



## CASE 29

# Hanson PLC (A): The Acquisition Machine

*This case was prepared by Charles W. L. Hill of the University of Washington.*

### INTRODUCTION

Hanson PLC is one of the ten biggest companies in Britain, and its U.S. arm, Hanson Industries, is one of America's sixty largest industrial concerns. A conglomerate with more than 150 different businesses in its portfolio, Hanson PLC has grown primarily by making acquisitions. By the end of 1989, the company had recorded twenty-six years of uninterrupted profit growth, cumulating in 1989 operating income of \$1.61 billion on revenues of \$11.3 billion and assets of \$12.03 billion. The company's shareholders have been major beneficiaries of this growth. Between 1974 and 1989, the price of the company's shares on the London Stock Exchange increased eightyfold, compared with an average increase of fifteenfold for all companies quoted on the London Stock Exchange during this period.<sup>1</sup> Along the way, Hanson has gained a reputation for being one of the most successful takeover machines in the world. Its acquisitions during the 1980s included three American conglomerates (U.S. Industries, SCM Corporation, and Kidde) and three major British companies (London Brick, the Imperial Group, and Consolidated Gold Fields). So high is Hanson's profile that Oliver Stone, in his film *Wall Street*, reportedly used Sir Gordon White, head of Hanson Industries, as the model for the British corporate raider (the one who outmaneuvered the evil Gordon Gekko).

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Despite this impressive track record, as Hanson enters the 1990s analysts increasingly wonder about the strategy of the company. There is speculation that the company may be on the verge of breaking itself up and returning the gains to shareholders. The age of the company's founders is fueling this speculation. The two men who built and still run the conglomerate, Lord Hanson and Sir Gordon White, are in their late sixties, and both have promised to consider retiring when they are seventy. As one insider put it, "The guys that started it off will finish it off."<sup>2</sup> Another factor is that Hanson is now so big that it would take some spectacular deals to continue its historic growth rate. According to many, including Harvard Business School strategy guru Michael Porter, there simply are not that many obvious companies for Hanson to buy. Thus, "even Hanson will be faced with poorer and poorer odds of maintaining its record."<sup>3</sup> On the other hand, at the end of 1989 Hanson had \$8.5 billion in cash on its balance sheet. That, along with the billions it could borrow if need be (the company reportedly has a borrowing capacity of \$20 billion), suggests that if Hanson and White should so wish, they could undertake an acquisition that would rival the RJR-Nabisco deal in size.

Other commentators question the long-term viability of the company. Some claim that Hanson PLC is little more than an asset stripper that in the long run will drive the companies it manages into the ground. According to one investment banker, "I'm not convinced that Hanson runs companies any better than anyone else. But I certainly know it squeezes them for cash, sucking the life from them."<sup>4</sup> Similarly, one former executive noted that

“some of the incentive programs that they write for managers actually keep the company from growing. . . . They become so concerned with profit today that they don’t re-invest for tomorrow.”<sup>5</sup> The company disagrees. Sir Gordon White clearly sees Hanson PLC as reducing inefficiencies in the companies it acquires, not stripping assets. If anything is stripped away from acquisitions, according to White, it is unnecessary corporate bureaucracy, overstaffed head offices, and top-management perks, not assets. He steadfastly maintains that the company treats all acquired businesses as if it were going to keep them.<sup>6</sup>

With these issues in mind, in this case we consider the growth and development of Hanson PLC. We review the administrative systems that the company uses to manage its ongoing businesses, and we look at two acquisitions and their aftermath in depth: the 1987 acquisitions of SCM Corporation and the Imperial Group.

## HISTORY

The origins of Hanson PLC go back to the port city of Hull in Yorkshire, England, in the 1950s.<sup>7</sup> At that time, James Hanson was learning his family’s transportation business (the family operated a fleet of passenger coaches), and Gordon White was selling advertising for Welbecson Limited, a magazine printing company owned by his father. James Hanson’s brother, Bill, was White’s closest friend, and when Bill died of cancer at twenty-nine, James and Gordon became close friends. In the late 1950s, Hanson and White decided to team up in business. They formed Hanson White Ltd., a greeting card company. Although the company did well, the two soon became bored with the limited challenges and potential that the greeting card business offered, and in 1963 they sold out and began to look for acquisition opportunities.

Their first buy was Oswald Tillotson Ltd., a vehicle distribution company. This company was subsequently acquired by Wiles Group Ltd., a Yorkshire-based manufacturer of agricultural sacks and fertilizers. As part of the takeover deal, Hanson and White were given a substantial ownership position in the Wiles Group. Hanson and White soon gained management control of the Wiles Group, and in 1969, after deciding that James Hanson’s name had a nicer ring to it than Gordon White’s, they changed

the name to Hanson Trust. Because of a series of small acquisitions, by the end of 1973 Hanson Trust owned twenty-four companies with combined sales of \$120 million.

By 1973, however, the British economy was in deep trouble. The stock market had collapsed; the country was paralyzed by labor disputes; inflation was increasing rapidly, as was unemployment; and Prime Minister Edward Heath of the supposedly probusiness Conservative party had blasted conglomerate companies such as Hanson Trust as representing “the unacceptable face of capitalism.” All of this prompted Gordon White to rethink his future. As White put it,

I was disgusted with England at the time. Disgusted with socialism and unions and excessive, antibusiness government, disgusted with the way initiative was being taxed out of existence. . . . I’d done a lot of thinking. I told James (Hanson) that maybe we should just call it a day. I thought I’d try America.<sup>8</sup>

Hanson replied that there was no need to split up, and they agreed that Hanson would run the British operations while White tried to build operations in America.

White arrived in New York in the fall of 1973 in possession of a round-trip ticket, a one-year work visa, and \$3,000 in traveler’s checks, which was the most that British currency controls permitted a U.K. citizen to take abroad at that time. Moreover, because of British exchange controls, White could not gain access to Hanson’s ample treasury without substantial penalties, and he had to struggle to convince banks that he was creditworthy. Despite this, in 1974 White managed to borrow \$32 million from Chemical Bank to finance his first major U.S. acquisition, a friendly takeover of J. Howard Smith Company, a New Jersey-based processor of edible oils and animal feed that was later renamed Seacoast Products. The CEO of J. Howard Smith was David Clarke, whose family business it was. Clarke subsequently became White’s right-hand man. He is now president of Hanson Industries and the most senior executive in the United States after White.

