forward-Looking Statements</u>	19
<u>Use of Proceeds</u>	20
<u>Price Range of Common Stock</u>	20
<u>Dividend Policy</u>	20
<u>Capitalization</u>	21
<u>Selected Historical Consolidated Financial and Operating Data</u>	22
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Business</u>	43
	Page
	<hr/>
<u>Management</u>	55
<u>Principal and Selling Stockholders</u>	64
<u>Certain Relationships and Related Party Transactions</u>	68
<u>Description of Capital Stock</u>	70
<u>Material U.S. Federal Income Tax Considerations for Non-U.S. Holders of Our Common Stock</u>	73
<u>Underwriting</u>	75
<u>Legal Matters</u>	78
<u>Experts</u>	79
<u>Where You Can Find More Information</u>	80
<u>Index to Historical Financial Statements</u>	F-1

ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospectus may have changed since that date.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights all material information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in shares of our common stock. We encourage you to read this entire prospectus carefully, including Risk Factors beginning on page 8 and our consolidated financial statements and the notes to those financial statements beginning on page F-1, before making an investment decision. Unless otherwise noted, all of the financial information in this prospectus is consolidated financial information for Tempur-Pedic International Inc. or its predecessors. As used in this prospectus, the terms the Company and Tempur-Pedic International refer to Tempur-Pedic International Inc. only and the terms we, our, ours and us refer to Tempur-Pedic International and its consolidated subsidiaries. Unless otherwise noted in this prospectus, all references to dollars are to United States dollars.

TEMPUR®, Tempur-Pedic®, Tempur-Med®, Swedish Sleep System®, Airflow System®, The Celebritybed by Tempur-Pedic and Dual Airflow System are our trademarks, trade names and service marks. All other trademarks, trade names and service marks used in this prospectus are the property of their respective owners.

Tempur-Pedic International Inc.

We are a rapidly growing and market leading, vertically-integrated manufacturer, marketer and distributor of premium visco-elastic mattresses and pillows that we sell globally in 60 countries primarily under the Tempur® and Tempur-Pedic® brands. We believe our premium mattresses and pillows are more comfortable than standard bedding products because our proprietary visco-elastic pressure-relieving material is temperature sensitive, has a high density and conforms to the body to therapeutically align the neck and spine, thus reducing neck and lower back pain, two of the most common complaints about other sleep surfaces. In the most recent survey of mattresses published by *Consumers Digest* in April 2003, one of our mattresses was named among the eight best buys of the mattress industry in the applicable price range. In October 2004, one of our pillows was named by *Consumers Digest* among the best buys in the industry. In September 2004, we were added to the list of approved products by *Good Housekeeping* magazine, which earned us the privilege to display the Good Housekeeping Seal across our entire line of mattresses. Consumer surveys commissioned on our behalf in recent years have indicated that our products achieve satisfaction ratings generally ranging from 80% to 92%. In the three years ended December 31, 2003, our total net sales grew at a compound annual rate of approximately 47%, and for the nine months ended September 30, 2004, we had total net sales of \$486.5 million, which represented a 42% increase in net sales as compared to the nine months ended September 30, 2003.

We sell our products through four distribution channels: retail (furniture and specialty stores, as well as department stores internationally); direct (direct response and internet); healthcare (chiropractors, medical retailers, hospitals and other healthcare channels); and third party distributors. In the United States, we sell a majority of our mattresses and pillows through furniture and specialty retailers. International sales account for approximately 37% of our total net sales.

The International Sleep Products Association (ISPA) estimates that the United States wholesale market for mattresses and foundations in 2003 was approximately \$5.0 billion. We believe the international mattress market is generally the same size as the domestic mattress market. According to ISPA, from 1991 to 2003, mattress unit sales grew in the United States at an average of approximately 500,000 units annually, with approximately 22.0 million mattress units sold in the United States in 2003, although sales decreased during the 2000 to 2002 period. We believe a similar number of mattress units were sold outside the United States in 2003. ISPA further estimates that approximately 20% of those mattress units were sold at retail price points greater than \$1,000, which is the premium segment of the market we target and which we believe is the fastest growing segment in the industry.

