

"Coleco Withdraws Adam; Selling Inventory to Retailer"
from the Jan. 7, 1985 issue of Electronic News

WEST HARTFORD, Conn. -- Though persistently disputing industry augurs that it was approaching the 11th hour with its Adam computer system, Coleco last week withdrew it from the market.

The toy company said it is selling inventories of the ill-fated machine to a retailer, reportedly the Odd-Lot subsidiary of Revco, Inc., and will halt manufacturing after it completes assembly of parts for the retailer.

The firm said it is laying off staff here and at its production facilities in the Amsterdam, N.Y., area. It did not quantify the dismissals. Production is presently shut down.

Coleco president Arnold Greenberg said the company would sustain "substantial losses" for the fourth quarter and for the year. The results are expected in 60 days. Analysts have placed the write-off between \$50 million and \$100 million.

In a letter to shareholders last week, Mr. Greenberg said the firm was no longer willing "to incur the significant costs and risks necessary to keep Adam competitive," and noted "Current unstable conditions in the home computer market are requiring us to sell Adam inventory at prices below costs."

Recent Statements

The firm's recent statements, however, had not been so pessimistic, despite claims by analysts and software firms that Coleco would abandon the Adam after Christmas; and despite sales promotions reminiscent of the days that preceded Texas Instruments' market exit.

A month ago, in a letter to this newspaper approved by Coleco executive vice-president Mort Handel, the company criticized a November article that aired analysts beliefs that a write-off was pending.

The letter referred to the article as "misleading" and said it "adds credence to an unfounded speculation Coleco has been attempting to subdue for quite some time."

In September, as software developers said they were cutting Coleco development efforts in the belief that the firm was not committed to the Adam in the long-run, Mr. Handel noted "We're committed; we'll be making the Adam next year." (EN, Sept. 10, 1984).

The decision to exit the home computer market marks an effort to halt a cash drain that has plagued the firm since it first mocked-up the Adam system with introductory fanfare at a trade show a year-and-a-half ago.

Design Switch

At that time, a last-minute design switch in the Adam's storage device forced the firm to improvise circuitry for private display units it showed behind closed doors. Floor displays were presented to be looked at but not touched, protected from the crowd in a glass booth (EN, June 13, 1983).

It said it would ship 500,000 units that year, starting in late August.

The early design snag in the storage system was to characterize the fate of the Adam, as the firm fell over 400,000 units short of its 1983 sales projection and began facing numerous design, production and quality problems.

As the financial burden of the lengthy start-up dragged on, Coleco's window of opportunity began to close, as IBM and Apple began lowering the price of more sophisticated systems to under \$1,000 (EN, Dec. 31, 1984).

In its most recent report, for the third quarter, the company said pretax losses in electronics of \$30 million pulled down corporate profits to \$3.8 million. Profit was achieved through the sale of the firm's non-electronics line, primarily its Cabbage Patch Kids dolls. Through the first 9 months, the firm had sales of \$354 million, but profit was \$13.4 million.

\$200 Million

Some analysts had earlier predicted a write-off of as high as \$200 million, based on expectations that Coleco would also discontinue its Colecovision video game operations (EN, Nov. 12, 1984).

Although the company last week said it plans to continue marketing the Colecovision systems, many analysts still expect an eventual write-off of it.

According to Jim Chanos, vice-president with Atlantic securities Corp. in New York, "The write-off will be somewhere on the basis of \$50 million to \$100 million, after tax. But as far as Colecovision goes, the indication seems to be they will try to show they're keeping it a viable business. We're not so sure."

"I think the write-down should be \$125 million, or thereabouts," noted Benjamin E. Kopin, vice-president of Gilford Securities, Inc., in Chicago. "I can justify a higher price. I can't justify a lower one."

Mr. Kopin also predicted an eventual write-off for the Colecovision operation.

Walter Kirchberger, a vice-president of research at Paine Webber, also predicted an eventual write-off of Colecovision.

"We think the write-off for consumer electronics, including the Colecovision will be on the order of \$100 million," he said.

"The fourth-quarter loss will be on the order of \$60 million, and the full-year loss will be \$60 million less the first 9 month profit of \$13 million."

Boxcars

Mr. Kirchberger referred to those estimates as "boxcar numbers." Like other analysts, he noted that precise estimates of the financial impact of Coleco's market exit are difficult to determine because Coleco does not separate Adam figures from Colecovision figures in its financial report.

Analysts also note that a number of uncertainties are making it difficult to estimate an exact loss and write-off.

They expect, for example, that Coleco will have to settle purchasing commitments to its suppliers, much as it did recently when it agreed to pay Tokyo's Chinon Industries \$13 million for printers ordered but not purchased.

"One thing we're waiting to see is if Coleco recognizes liabilities like that and includes them in their write-down," Mr. Chanos noted at Atlantic Securities.

Also uncertain is how Coleco will deal with retailers who are stocking Adam systems purchased for more than the price agreed to with the unidentified

retailer last week.

Each Retailer

"They have to work something out with such retailer," Mr. Kirchberger at Paine Webber noted. "There's a number of things they can do. The large chain guys may want credit so they can run a fire sale. The little guys may want to ship back Adams. Another guy may want Cabbage Patch dolls. Not everybody will necessarily want to ship back product."

Analysts are also unsure how much Adam inventory Coleco was holding, and what its book value was.

In an SEC filing last fall, the firm stated it had inventories of \$181.7 million as of Sept. 29, 1984. Much of that is believed to have been in electronics, with the bulk represented by Adam assemblies, parts, and subassemblies.

Some of that had been cleared over the last 3 months, with price cuts on the Adam that brought its retail tag down to about \$500, and through promotional efforts, such as the offer of \$500 in college tuition to eligible purchasers.

"Last September, at least \$100 million of their inventory was tied up with Adam. I'd estimate after sales from their promotions, they probably had inventory of about \$70 million to \$75 million," Mr. Chanos noted.

Last Summer Although Coleco had been troubled by the Adam operation since its introduction, the signs of a market exit began to pick up steam last summer, when the firm began the series of sales promotions and cut Adam's prices originally \$700. It is expected to be liquidated for under \$200.

By last November, cash-flow was said to be coming to an end. A \$118 million credit line that recently had been secured from Chase Manhattan reportedly had been almost completely used in an effort to save the Adam.

Coleco's market exit is the fourth by a home computer firm within the last 15 months, following the lead of Texas Instruments, Mattel and Timex.

The firm's disclosure was viewed positively by Wall Street. In the first day of trading after the move, the price of the stock closed up \$2.25, at \$14.375. On the following day, however, it fell, to \$13.