Over the next ten years, White made another six major U.S. acquisitions, all of them friendly (see Table 1). Then, in 1984, White was ready for his first hostile takeover, the \$532-million purchase of U.S. Industries (USI). USI was a conglomerate that had grown by acquisitions during the 1960s and 1970s.



TABLE 1

## U.S. Acquisitions, 1974–1990

Date	Acquisition	Cost (millions)	Businesses
1974	Seacost	\$ 32	Fish processing, pet food
1975	Carisbrook	36	Textile manufacturing
1976	Hygrade	32	Castings and casing units
1977	Old Salt Seafood	2	Prepared foods
1978	Interstate United	30	Food service management
1978	Templon	7	Textile manufacturing
1981	McDonough	185	Cement, concrete
1984	U.S. Industries	532	33-company conglomerate
1986	SCM	930	22-company conglomerate
1987	Kaiser Cement	250	Cement plants
1988	Kidde	1,700	108-company conglomerate
1990	Peabody	1,230	Coal mining

Source: Adapted from Gordon White, "How I Turned \$3,000 into \$10 Billion," *Fortune*, November 7, 1988, pp. 80–89; and "Hanson PLC," *Value Line*, July 20, 1990, p. 832.

White became interested in the company when he read in a newspaper that management was putting together a leveraged buyout at \$20 a share for a total purchase price of \$445 million. He suspected that the company was worth more than that and quickly worked out how big a loan Hanson Industries could handle, using USI's projected cash flow to cover interest charges. To USI's pretax earnings of \$67 million he added \$40 million generated by depreciation and \$24 million in savings that he thought Hanson could effect by removing USI's corporate headquarters. That yielded a total cash flow of \$131 million, or more than \$70 million after taxes. With interest rates running at 13 percent, White figured that Hanson Industries could afford a loan of \$544 million. In what was to become standard White thinking, he also reckoned that even with a worst-case scenario, he could recoup his investment by selling off the disparate pieces of the company.

Hanson Industries began to buy USI shares and by April 1984 held 5 percent of the company. Hanson then made a \$19 per share bid for the company, which was quickly rebuffed by USI management. Three days later White increased Hanson's bid to \$22 per share. USI's management, which had yet to raise the financing for its own

proposed leveraged buyout, responded by increasing the purchase price to \$24 per share. Hanson responded by initiating a tender offer of \$23 per share in cash. For stockholders, cash in hand at \$23 per share was far more attractive than management's promise of \$24 per share if financing could be arranged, and Hanson's bid quickly won the day.

After the acquisition was completed, Hanson Industries President David Clarke spent six months at USI's corporate headquarters reviewing operations. At the end of this period USI's corporate headquarters was closed down, the staff was laid off, and financial control was centralized at Hanson Industries' small headquarters. However, most of the operating managers in charge of USI's constituent companies stayed on, lured by Hanson's incentive pay scheme and the promise that they could run their own shows. In what was also typical Hanson fashion, nine of USI's operating companies were subsequently sold off to outside investors for a price of \$225 million.

The acquisition of USI was followed by three other hostile takeover bids in the United States: for SCM Corporation, Kaiser Cement, and Kidde. Of these, the SCM bid was by far the most acrimonious. SCM took a poison pill and tried to protect

**TABLE 2****U.K. Acquisitions During the 1980s**

<i>Date</i>	<i>Acquisition</i>	<i>Cost (millions)</i>	<i>Businesses</i>
1981	Ever Ready	£95	Dry cell batteries
1983	UDS	£250	Retail operations
1984	London Brick	£247	Brick manufacturer
1984	Powell Duffryn	£150	Engineering, shipping, fuel
1986	Imperial Group	£2,500	Tobacco, brewing, food
1989	Consolidated Gold Fields	£3,610	Gold mining, building aggregates

Source: Various press reports.

its position through the law courts before Hanson finally won control over the company. (The SCM takeover is discussed in detail later in this case.)

While White was making these U.S. acquisitions, Hanson was not sitting idle in Britain. During the 1980s the company made a series of acquisitions in the United Kingdom. These are summarized in Table 2. The most notable were the 1983 acquisition of London Brick, Britain's largest brick manufacturer, against vigorous opposition from London Brick's incumbent management; the £2.36-billion acquisition of Imperial, the largest tobacco company in Britain and the third largest in the world; and the £3.61-billion acquisition of Consolidated Gold Fields, the second largest gold-mining business in the world. The acquisitions of Imperial and Consolidated Gold Fields were the two largest takeovers ever undertaken in Britain. (The Imperial takeover is discussed in detail later in this case.)

### ACQUISITIONS PHILOSOPHY

Hanson PLC's acquisitions on both sides of the Atlantic are primarily overseen by Sir Gordon White. Lord Hanson is primarily responsible for the ongoing administration of the company. As Lord Hanson says of White, "He's the one with the gift for takeovers."<sup>9</sup> In turn, White says of Hanson, "James is a brilliant administrator and really knows how to run

a company."<sup>10</sup> White claims that many of his acquisition ideas, including the USI deal, come from the newspapers. Others are suggested to him by contacts in the investment banking community, particularly Bob Pirie, president of the Rothschild investment bank, with whom White has lunch once a week.

Whenever possible, White avoids working at the office, opting instead to work from one of his four houses. Unlike corporate raiders such as Saul Steinberg and Carl Icahn, White rarely reads annual reports or detailed stock reports on a target company, claiming that he can get all of the financial information that he needs from Standard & Poor's two-page summaries. In addition, his three-person takeover staff distills reams of financial data on a target and provides him with a short memo on the target company. Says White, "I'm like Churchill, tell me everything you can tell me. On one page."<sup>11</sup>

Under White's leadership, one of the things that has distinguished Hanson PLC from many other acquisitive conglomerates is its distinctive acquisitions philosophy (which is, in essence, White's philosophy). This philosophy appears to be based on a number of consistent factors that are found to underlie most of Hanson's acquisitions.<sup>12</sup>

1. *Target characteristics.* Hanson looks for companies based in mature, low-technology industries that have a less-than-inspiring record but show potential for improving performance.



Normally, the objective has been to identify a poorly performing target where the incumbent management team has gone some way toward improving the underlying performance but whose efforts have not yet been reflected in either the profit-and-loss account or, more importantly, the target's stock price.