Table of Contents

Most standard mattresses are made using innersprings and most innerspring mattresses are sold for under \$1,000. Alternatives to standard and premium innerspring mattresses include visco-elastic and other foam mattresses, as well as airbeds and waterbeds. Four large manufacturers (Sealy Corporation, Serta, Inc., Simmons Company and The Spring Air Company) dominate the standard innerspring mattress market in the United States. The balance of the United States wholesale mattress market is fragmented, with a large number of other manufacturers, many of which operate primarily on a regional basis. Standard innerspring mattresses represent approximately 80% of the overall mattress market in the United States.

The medical community is also a large consumer of mattresses to furnish hospitals and nursing homes. In the United States, there are over 15,400 nursing homes with a total bed count in excess of 1.7 million. Medical facilities typically purchase twin mattresses with standard operating functions such as adjustable height and mechanisms to turn patients to prevent pressure ulcers (or bedsores). We believe that as the United States population ages, the healthcare market for mattresses will continue to grow.

Based on our market research, we estimate that the United States retail market for pillows is approximately \$1.1 billion. The United States pillow market has a traditional and specialty segment. Specialty pillows include all alternatives to traditional pillows, including visco-elastic, foam, sponge rubber and down. We believe the international pillow market is generally the same size as the domestic pillow market.

We are the leading global manufacturer, marketer and distributor of premium visco-elastic mattresses and pillows, with an estimated 70% market share in 2003 in both the United States and internationally. We believe consumer demand for our premium products in the United States is driven primarily by increased housing and home furnishing purchases by the baby boom generation, significant growth in our core demographic market as the baby boom generation ages, increased awareness of the health benefits of a better quality mattress, and shifting consumer preference from firmness to comfort. As consumers continue to prefer alternatives to standard innerspring mattresses, our products become more widely available and our brand gains broader consumer recognition, we expect that our premium products will continue to attract sales away from the standard mattress market.

Our principal executive office is located at 1713 Jaggie Fox Way, Lexington, Kentucky 40511 and our telephone number is (800) 878-8889. We were incorporated under the laws of the State of Delaware in September 2002.

Competitive Strengths

We believe we are well-positioned for continued growth in our target markets, and that the following competitive strengths differentiate us from our competitors:

Superior Product Offering. Our proprietary visco-elastic mattresses and pillows contour to the body more naturally and provide better spinal alignment, reduced pressure points, greater relief of lower back and neck pain, and better sleep quality than traditional bedding products. In addition, we continue to leverage our unique and proprietary manufacturing process to develop new products and refine existing products to meet the changing demands and preferences of consumers. Our innovative products distinguish us from the major manufacturers of standard innerspring mattresses and traditional pillows in the United States, which we believe offer generally similar products and must compete primarily on price.

Increasing Global Brand Awareness. We believe consumers in the United States and internationally increasingly associate our brand name with premium quality products that enable better overall sleep. We believe our Tempur brand's global recognition is reinforced

Edgar Filing: TEMPUR PEDIC INTERNATIONAL INC - Form S-1/A

by our high level of customer satisfaction. Furthermore, we believe our direct response business and associated multi-channel advertising in our domestic and international markets have enhanced awareness of our brand.

Table of Contents

Diversified Product Offerings Sold Globally Through Multiple Distribution Channels. Our diversified product offerings include mattresses, pillows and other products, primarily adjustable beds, which we sell through multiple distribution channels including retail, direct, healthcare and third party distributor channels. For the nine months ended September 30, 2004, mattress, pillow and other product sales, primarily adjustable beds, represented 63%, 21% and 16%, respectively, of our net sales. For the nine months ended September 30, 2004, our retail channel represented 71% of our net sales, with our direct, healthcare and third party distributor channels representing 15%, 7% and 7%, respectively.

Strong Financial Performance. Over the last several years, our diversified business model has enabled us to achieve rapidly growing revenues and strong gross and operating margins, with low maintenance capital expenditure and working capital requirements. Further, our vertically-integrated operations generated an average of approximately \$470,000 in net sales per employee in 2003, which we believe is more than 2.0 times the average for three of the major bedding manufacturers in the United States. Our strong financial performance gives us the flexibility to invest in our manufacturing operations, enhance our sales force and marketing, invest in information systems and recruit talented management and other personnel.

Significant Growth Opportunities. We believe we have significant growth opportunities because we have penetrated only a small percentage of our addressable market. Furthermore, we have recently begun to expand our direct response business in our European markets, based on our similar, successful initiatives in the United States and in the United Kingdom, to reach a greater number of consumers and increase our brand awareness. In addition, we currently supply only a small percentage of the approximately 15,400 nursing homes and 5,000 hospitals in the United States (with a collective bed count in excess of 2.7 million).

