CEO CFO

Schiff Nutrition International, Inc.
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The Most Powerful Name In Corporate News and Information

Schiff Nutrition International Has Written A Strong Turnaround Story Going From $130 Million In Debt In 1998 To A Positive Net Cash Position Of $80 Million In 2007 Primarily By Focusing The Company On Its Core Schiff® Brands Of Vitamins, Minerals And Joint-Care Supplements, Complimented In Part By An Asset Divestiture Program

Schiff NUTRITION INTERNATIONAL

Healthcare
Drug Related Products
(WNI-NYSE)

Bruce J. Wood
President and CEO, Director

BIO:
Bruce J. Wood has been our Chief Executive Officer, President and a director since June 1999. From 1973 to December 1997, Mr. Wood held various management positions within divisions of Nabisco, Inc., a manufacturer and marketer of packaged food, including President and Chief Executive Officer of Nabisco, Ltd., President of Planters Lifesavers Company, and Senior Vice President, Marketing of both Nabisco Biscuit Company and Del Monte USA.

Company Profile:
Schiff Nutrition International, Inc. develops, manufactures, markets and distributes branded and private label vitamins, nutritional supplements and nutrition bars in the United States and throughout the world.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Wood, you have been with Schiff for about ten years now; what was the vision when you began and where are you today?
Mr. Wood: “I have been here almost 10 years now and certainly the company has changed its vision and mission fairly significantly over that period. Of course, the industry has evolved as well. Back in 1999, we were actually larger in terms of sales, and participating in businesses that we have since sold off. At that time, we were a multi-branded, multi-category type of participant, including joint care products, classic vitamins, minerals, and other supplements. We were also in sports nutrition, including gym distribution as well as mass market. We were internationally prominent in Germany, through an acquisition made in 1998 that included gym distributed sports nutrition, mass market distributed wellness products, and even gym sportswear. It was a fairly diverse, but not a particularly synergistic, mix of businesses.”

CEOCFO: Where are you today?
Mr. Wood: “Over the last ten years, we have undertaken a fairly significant divestiture program that culminated in 2005. It took us a little over five years to complete both the evaluation and the divestiture of what we deemed non-core businesses. During that same period, we were focused on what we viewed as the future of the company: our core business, the Schiff® brand of vitamins and minerals and particularly joint-care supplements, which today remain our core bread and butter business. At the same time, we continued to operate our private label business and participated in the nutrition bar business with our Tiger’s Milk® brand. Our focus since 2005 has been to grow those businesses. Our mission since then has been to develop and provide high-quality branded supplements under the Schiff master brand and consider other alternatives in supplements that promote overall health and wellness.

We have not branched out to other categories, for example, OTC pharmaceuticals, although we will not necessarily rule that out on a go-forward basis because there is some interactivity amongst those categories. For the past five years and in the next few years, we are focused on supplements and, in particular, the large joint-care category where we are one of the branded leaders with our Move Free® brand that achieved prominence in the late 1990’s. Today, Schiff is one of the largest brands in the supplements space in general and in joint-care in particular. We have a prominent branded position with glucosamine as well. On top of that, we have a line of vitamins and minerals. We are focused on growth categories and working to brand new products. The most prolific example of late is Schiff MegaRed® Omega-3 Krill Oil, our new participant in the very large and growing Omega-3/Fish oil category. Similar to Move Free, MegaRed is participating in its category with a superiority benefit to ordinary fish oil.”

CEOCFO: What is unique about Schiff products?
Mr. Wood: “First off, we have the heritage of the Schiff brand having been in the marketplace for 70-plus years. It is certainly a very contemporary brand, but as a brand that has been around a long time, it has residual positive overtones from its early health-food days. We pride ourselves on using the highest quality ingredients; all natural where possible. In some cases, we are at the higher-price end of the market, versus the major competition, which tends to be private label, along with other brands. Our position is best exemplified in the joint-care segment where we are a branded leader.”

CEOCFO: How do you maintain your high quality standard?
Mr. Wood: “We make it job-one as far as manufacturing and quality assurance operations are concerned. Culturally speaking, we have very high expectations of ourselves and have a very experienced manufacturing and quality-assurance staff that has all the appropriate checks and balances in place. Therefore, as a product makes its way through the system, it is tested and retested at virtually all stages and checked again before it goes out the door. This makes our ability to spot problems very high. We also make sure we spend an appropriate amount of time and resources on our raw materials. Because much of the industry’s raw materials come from China, we ensure that our procurement and our quality assurance practices over there go hand-in-hand in terms of plant audits. We even have an office in Beijing to make sure we are getting the right quality

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- Bruce J. Wood

and ensure the right checks-and-balances are in place.