2. *Research.* Although White claims that he does little reading on takeover targets, his takeover staff does undertake detailed research into the potential of target companies before any bid is made. The staff routinely investigates companies undertaking leveraged buyouts.
3. *Risk assessment.* One of White's most often quoted edicts is "watch the downside." What this means is that instead of considering the potential benefits of a deal, give consideration to what can go wrong and the likely consequences of a worst-case scenario. White will purchase a company only if he thinks that in a worst-case scenario he will be able to recover the purchase price by breaking the target up and selling off its constituent parts.
4. *Funding.* White was one of the early pioneers of the highly leveraged takeover deal. All of the U.S. acquisitions have been financed by nonrecourse debt, secured on the assets of the target. This enabled White to engineer substantial acquisitions when Hanson Industries itself had a very small capital base. The British acquisitions have been funded by a mix of cash, equity, convertible securities, and loan stock.
5. *Disposals to reduce debt.* After an acquisition has been completed, Hanson sends some of its own managers along with a group of external accountants to go through and audit the acquired businesses. After a thorough review, Hanson typically sells off the parts of the acquired company that cannot reach Hanson's stringent profitability targets. In the process, Hanson is able to reduce the debt taken on to fund the acquisition. The most outstanding example followed the purchase of SCM for \$930 million. After the takeover, Hanson sold off SCM's real estate, pulp and paper, and food holdings for a price of \$964 million while holding on to SCM's typewriter and chemicals business, which in effect had been acquired for nothing. Thus, within six months of the takeover's being completed, Hanson was able

to eliminate the debt taken on to finance the SCM acquisition. Similar, although less spectacular, disposals have characterized almost all of Hanson's major acquisitions on both sides of the Atlantic.

6. *Elimination of excess overhead.* Another objective of Hanson's housecleaning of acquired companies is to eliminate any excess overhead. This typically involves closing down the corporate headquarters of the acquired company, eliminating some of the staff, and sending other staff down to the operating level. Before Hanson took over, SCM had 230 people in its corporate office, USI had 180, Kidde had 200, and Hanson itself had 30. Today the total headquarters staff for all four is 120.

Hanson also disposes of any management perks found either at the corporate or the operating level of an acquired company. For example, one of Kidde's operating companies had a collection of art and antiques, a hunting lodge, and three corporate jets. Hanson kept one jet and disposed of the rest, including the man at the top who had spent the money.

7. *The creation of incentives.* Hanson tries to create strong incentives for the management of acquired operating companies to improve performance. This is achieved by (a) decentralization designed to give operating managers full autonomy for the running of their businesses, (b) motivating operating managers by setting profit targets that, if achieved, will result in significant profit enhancements, and (c) motivating managers by giving them large pay bonuses if they hit or exceed Hanson's profit targets.

## ORGANIZATION AND MANAGEMENT PHILOSOPHY

In addition to its acquisitions philosophy, Hanson is also renowned for its ongoing management of operating companies, of which there are more than 150 in the corporate portfolio. Although Hanson does have some interests elsewhere, the strategic development of the group has centered on the United States and Britain, where a broad balance has tended to exist in recent years. Hanson PLC looks after the British operations, and Hanson Industries,

the U.S. subsidiary, manages the U.S. operations. Each of these two units is operated on an entirely autonomous basis. Only one director sits on the board of both companies. Hanson PLC is headed by Hanson; Hanson Industries is headed by White.<sup>13</sup>

There are two corporate headquarters, one in the United States and one in Britain. At both locations there is a small central staff responsible for monitoring the performance of operating companies, selecting and motivating operating management, the treasury function (including acting as a central bank for the operating units), acquisitions and disposals, and professional services such as legal and taxation.

Below each headquarters are a number of divisions (see Figure 1). These are not operating companies. Rather, they are groupings of operating companies. In 1988 there were four U.S. divisions (consumer, building products, industrial, and food) and four British divisions (again, consumer, building

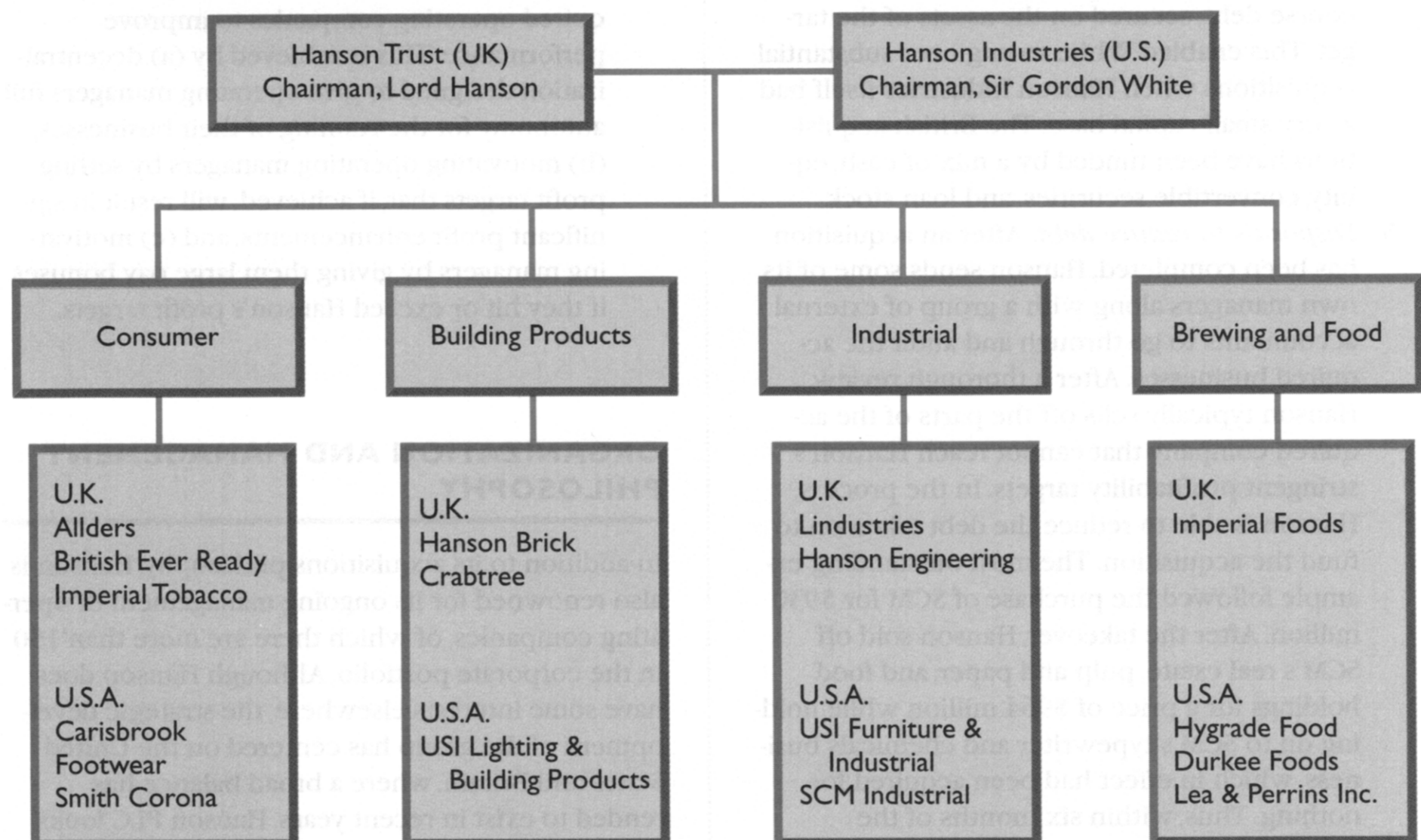
products, industrial, and food). There are no personnel at the divisional level with the exception of a divisional CEO. Below the divisions are the operating companies. Each operating company has its own CEO who reports to the divisional CEO. The divisional CEOs in Britain are responsible to Lord Hanson; those in the United States are responsible to David Clarke, White's right-hand man. White himself is primarily concerned with acquisitions and leaves most issues of control to David Clarke. Indeed, White claims that he has never visited Hanson Industries' U.S. corporate headquarters and as a matter of policy never visits operating companies.<sup>14</sup>

