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Cash for Red Ink Divisions

Robert M. Smith

Sign of the times? Here's a New York company whose sole business is relaying the names of unwanted divisions to prospective purchasers—

CASH FOR RED INK DIVISIONS

by Robert M. Smith
Editor

In the recent financial pinch that has hit so many companies, many of them have cast a long and jaundiced look at some of their divisions, divisions which might at one time have been profitable but were so far out of the main stream of company interests that now they may be a drain on the parent. Or, in the case of divisions that are not too profitable, stockholders' growing interest, concern, and demand for divisional breakdown of profits and losses may lead to the close inspection of areas that in other years would have gone happily unnoticed at annual meetings.

This trend explains the emergence of Corporate Diversification, Ltd., a New York company that does much the same sort of thing for corporate divisions or product lines that executive recruiters do for dissatisfied or unhappy businessmen: it matches the lost individual with the eager buyer.

This trend has been reenforced by the vast growth of diversified companies which got into too many lines in the happy days of the Sixties and sometimes bought not wisely but too well. The stock market's long and sometimes precipitous decline left many of them short of cash and long on properties, some of which they weren't geared to exploit.

Penn Central, so rich in other properties that it can't pay its transportation company's operating bills, is only the most recent and dramatic example. There are others.

The air conditioning manufacturer that found it had a solid but extraneous division making farm equipment, for example. The division was doing a good job, but the parent company didn't have marketing or distribution facilities that meshed well with agricultural equipment.

However, a farm equipment manufacturer did, and it so happened that the division's products supplemented his line nicely. The division was sold; the parent company got some badly needed cash; the agricultural manufacturer got a complete line of good products with an established manufacturing staff and factory facilities.

Client suggested firm

Corporate Diversification did not start with a gleam in the eye of its president, Peter Hilton. Rather, it had its genesis in the simplest if most unlikely source: A client suggested it.

Hilton, after a varied background in advertising, had settled down into a comfortable routine publishing a periodical called *New Product Newsletter,* a sort of amalgamation of all kinds of new product information on all kinds of products.

Apparently, one of *New Product Newsletter*'s most devoted readers was an official of Canada's Imperial Tobacco Company in Montreal. Imperial Tobacco, Canada's largest tobacco distributor, had seen the handwriting on the wall in the U.S. Surgeon General's report on smoking and lung cancer just as clearly as had the tobacco companies in this country. Diversification seemed called for. But where? There was plenty of capital to buy other companies and interests, but which ones?

Imperial Tobacco asked *New Product Newsletter* for help—and a flourishing business was born—a business that has burgeoned with the general economic downturn as overextended companies seek to get rid of their marginal units and still prosperous companies look for good acquisitions.

All fees are paid by the company looking for acquisitions. Corporate Diversification merely relays names of prospects to the potential purchaser. From that point on, all negotiations are between the would-be seller and the would-be buyer. Corporate Diversification makes no representations about the company or division that is to be sold; it only relays the information and location furnished by that entity to the interested buyer.

Nevertheless, it's working well. Some companies, not at all averse to picking up bargains, realize it's a buyer's market and are capitalizing on it. Corporate Diversification has one long-term ethical drug client to whom it sends an average of 20 prospects a month.

Clients—Imperial Tobacco is no longer among them—are substantial, including such corporate giants as the Columbia Broadcasting System and National Lead.

As with its closely related cousin, executive recruiting, the mechanics of the Corporate Diversification program are as interesting as anything else about it. The clients who retain the firm—for contracts are always on a retainer basis—do not present too much of a problem, any more than Imperial Tobacco did four years ago when the plan first started. But how are the prospective acquisitions located?

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Ads, publications used

A variety of methods have proved productive. *New Product Newsletter* is still published and that supplies some leads. Consultants are checked very carefully. Several national consulting firms cross-check their offices periodically to see which clients in which cities want to get rid of a division or even a subsidiary company. Those firms which have set up good working relationships with Corporate Diversification will let it know what's available. Corporate Diversification is on retainer to the prospective purchaser; the consulting firm usually has a fee arrangement with the prospective seller, so no conflict of interest arises.

Then, too, more conventional arrangements are being used. The firm advertises in *Fortune* and *The Wall Street Journal* for those who want to sell as well as those who want to buy. Word of mouth has done a lot to make the firm's name known. And just this year, a new publication, *The Spin-off*, was launched. *The Spin-Off* lists spin-offs that have been offered but don't meet any of Corporate Diversification's clients' needs. "Spin-Offs Sought" is a listing of companies looking for good properties in specific fields. "Licensing Opportunities" is a listing of companies that are willing to lease their rights to other American concerns or, more often, foreign concerns that don't have the organization to manufacture and distribute in this country. These offers are all, of course, only representative of the services Corporate Diversification offers its clients.

Two prospects that didn't go into* The Spin-Off *were a machine to allow hypertension victims to take their own blood pressure—a French patent—and a cryogenic surgical instrument—a Russian patent.

For example, in licensing opportunities, two prospects that didn't go into *The Spin-Off* were a machine to allow hypertension victims to take their own blood pressure—a French patent—and a cryogenic surgical instrument—a Russian patent. Both of these prospects went directly to the faithful drug products client to whom Corporate Diversification refers as many as 20 prospects a month.

Such recommendations—or relays of information—obviously can't disguise the company or division being offered for sale against a really careful search by the prospective purchaser. After all, if a division is located in a fairly remote town, making a fairly exotic product, and doing so much volume per year, it doesn't take particularly astute detective work to learn its name. But if the prospective purchaser is really interested, he's not going to broadcast the fact that Division A of Company ABC is in trouble: he's too apt to lose the purchase to a competitor.

Moreover, the parent of the division being sold has the advantage of knowing that pertinent information about his soon-to-be lost division is going only to companies that have already expressed an interest in exactly such a concern and companies, moreover, that will pay hard cash for the acquisition, a very important advantage to many sellers who don't want to get involved in stock of another company.

A client on retainer usually specifies three fields of interest. A drug client, for example, may be interested in any available purchase in medical textiles, veterinary products, or electronic diagnostic aids.

"There is no ceiling"

The Spin-Off is actually a device to create more clients, either for one acquisition or on a retainer basis. It is circulated gratuitously to some accounting firms, all major banks with merger and acquisition activities, several management consultants, and a personal mailing list of about 3,500. One or two excerpts from it will give its flavor.

From "Spin-Offs Offered":

> A national listed company is interested in spinning off a division engaged in sheet metal operations located in the East. Products produced by the division consist of prefabricated metal building units, louvers, skylights, roof ventilators made mainly of aluminum and fastened by welding, corner braces or rivets. Current backlog is about $800,000; projected 1970 sales are $1.3 million. No real estate is involved. Ref. #SP 166.

From "Spin-Offs Sought":

> A listed company with substantial cash resources is seeking to acquire spin-offs in the consumer packaged goods field (foods, drugs, cosmetics, toiletries, household specialties, etc.) that lend themselves to heavy advertising expenditures and mass distribution via supermarkets, drug chains, variety and department stores, etc. Minimum size operation that will be considered is $20 million present annual sales and there is no ceiling. Ref. #SP 177.