Management Team with Proven Track Record. Since launching our United States operations in 1992, Robert Trussell, Jr. has helped grow our company into a global business with approximately \$486.5 million in total net sales for the nine months ended September 30, 2004. Furthermore, Mr. Trussell has assembled a highly experienced management team with significant sales, marketing, consumer products, manufacturing, accounting and treasury expertise.

As of November 8, 2004, the management team and certain key employees owned approximately 7.8% of our common equity on a fully-diluted basis, after giving effect to the vesting of all outstanding options (6.8% after this offering).

Business Strategy

Our goal is to become the leading global manufacturer, marketer and distributor of premium mattresses and pillows by pursuing the following key initiatives:

Maintain Focus on Core Products. We utilize a vertically-integrated, proprietary process to manufacture a comfortable, durable and high quality visco-elastic pressure-relieving material. Although this material could be used in a number of different products, we are currently committed to maintaining our focus primarily on premium mattresses and pillows. We believe our focused sales, marketing and product strategies will enable us to increase market share in the premium market, while maintaining our margins and our ability to generate free cash flow.

Continue to Build Global Brand Awareness. We plan to continue to invest in increasing our global brand awareness through targeted marketing and advertising campaigns that further associate our brand name with better overall sleep and premium quality products. We estimate that our current advertising campaign yields 3.6 billion consumer impressions per month via television, radio, magazines and newspapers.

Table of Contents

Further Penetrate U.S. Retail Channel. In the United States, the retail sales division is our largest sales division. Since the beginning of the year, we have added approximately 1,200 furniture retailers to our base in the United States. We now sell our products in approximately 3,900 such stores as well as approximately 1,500 specialty retail stores in the United States. We plan to build and maintain our base of furniture retailers and specialty retailers. In order to continue to penetrate this channel, we have increased our salesforce and have increased the number of personnel who train retail salespersons to sell our products more effectively. We believe we are able to more effectively attract and retain retailers because our premium products provide retailers with higher per unit profits than standard innerspring products.

Continue to Expand Internationally. We plan to increase international sales growth by further penetrating each of our existing distribution channels.

Increase Growth Capacity. We intend to continue to invest in our operating infrastructure to meet the requirements of our rapidly growing business. Currently, we manufacture our products in two highly automated, vertically-integrated facilities located in Aarup, Denmark and Duffield, Virginia. Over the past three years, we have invested more than \$50.0 million to upgrade and expand these facilities. To accommodate our anticipated growth, we plan to invest an additional \$75.0 to \$100.0 million to increase productivity and expand manufacturing capacity during the next several years, including the development and construction of an additional manufacturing facility in Albuquerque, New Mexico. We commenced construction of the Albuquerque manufacturing facility in September 2004 and expect to complete construction before the end of the third quarter of 2006. We also plan to continue to enhance our internal information technology systems and our product distribution network, as well as augment our personnel in management, sales, marketing and customer service.

TA Associates, Inc. and Friedman Fleischer & Lowe

TA Associates, Inc. (TA) manages \$5.0 billion of capital for buyouts and private equity investments in profitable growth companies in the consumer, technology, financial services, business services and healthcare industries. Founded in 1968, TA has a staff of over 40 investment professionals operating from offices in Boston, Massachusetts, Menlo Park, California, and London, and has invested in approximately 350 companies over its 35-year history.

Friedman Fleischer & Lowe, LLC (FFL) is a San Francisco-based private equity firm specializing in value-added investing. FFL's principals have invested approximately \$2.0 billion in more than 50 companies over the past 20 years across many industry sectors. The principals have over 90 years of combined experience as investors, senior operating executives and advisors.

As of November 8, 2004, TA and FFL owned 61.3% of our fully diluted common stock, after giving effect to the vesting of all outstanding options (54% after this offering).

Table of Contents

The Offering

Common stock offered by selling stockholders in 10,000,000 shares
this offering

Common stock outstanding on November 8, 2004 97,891,250 shares

Use of proceeds We will not receive any proceeds from the sale of shares by the selling stockholders. The selling stockholders will receive all net proceeds from the sale of our common stock offered in this prospectus. See Use of Proceeds.

New York Stock Exchange symbol TPX

The number of shares of our common stock outstanding on November 8, 2004 excludes:

5,960,525 shares of our common stock issuable upon the exercise of stock options outstanding as of November 8, 2004, 1,351,067 of which options were then exercisable; and

7,850,000 shares of our common stock reserved for future grant under our 2003 Equity Incentive Plan.