The following principles seem to characterize Hanson's management philosophy.

- **Decentralization.** All day-to-day operating decisions are decentralized to operating company

**FIGURE 1**

Hanson PLC Organizational Structure



Source: Hanson Industries, Annual Report, 1986.



managers. The corporate center does not offer suggestions about how to manufacture or market a product. Thus, within the limits set by centrally approved operating budgets and capital expenditures, operating management has unlimited autonomy. As a consequence, operating managers are responsible for the return on capital that they employ.

- **Tight financial control.** Financial control is achieved through two devices: (1) operating budgets and (2) capital expenditure policies. In a bottom-up process, operating budgets are submitted annually to the corporate center by operating company managers. The budgets include detailed performance targets, particularly with regard to return on capital employed (ROK). Corporate staff reviews the budgets and, after consultation with operating management, approves a budget for the coming year. Once agreed upon, the operating budget becomes gospel. The performance of an operating company is compared against budget on a monthly basis, and any variance is investigated by the corporate center. If an operating company betters its projected ROK, the figure used as the base for the next year's budget is the actual ROK, not the budgeted figure.

Any cash generated by an operating company is viewed as belonging to the corporate center, not to the operating company. Capital expenditures are extremely closely monitored. All cash expenditures in excess of \$3,000 (£1,000 in Britain) have to be agreed upon by corporate headquarters. Capital expenditure requests are frequently challenged by headquarters staff. For example, a manager who contends that an investment in more efficient machinery will cut labor costs must even provide the names of the employees that he or she expects to lay off to achieve the savings. According to company insiders, when justifying a request for capital expenditure, a manager must explain every possibility. In general, Hanson looks for a pretax payback on expenditures of three years. The quicker the payback, the more likely it is that an expenditure will be approved.

- **Incentive systems.** A major element of the pay of operating managers is linked directly to operating company performance. A manager can earn up to 60 percent of his or her base salary if the operating company exceeds the ROK tar-

get detailed in its annual budget. Bonuses are based strictly on bottom-line performance. As White puts it, "There are no bonuses for being a nice chap."<sup>15</sup> In addition, there is a share option scheme for the most senior operating company and corporate managers. More than 600 managers are members of the option scheme. The options are not exercisable for at least three years after they have been granted.

- **Board structure.** No operating company managers are ever appointed to the board of either Hanson PLC or Hanson Industries. The idea is to eliminate any conflicts of interest that might arise over budgets and capital expenditures.
- **De-emphasizing operating synergy.** In contrast to many diversified companies, Hanson has no interest in trying to realize operating synergy. For example, two of Hanson PLC's subsidiaries, Imperial Tobacco and Elizabeth Shaw (a chocolate firm), are based in Bristol, England, and both deliver goods to news agents and corner shops around Britain. However, Hanson prohibits them from sharing distribution because it reckons that any economies of scale that result would be outweighed by the inefficiencies that would arise if each operating company could blame the other for distribution problems.

## THE SCM ACQUISITION

SCM was a diversified manufacturer of consumer and industrial products. SCM had twenty-two operating companies based in five industries: chemicals, coatings and resins, paper and pulp, foods, and typewriters.<sup>16</sup> Among other things, SCM was the world's leading manufacturer of portable typewriters (Smith-Corona typewriters), the world's third largest producer of titanium dioxide (a white inorganic pigment widely used in the manufacture of paint, paper, plastic, and rubber products), the sixth largest paint manufacturer in the world through its Glidden Paints subsidiary, and a major force in the U.S. food industry through its Durkee Famous Foods group (see Table 3).

### Attractions to Hanson

The SCM group was first brought to White's attention by Bob Pirie, president of Rothschild Inc. in New York. Pirie thought, and Hanson's research

**TABLE 3**  
**SCM Divisional Results for the Year Ended June 1985**

Division	Revenues		Profits	
	\$m	Percentage of Change from 1984	\$m	Percentage of Change from 1984
Chemicals	\$539.0	+49%	\$73.7	-100%
Coatings and resins	687.0	+5%	49.9	-3%
Paper and pulp	362.0	+3%	23.1	+10%
Foods	422.0	+7%	23.0	+35%
Typewriters	176.0	-11%	(47.4)*	-200%

\*Loss after a \$35 million charge for restructuring.

Source: Data from Hanson Industries, Annual Report, 1986.

team soon confirmed, that SCM had a number of characteristics that made it a perfect Hanson buy.