Of course, on top of that is just living up to the government's expectations. The FDA's new Good Manufacturing Practices (CGMP's) is an added check-and-balance to the system that was initiated by the government a couple years ago. These rules are soon becoming effective for companies our size and smaller, and we are confident in our ability to comply with those regulations. We feel very confident in our quality and we certainly pay a very high level of attention to it. Our operators on the line that are responsible for quality know they have the power to intervene at any time if they observe anything questionable as far as quality is concerned. After that, we are concerned about cost, promotion and being competitive."

CEOCFO: What is the market opportunity?
Mr. Wood: "The total market opportunity for dietary supplements, including all products and all channels, is $24 billion in the United States alone, and considerably larger if you add in countries beyond the U.S. At Schiff, we focus on the mass-market arena, which is just under 30% of that total. The mass market we define as the larger retailers such as COSTCO, Wal-Mart, Sam's Club, the major drug participants like Walgreen's, CVS, Rite Aid, and the major food retailers, such as Kroger, Safeway, Albertson's, Publix and so on. There is also a distinct class of trade that carries supplements called the health food channel, which is a little larger in total than the mass market channel, and the most prominent of these are stores like Whole Foods. However, we are a small player in the health food channel."

CEOCFO: What about the competitive bench marking?
Mr. Wood: "It is an ongoing practice here; we evaluate and reevaluate our products and costs. We analyze our mass-market competitors and make our assessment about our ability to compete out of these analytically-driven practices. We are looking at products, analyzing product content, and looking at pricing and promotional activity for other competitors, so it covers the gamut of the product, its composition, and how it is marketed in general.

As to broader industry benchmarks, within the mass-market space, it is difficult to get precise information on company rankings. However, there is one source, Information Resources Inc., or IRI, that measures the mass-market, excluding Wal-Mart and Sam's Club stores. It measures the drug class, the food class of trade and certain other mass marketers such as Target. In that space, we rank #7 in the industry, and have been consistently in the top-10 over the years. We are one of the larger companies in the industry and continue to cultivate our position with large retailers who are increasingly interested in dealing with financially stable suppliers who have high-quality standards."

CEOCFO: What is the financial picture for the company, and what is the impact of the current economic scenario?
Mr. Wood: "Historically we have come a long way. Harkening back to our earlier conversation about where we were ten years ago as compared to today, at one point in time in the late 1990's we had a significant amount of debt. In 1998, our debt was on the order of $130 million. However, through a number of initiatives, including in part the asset divestiture program, we eliminated our debt to the point where in 2007 we had accumulated a net cash position of $80 million, with no debt. In fact, we were then able to declare a special dividend of $1.50 a share. We were quite proud of accomplishing a turnaround from $130 million of debt to $80 million in cash. Of that $210 million positive cash flow turnaround, only about $37 million came from asset sales and divestitures; the vast majority came from solid, profitable, cash flow positive operations and, of course, prudent management of our balance sheet.

We made a lot of progress. Today, even after using about $45 million of our cash for the special dividend, we continue to generate cash. As of the end of our fiscal third quarter, or Feb. 28th, our cash position was about $50 million with another $5 million or so in other investments. Our sales in the latest quarter were up about 8% and the year-to-date improvement was about 14.5% through Feb 28th. By and large, even though our profitability has declined to some degree this year as compared to last year, we are still very profitable and a positive cash flow generator, which I guess in the current economic environment is, if not entirely satisfying, at least comforting."

CEOCFO: Final thoughts. Why should potential investors buy Schiff Nutrition International?
Mr. Wood: "First, we have a very solid track record in terms of being stable and profitable, and we have a significant ability to generate positive cash flow, which is based on nurturing and growing our branded business. Our high-quality brands are well-regarded by the consumer. Most importantly, we have a long-term profitable growth strategy of developing new products and appropriately supporting them. We have the financial stability and a strong balance sheet to be able to execute our branded growth strategies and we are participating more in private label, which is an important component of our strategy. It is secondary, but certainly a very important complement to our branded strategy. Our financial health also enables us to withstand competitive onslaughts from larger competitors. Finally, we have very experienced management that has delivered an impressive track record of accomplishment. Not just myself, but among our senior managers, our CFO, and Executive Vice President of Operations, have twelve and thirteen years, respectively, with Schiff. Beyond that, our VP level of fifteen specialists, averages about eight years tenure. Therefore, we have a very stable and confident management team, which I think gives investors confidence that we know what we are doing and are capable of continuing to deliver results."

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