In addition, the underwriters have a 30-day option to purchase up to 1,500,000 additional shares from the selling stockholders to cover over-allotments. Some of the disclosures in this prospectus would be different if the underwriters exercised their over-allotment option. Unless we tell you otherwise, the information in this prospectus assumes that the underwriters will not exercise their over-allotment option.

Table of Contents**Summary Consolidated Financial and Operating Data**

Our predecessor company for the period from January 1, 2001 to October 31, 2002 is Tempur World, Inc. In November 2002, TA and FFL formed Tempur-Pedic International to purchase Tempur World, Inc. for approximately \$268.0 million plus the refinancing of approximately \$88.8 million of existing debt obligations and a payment of an earn-out to former owners of approximately \$40.0 million. We refer to this acquisition of Tempur World as the Tempur acquisition. We completed the Tempur acquisition (which was accounted for using the purchase method of accounting) as of November 1, 2002. As a result of adjustments to the carrying value of assets and liabilities pursuant to the Tempur acquisition, the financial position and results of operations for periods subsequent to the Tempur acquisition are not comparable to those of our predecessor company.

The following table sets forth our summary consolidated financial and operating data for the periods indicated. We have derived the statement of income and balance sheet data as of and for the year ended December 31, 2001 and the ten months ended October 31, 2002 from the audited consolidated financial statements of our predecessor company. We have derived our statements of income and balance sheet data as of and for the two months ended December 31, 2002 and as of and for the twelve months ended December 31, 2003 from our audited consolidated financial statements. We have derived the statement of income and balance sheet data as of and for the nine months ended September 30, 2003 and 2004 from our unaudited consolidated interim financial statements. In the opinion of management, such unaudited consolidated interim financial statements have been prepared on a basis consistent with our audited consolidated financial statements and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim period. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any future period. Our predecessor company's consolidated financial statements as of and for the two months ended December 31, 2001 and for the ten months ended October 31, 2002, our consolidated financial statements as of and for the two months ended December 31, 2002 and for the twelve months ended December 31, 2003, and our unaudited consolidated financial statements as of and for the nine months ended September 30, 2003 and 2004 are included elsewhere in this prospectus. The following data should be read in conjunction with Selected Historical Consolidated Financial and Operating Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

	Predecessor					
	Year ended December 31, 2001	Period from January 1, 2002 to October 31, 2002	Period from November 1, 2002 to December 31, 2002	Year ended December 31, 2003	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004
					(unaudited)	(unaudited)
<i>(\$ in thousands)</i>						
Statement of Income Data:						
Net sales	\$ 221,514	\$ 237,314	\$ 60,644	\$ 479,135	\$ 342,359	\$ 486,460
Cost of sales(1)	107,569	110,228	37,812	223,865	158,805	228,228
Gross profit	113,945	127,086	22,832	255,270	183,554	258,232
Operating expenses(2)	83,574	86,693	23,815	158,196	111,345	151,874
Operating income(loss)	30,371	40,393	(983)	97,074	72,209	106,358
Net interest expense	6,555	6,292	2,955	20,539	13,743	17,865
Other (expense)income(3)	(316)	(1,724)	1,331	(15,333)	(15,145)	(5,360)
Income(loss) before income taxes	23,500	32,377	(2,607)	61,202	43,321	83,133
Income taxes	11,643	12,436	640	23,627	17,331	32,006

Edgar Filing: TEMPUR PEDIC INTERNATIONAL INC - Form S-1/A

Net income(loss) after tax	11,857	19,941	(3,247)	37,575	25,990	51,127
Preferred stock dividend	345	1,238	1,958			
Net income(loss) available to common stockholders	\$ 11,512	\$ 18,703	\$ (5,205)	\$ 37,575	\$ 25,990	\$ 51,127
Earnings (loss) per share(4)						
Basic			\$ (0.67)	\$ 3.32	\$ 3.21	\$ 0.52
Diluted			\$ (0.67)	\$ 0.39	\$ 0.28	\$ 0.50
Weighted average shares (in thousands)						
Basic			7,815	11,330	8,091	97,601
Diluted			7,815	95,331	93,143	102,933

Table of Contents

Predecessor					
Year ended December 31, 2001	Period from November 1, 2002 to October 31, 2002		Year ended December 31, 2003	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004