1. *Poor financial performance.* Summary financial data for SCM are given in Table 4. Pretax profit had declined from a peak of \$83.2 million in 1980 to \$54.1 million in 1985. The 1985 return on equity of 7.7 percent was very poor by Hanson's standards, and earnings per share had declined by 19 percent since 1980.
2. *Beginnings of a turnaround.* There were signs that incumbent management was coming to grips with SCM's problems, particularly in the troubled typewriter operation, where the

1985 loss was due to a one-time charge of \$39 million for restructuring. Financial performance had improved since the low point in 1983, but the benefits of this improvement were not yet reflected in the company's stock price.

3. *Mature businesses.* SCM's presence in mature, proven markets that were technologically stable fit White's preferences.
4. *Low risk.* Some 50 percent of SCM's turnover covered products well known to the U.S. consumer (for example, Smith-Corona typewriters, Glidden paint, Durkee foods). White felt that there would be a ready market for such highly

**TABLE 4**  
**Financial Data for SCM**

	1980	1981	1982	1983	1984	1985
Net sales (\$m)	\$1,745.0	\$1,761.0	\$1,703.0	\$1,663.0	\$1,963.0	\$2,175.0
Pretax profits (\$m)	83.2	72.6	35.3	37.8	64.8	54.1
Earnings per share (\$)—fully diluted	\$4.76	\$5.01	\$3.20	\$2.63	\$4.05	\$3.85
Return on equity	12.40%	12.00%	5.80%	4.90%	8.00%	7.70%

Source: Data from Hanson Industries, Annual Report, 1986.



branded businesses if Hanson decided to dispose of any companies that did not meet its stringent ROK requirements.

5. *Titanium dioxide.* Titanium dioxide was dominated by a global oligopoly. Hanson was aware of two favorable trends in the industry that made high returns likely: (a) worldwide demand was forecasted to exceed supply for the next few years, and (b) input costs were declining because of the currency weakness of the major raw material source, Australia.
6. *Corporate overhead.* A corporate staff of 230 indicated to White that SCM was "a lumbering old top-heavy conglomerate with a huge corporate overhead that was draining earnings."<sup>17</sup> He envisioned substantial savings from the elimination of this overhead.

### The Takeover Battle

After reviewing the situation, in early August White decided to acquire SCM. He began to buy stock, and on August 21 Hanson Industries formally made a \$60 per share tender offer for SCM, valuing the company at \$740 million. SCM's top management team responded on August 30 with its own offer to shareholders in the form of a proposed leveraged buyout of SCM. SCM's management had arranged financing from its investment banker Merrill Lynch and offered shareholders \$70 per share. On September 4 White responded by raising Hanson's offer to \$72 per share.

SCM's management responded to White's second offer by increasing its own offer to \$74 per share. To discourage White from making another bid, SCM's management gave Merrill Lynch a "lock-up" option to buy Durkee Famous Foods and SCM Chemicals (the titanium dioxide division) at a substantial discount should Hanson or another outsider gain control. In effect, SCM's management had agreed to give its crown jewels to Merrill Lynch for less than their market value if Hanson won the bidding war.

White's next move was to apparently throw in the towel by announcing withdrawal of Hanson's tender offer. However, in contrast to normal practice on Wall Street, White went into the market and quickly purchased some 25 percent of SCM's stock at a fixed price of \$73.5 per share, taking Hanson's stake to 27 percent. Furious at this break with convention, SCM's lawyers drafted a lawsuit against Hanson charging that White's tactics violated ten-

der-offer regulations and demanding a restraining order prohibiting Hanson from making any further market purchases. Hanson quickly filed a counter-suit, claiming that Merrill Lynch's lock-up option to buy the two SCM divisions illegally prevented the shareholders from getting the best price.

Hanson lost both suits in federal court in New York. White immediately appealed and on September 30 a U.S. court of appeals ruled in Hanson's favor. This, however, was not to be the end of the matter. On October 7 Hanson spent another \$40 million to increase its stake in SCM to 33 percent, thereby effectively stalling the leveraged buyout plan, which needed approval by two-thirds of the shareholders. The following day Hanson revised its tender offer to an all-cash \$75 per share offer, subject to SCM's dropping the "lock-up" option because the option had been triggered by Hanson's acquiring 33 percent of SCM.

Hanson's next move, on October 10, was to file a suit to prevent Merrill Lynch from exercising the right to buy SCM's crown jewels. On October 15 it followed this with a second suit against Merrill Lynch for conspiracy. A U.S. district court ruled on November 26 that the lock-up was legal and that Hanson had triggered its exercise by the size of its stake. Once again Hanson appealed to a higher court. On January 6, 1986, a U.S. court of appeals overturned the lower court ruling, granting to Hanson an injunction that prevented SCM from exercising the lock-up option. The following day Hanson Industries won control over SCM after further market purchases. The final purchase price was \$930 million, which represented a price/earnings multiple of 11.5.

### After the Acquisition

Having gained control of SCM, Hanson immediately set about trying to realize SCM's potential. Within three months, 250 employees were laid off, mostly headquarters staff, and the former SCM headquarters in New York was sold for \$36 million in cash. At the same time, White and his team were using their new position as owners to thoroughly audit the affairs of SCM's operating companies. Their objective was to identify those businesses whose returns were adequate or could be improved upon and those businesses for which the outlook was such that they were unlikely to achieve Hanson's stringent ROK requirements.

At the end of this process, four businesses were sold off in as many months for a total amount that recouped for Hanson the original purchase price and left Hanson with the two best businesses in SCM's portfolio: Smith-Corona typewriters and the titanium dioxide business. In May 1986, SCM's paper and pulp operations were sold to Boise Cascade for \$160 million in cash, a price that represented a price/earnings multiple of 29 and was 3 times book value. Hanson felt that the outlook for those operations was not good because of a depression in paper and pulp prices. Boise Cascade obviously thought otherwise. Shortly afterward, Sylvachem, part of SCM's chemicals division, was sold for \$30 million, representing a price/earnings multiple of 18.5.

In August 1986 Glidden Paints was sold to the British chemical giant and Europe's largest paint manufacturer, Imperial Chemical Industries PLC (ICI) for \$580 million. This represented a price/earnings multiple of 17.5 and was 2.5 times book value. The purchase of this operation enabled ICI to become the world's largest paint manufacturer. A few days later Durkee Famous Foods was sold to another British firm, Reckitt & Colman PLC, for \$120 million in cash and the assumption of \$20 million in debt. This represented a price/earnings multiple of 17 and was 3 times book value. This disposal served to withdraw Hanson from an area that was subject to uncontrollable and volatile commodity price movements. For Reckitt & Colman, however, which was already one of the largest manufacturers of branded food products outside the United States, it represented an important strategic addition.

The four disposals amounted to \$926 million and were accomplished at an average price/earnings multiple of 19.5. Having recovered 100 percent of the purchase price paid for SCM within eight months, Hanson had effectively acquired for nothing a number of businesses that were projected to contribute around \$140 million to net pretax profit for their first full year under Hanson's control.

Hanson retained the titanium dioxide business for two main reasons. First, with the industry operating at close to 100 percent capacity and with projections indicating an increase in demand through to 1989, prices and margins were expected to increase substantially. Although several companies had plans to expand global capacity, given the three- to four-year time lag in bringing new capacity on stream, this sellers' market was likely to persist for a while. Nor did it look as if the

additional capacity would outstrip the projected rise in demand. Second, two-thirds of world production of titanium dioxide is in the hands of global producers. SCM's business is ranked third with 12 percent of world capacity, behind Du Pont and Tioxide PLC. Given this oligopoly, orderly pricing in world markets seemed likely to continue.

Hanson also decided to retain SCM's typewriter business, despite the fact that in recent years it had been the worst-performing unit in SCM's portfolio. Hanson quickly realized that SCM management had in effect just completed a drastic overhaul of the typewriter businesses and that a dramatic turnaround was likely. In the two years prior to Hanson's acquisition, SCM's management had undertaken the following steps:

1. A new line of electronic typewriters had been introduced to match the increasingly sophisticated Japanese models.
2. Capacity had been reduced by 50 percent, and six U.S. production facilities had been consolidated into a single assembly plant and distribution center in New York to manufacture all electronic models.
3. As a result of automation, economies of scale, and labor agreements, productivity at the New York plant had increased fourfold since 1984, and unit labor costs had declined by 60 percent.
4. The manufacture of electric models had been moved offshore to a low-cost facility in Singapore.
5. Smith-Corona had just introduced the first personal word processor for use with a portable electronic typewriter, and it retailed at slightly less than \$500.

As a result of these improvements, the Smith-Corona business seemed ready to become a major profit producer. Hanson forecasted profits of \$30 million for this business during 1986-1987, compared with an operating loss of \$47.4 million in financial year 1985.

## THE IMPERIAL ACQUISITION

On December 6, 1985, while still engaged in the SCM acquisition, Hanson opened another takeover battle in Britain by announcing an offer of £1.5 billion for Imperial Group PLC.<sup>18</sup> Imperial Group was one of the ten largest firms in Britain. Imperial was



**TABLE 5**  
**Imperial Divisional Results for the Year Ended October 1985**

Division	Revenues		Profits	
	£m	Percentage of Change from 1984	£m	Percentage of Change from 1984
Tobacco	£2,641	+7%	£123.1	+11%
Brewing and leisure	974	+8%	97.0	+20%
Foods	719	+4%	33.0	+5%
Howard Johnson	617	+11%	11.1	-40%

Source: Data from Hanson Industries, Annual Report, 1986.

Britain's leading tobacco manufacturer and the third largest tobacco company in the world. Its Courage Brewing subsidiary was one of the "big six" beer companies in Britain. Its leisure operations included 1,371 public houses (taverns), 120-plus restaurants, and more than 750 specialized retail shops. Imperial manufactured more than 1,000 branded food products. (See Table 5 for a breakdown of Imperial's divisional results.) In September 1985 Imperial had sold its fourth business, the U.S. motel chain Howard Johnson, to Marriott. Howard Johnson had been purchased in 1980 and was widely regarded as one of the worst acquisitions ever made by a major British company.

### Attractions to Hanson

Hanson's interest in Imperial was prompted by the news on December 2, 1985, of a planned merger between Imperial and United Biscuits PLC, a major

manufacturer of branded food products. The financial press perceived this measure as a defensive move by Imperial. However, despite its well-documented problems with Howard Johnson, Imperial's financial performance was reasonably strong (see Table 6). What factors made Imperial an attractive takeover target to Hanson? The following seem to have been important.

- **Mature business.** Like SCM's businesses, most of Imperial's businesses were based in mature, low-technology industries. There is little prospect of radically changing fashions or technological change in the tobacco, brewing, and food industries.
- **Low risk.** Most of Imperial's products had a high brand recognition within Britain. Thus, Hanson could easily dispose of those that did not stand up to Hanson's demanding ROK targets.

**TABLE 6**  
**Financial Data for Imperial**

	1981	1982	1983	1984	1985
Revenues (£m)	£4,526	£4,614	£4,381	£4,593	£4,918
Pretax profits (£m)	106	154	195	221	236
Earnings per share (pence)	12.8	16.4	18.0	20.3	22.4
Return on capital (%)	12.7%	17.9%	20.4%	21.1%	18.1%

Source: Data from Hanson Industries, Annual Report, 1986.

- *Tobacco cash flow.* Imperial's tobacco business was a classic cash cow. The company had 45 percent of the tobacco market and seven of the ten best-selling brands in 1985. Although tobacco sales are declining in Britain because of a combination of health concerns and punitive taxation, the decline has been gradual, amounting to 29 percent since the peak year of 1973. Given Hanson's emphasis on ROK and cash flow, this made Imperial particularly attractive to Hanson. Imperial had arguably squandered much of this cash flow by using it to underwrite unprofitable growth opportunities, particularly Howard Johnson.
- *Failure of Imperial's diversification strategy.* Imperial's recent track record with respect to diversification was poor. In 1978 it bought a construction company, J. B. Eastward, for £40 million. After four years of trading losses, Eastward was sold in 1982 for a total loss of £54 million. In 1979 Imperial paid \$640 million for Howard Johnson, the U.S. motel and restaurant chain. In 1985, after six years of declining profits, this business was sold for \$341 million. These losses suggested a fundamental weakness in Imperial's top management in an area in which Hanson was strong: diversification strategy. Moreover, the failure of Imperial's diversification strategy probably resulted in Imperial's shares being discounted by the stock market.
- *Inadequate returns in brewing and leisure.* Imperial's brewing and leisure operations earned an ROK of 9 percent in 1985. This return was considered very low for the brewing industry, which was characterized by strong demand and was dominated by a mature oligopoly that had engineered high prices and margins. Hanson thought that this return could be significantly improved.

### The Takeover Battle

The planned merger between Imperial and United Biscuits PLC (UB), announced on December 2, 1985, gave rise to considerable concern among Imperial's already disgruntled shareholders. Under the terms of the proposed merger, UB, although contributing just 21 percent of net assets, would end up with a 42 percent interest in the enlarged group. The implication was that Imperial's share-

holders would experience significant earnings dilution. In addition, it was proposed that the corporate management of the enlarged group would primarily come from UB personnel. These factors prompted a reverse takeover by UB of the much larger Imperial group. See Table 7.

Hanson's interest was sparked by this controversy. Hanson's corporate staff had been tracking Imperial for some time, so when the for-sale sign was raised over Imperial, Hanson was able to move quickly. On December 6, 1985, Hanson made a 250-pence per share offer for Imperial, valuing the group at £1.9 billion. This offer was rejected out of hand by Imperial's management.

The next major development came on February 12, 1986, when the British secretary of state of trade and industry referred the proposed Imperial/UB merger to the Monopolies and Mergers Commission for consideration. Britain's Monopolies and Mergers Commission has the authority to prohibit any merger that might create a monopoly. The referral was due to the recognition that an Imperial/UB group would command more than 40 percent of the British snack-food market.

On February 17, Hanson took advantage of the uncertainty created by the referral to unveil a revised offer 24 percent higher than its original offer, valuing Imperial at £2.35 billion. On the same day, UB announced a bid of £2.5 billion for Imperial and indicated that, if the offer was successful, Imperial's snack-food businesses would be sold, thus eliminating the need for a Monopolies and Mergers Commission investigation. Imperial's board duly recommended the UB offer to shareholders for acceptance.

Many of Imperial's shareholders, however, were in no mood to accept Imperial's recommendation. Under British stock market regulations, once the Imperial board accepted UB's offer, Imperial's shareholders had two months in which to indicate their acceptance or rejection of it. If the offer was rejected, then the shareholders were free to consider the hostile bid from Hanson. What followed was an increasingly acrimonious war of words between Hanson and Imperial. Hanson charged Imperial with mismanagement. Imperial responded by trying to depict Hanson as an asset stripper with no real interest in generating internal growth from the companies it owned. In the words of one Imperial executive during this period, Lord Hanson "buys and sells companies well, but he manages



TABLE 7

## Hanson PLC—Financial Data

Income Data (million \$)*										
Year Ended Sept. 30	Revs.	Oper. Inc.	% Oper. Inc. of Revs.	Cap. Exp.	Depr.	Int. Exp.	Net Bef. Taxes	Eff. Tax Rate	Net <sup>‡</sup> % Inc.	% Net Inc. of Revs.
1989 <sup>§</sup>	\$11,302	\$1,609	14.2%	\$2,141	\$200	\$533	\$1,718 <sup>†</sup>	23.6%	1,313	11.6%
1988 <sup>§</sup>	12,507	1,561	12.5%	724	215	485	1,488 <sup>†</sup>	23.2%	1,143	9.1%
1987 <sup>  </sup>	10,975	1,230	11.2%	522	172	493	1,217 <sup>†</sup>	22.8%	939	8.6%
1986 <sup>  </sup>	6,196	713	11.5%	848	105	359	667	22.5%	517	8.3%
1985	3,771	477	12.7%	84	74	172	356	23.5%	272	7.2%
1984	2,930	303	10.3%	61	55	119	208	25.7%	154	5.3%
1983	2,226	207	9.3%	59	47	81	137	30.2%	94	4.2%
1982	1,952	NA	NA	NA	NA	NA	NA	NA	72	3.7%
1981	1,549	NA	NA	NA	NA	NA	NA	NA	62	4.0%

Balance sheet data (million \$)*											
Sept. 30	Cash	Assets	Curr. Liab.	Ratio	Total Assets	% Ret. on Assets	Long- Term Debt	Common Equity	Total Inv. Capital	% LT Debt. of Cap.	% Ret. on Equity
1989	\$8,574	\$12,038	\$5,278	2.3	\$17,482	8.5%	\$8,028	\$1,689	\$10,683	75.1%	47.6%
1988	6,527	10,413	4,165	2.5	13,210	9.4%	3,592	3,707	7,878	45.6%	33.5%
1987	5,025	8,236	3,422	2.4	10,471	9.3%	2,837	2,841	6,151	46.1%	37.5%
1986	2,509	7,977	3,572	2.2	9,577	7.6%	2,834	2,068	5,252	54.0%	29.1%
1985	1,659	2,908	1,277	2.3	4,021	7.7%	903	1,376	2,563	35.2%	27.7%
1984	641	1,775	925	1.9	2,638	9.0%	981	505	1,540	63.7%	36.7%

\*Data as originally reported; prior to 1986 data as reported in the 1985 Annual Report (prior to 1984, data are from the listing application of November 3, 1986), conversion to U.S. dollars at year-end exchange rates. <sup>†</sup>Includes equity in earnings of nonconsolidated subsidiaries. <sup>‡</sup>Before specific item(s) in 1989, 1988, 1986. <sup>§</sup>Excludes discount operations and reflects merger or acquisition. <sup>||</sup>Reflects merger or acquisition. Source: Standard & Poor's, *Standard & Poor's NYSE Stock Reports*, Vol. 57, No. 54, Sec. 12, p. 1096. Reprinted by permission of Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

them jolly badly. He buys, squeezes and goes on to the next one. The only way to grow is by bigger and bigger acquisitions. Like all great conglomerate builders of the past, he's over the hill."<sup>19</sup>

Imperial's management failed to win the war of words. By April 17, UB had secured acceptances for only 34 percent of Imperial's shares, including 14.9 percent held by UB associates. The UB offer lapsed, leaving the way clear for Hanson. On April 18 Hanson secured acceptances for more than 50 percent of Imperial's shares, and its offer went uncondi-

tional. At £2.5 billion, the takeover was the largest in British history; it implied a price/earnings multiple of 12.3 on Imperial's prospective earnings.

### After the Acquisition

After the acquisition Hanson moved quickly to realize potential from Imperial. Of the 300 staff at Imperial's headquarters, 260 were laid off, and most of the remainder were sent back to the operating level. In July Imperial's hotels and restaurants were

sold to Trusthouse Forte for £190 million in cash, representing a price/earnings multiple of 24 on prospective earnings and amounting to 1.7 times book value. That sale was followed in September 1986 by the sale of the Courage Brewing operations, along with a wine and spirits wholesaler and an "off-license" chain (liquor stores) to Elders IXL, an Australian brewing company, for £1.4 billion in cash. The price/earnings multiple for that deal amounted to 17.5 times prospective earnings and represented a premium of £150 million over book value. It was quickly followed by the sale of Imperial's Golden Wonder snack-food business to Dalgety PLC, a British food concern, for £87 million in cash, representing a price/earnings multiple of 13.5 over prospective earnings.

As a result of these moves, by the autumn of 1986 Hanson had raised £1.7 billion from the sale of Imperial's businesses. Effectively, Hanson recouped 66 percent of the total cost of its acquisition by selling companies that contributed slightly more than 45 percent of Imperial's net profit forecasted for the year to October 1986. The net cost of Imperial on this basis had fallen to £850 million, with a consequent decline in the price/earnings multiple on prospective earnings from 12.3 to 7.6.

This was followed in 1988 by the sale of Imperial's food businesses for £534 million, along with the sale of various other smaller interests for £56 million. By the end of 1988, therefore, Hanson had raised £2.26 billion from the sale of Imperial's assets. It still retained Imperial Tobacco, by far the largest business in Imperial's portfolio, which it had in effect gained for a net cost of £240 million—this for a business that in 1988 generated £150 million in operating profit.

## LATER DEVELOPMENTS

Following the SCM and Imperial acquisitions, in 1987 Hanson acquired Kidde, a 108-company U.S. conglomerate, for \$1.7 billion. Kidde seemed set for the "Hanson treatment." Its headquarters was closed within three months of the takeover, and a series of disposals was arranged. These were followed in 1988 by continuing disposals of operations acquired in the Imperial and Kidde acquisitions. In total, they amounted to \$1.5 billion.

In mid 1989 Hanson embarked on its biggest takeover ever, the £3.61 billion (\$4.8 billion) acqui-

sition of Consolidated Gold Field PLC (CGF). In addition to being the second largest gold-mining operation in the world, CGF also owns a large stone and gravel operation, ARC Ltd., with major holdings in Britain. CGF came to Hanson's attention following an abortive takeover bid for the company from South African-controlled Minorco.

Hanson bought Minorco's 29.9 percent minority stake in CGF and launched its own takeover bid in July 1989. After raising its bid, Hanson won control of CGF in August. CGF also seemed set to be broken up. About half of CGF's value consists of minority stakes in publicly quoted mining companies in the United States, South Africa, and Australia. These stakes range from 38 to 49 percent, enough to hold the key to control in many of the companies. Thus, Hanson should be able to extract a premium price for them. Initial estimates suggest that Hanson should be able to raise \$2.5 billion from the sale of CGF's minority holdings.<sup>20</sup> Indeed, by February 1990 Hanson had reportedly recouped about one-third of the purchase price of CGF through disposals and was looking to sell additional operations while gold prices remained high.<sup>21</sup>

The CGF deal led directly to the June 1990 acquisition of Peabody Holdings Co., the largest U.S. coal producer, for a total cost of \$1.23 billion in cash. CGF had a 49 percent stake in Newmont Mining Corp., the biggest U.S. gold-mining concern. In turn, Newmont owned 55 percent of Peabody. In April 1990 Hanson purchased the 45 percent of Peabody not owned by Newmont from three minority owners. Then in June it outbid AMAX Corporation for Newmont's stake in Peabody.

The attraction of Peabody to Hanson lies in two factors: (1) the company owns large deposits of low-sulfur coal, which is increasingly in demand because of environmental concerns; (2) the company has recently invested heavily to upgrade its plant. As a result, in the past four years labor productivity has increased 50 percent.<sup>22</sup> In addition, analysts speculate that the deals, by improving Newmont's financial position (Newmont has used the cash to reduce its debt), may make it possible for Hanson to sell off its 49 percent stake in Newmont for a reasonable premium.

## Endnotes

1. "The Conglomerate as Antique Dealer," *Economist*, March 11, 1989, pp. 71-73.
2. Quoted in *ibid.*



3. Quoted in John Byrne and Mark Maremont, "Hanson: The Dangers of Living by Takeover Alone," *BusinessWeek*, August 15, 1988, pp. 62-64.
4. Quoted in Andrew Marton, "The Buccaneer from Britain," *Mergers and Acquisitions* (February 1987), pp. 141-146.
5. Quoted in Byrne and Maremont, "Hanson: The Dangers."
6. Gordon White, "How I Turned \$3,000 into \$10 Billion," *Fortune*, November 7, 1988, pp. 80-89.
7. The material in this section is based on the following sources: White, "How I Turned," pp. 80-89; Marton, "The Buccaneer from Britain," pp. 141-146; and Hope Lampert, "Britons on the Prowl," *New York Times Magazine*, November 29, 1987, pp. 22-24, 36, 38, 42.
8. White, "How I Turned," p. 81.
9. Quoted in Lampert, "Britons on the Prowl," p. 36.
10. Quoted in White, "How I Turned," p. 81.
11. Quoted in Lampert, "Britons on the Prowl," p. 24.
12. The material in this section is based on the following sources: White, "How I Turned," pp. 80-89; Lampert, "Britons on the Prowl," pp. 22-24, 36, 38, 42; and Mark Cusack, *Hanson Trust: A Review of the Company and Its Prospects* (London: Hoare Govett Limited, 1987).
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17. White, "How I Turned," p. 84.
18. The material in this section is based on the following sources: Cusack, *Hanson Trust*; and Lampert, "Britons on the Prowl," pp. 22-24, 36, 38, 42.
19. Quoted in Philip Revzin, "U.K.'s Hanson Trust Aims for Big Leagues in Takeovers," *Wall Street Journal*, February 25, 1986, p. 30.
20. Mark Maremont and Chuck Hawkins, "Is Consgold Just an Appetizer for Hanson?" *BusinessWeek*, July 10, 1989, pp. 41-42.
21. Joann Lubin, "Hanson to Buy Peabody Stake for \$504 Million," *Wall Street Journal*, February 16, 1990, p. A4.
22. "Hanson PLC," *Value Line*, July 20, 1990, p. 832.