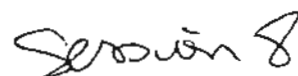


## Mergers, Acquisitions and Divestitures

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The topic selected for this session today is "Mergers, Acquisitions and Divestitures". We have seen a lot of these activities taking place during the 1970's and 1980's. In the 1990's however, we have experienced a sharp drop in M & A deals. On this picture you can see the development in value and numbers during the first 9 months 1991 and 1990 respectively.

(Picture 1). One reason for this is the Gulf war and the end of the war has not marked a recovery in levels of activity. We still see a recession affecting most major economic countries but Germany. On top of that we have had the political turmoil in the Soviet Union. The recession seems to have hit UK and the US earlier and harder than many other countries. Historically the said two countries have provided a majority of international transactions. When they are depressed the overall M & A activity is also depressed. We can here see some of the major deals during Jan - June 1991. (Picture 2) With the barriers between countries loosening up I believe we here in Europe will see an increasing development of M & A although it will take longer than expected.

Risk management for me is concerned with all types of risk. I don't expressly separate between the business (commercial) risk and the static (insurable) risk. In my view a company needs a risk strategy for the company as a whole. I intend to use the Electrolux Group as an example in my opening words today. I shall therefore also elaborate on the Electrolux Group seen from a business risk point of view.

### Introduction and History

Electrolux was founded in 1910 as Elektromekaniska AB, which jointly with AB Lux in 1912 introduced one of the first household vacuum cleaners in Europe. In 1919 the Company was renamed AB Electrolux.

The Company was initially a Swedish-based manufacturer of vacuum cleaners, but the strong demand for these products in the 1920's led naturally to the establishment of an international sales network and an extension of the product range. In 1925, Electrolux introduced the first mass-produced household refrigerator; in the 1940's it commenced manufacturing kitchen appliances and washing machines and in 1959 the first Electrolux dishwasher was introduced. The product range was further expanded following the merger in 1962 with another Swedish white-goods producer, AB Elektro Helios.

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### New Strategy

Towards the end of the 1960's, the Group adopted a new strategy of growth by acquisition. This reflected the increasingly competitive and international nature of a white goods market that was beginning to see a slow-down after the rapid expansion of the post-war years. It had become clear that the resulting over-capacity and the presence of a large number of medium-sized companies would lead to increased price competition. Size, and the resulting economies of scale in both production and distribution, would therefore be critical to the Group's continued profitability. Equally, in an increasingly mature market, future growth would have to come primarily from acquisitions. Accordingly, in order to increase the Group's liquidity and thereby enable it to proceed with this strategy, the Company sold its minority interest in the Electrolux Corporation in the United States.

Since 1968, Electrolux has acquired some 400 operating companies. Although the Group has concentrated primarily on the expansion and development of its existing activities, firstly in the Nordic countries and then elsewhere, it has also moved into new areas of business, particularly those which it was felt could either benefit from the Group's strength in production technology or which constituted a natural extension of Electrolux's existing product range.

Furthermore, the expertise that Electrolux has built up in the acquisition and reorganisation of companies has frequently enabled it to identify companies with the potential to contribute to the Group despite their current problems and often with sufficient saleable assets to finance their own restructuring.

Geographically, Electrolux's general strategy, while continuing to develop its market share in the Nordic countries, has been to expand through a series of strategic acquisitions in continental Europe and the United States.

Electrolux re-established a major presence in the United States in 1974 with the acquisition of National Union Electric Corporation, which, through its Eureka brand name, has a substantial portion of the United States vacuum cleaner market. In 1979, the Group further strengthened its position in the United States by purchasing The Tappan Company, a manufacturer of cookers, microwave ovens and kitchen cabinets. From this picture (picture 3) you can see the Electrolux main M & A and Divestitures during the last 10 years. The acquisitions in the United States have included the purchase of the businesses of The Duo-Therm Corporation (air conditioning and heating for mobile homes and caravans) and Diamond Cabinet. In 1986 the wellknown white goods manufacturer White Consolidated Industries Inc. was acquired.

The Italian white goods company Zanussi has also been acquired. Zanussi has a strong market presence in Southern Europe which contrasts with Electrolux's traditional strengths in the Nordic countries, a number of other more northerly European markets and the United States. This, combined with Zanussi's emphasis on smaller refrigerators, freezers and washing machines, means that Zanussi and Electrolux are complementary in both product and geographical terms. Equally, Zanussi's position as a major manufacturer of components for the white goods industry offers advantages as Electrolux looks for further improvements and rationalisation in its production process. In 1991 we have just recently concluded the deal to acquire Hungary's biggest white goods company, Lehel.

The development that I have described has resulted in the Electrolux Group in 1990 having sales of SEK 82 billions or some USD 13 billions (picture 4). The biggest markets are in the industrial countries in the Western world, the EFTA countries account for 22 % of sales, the Common Market for 42 % and North America for 27 % (picture 5). The markets in Latin America, Africa and Asia are relatively small for Electrolux. We are still far too small in Japan, where the culture, language and other factors are so different from the corresponding ones in Europe that they mean a real hinderence for take-overs from foreigners.

Our product range includes a large number of products which are handled within 6 business areas (picture 6).

The average number of employees 1990 was 151.000 and total investments amounted to SEK 4 billions or US \$ 600 millions (picture 7 and 8). Besides the Stockholm Stock Exchange AB Electrolux shares are quoted on 7 stock exchanges outside Sweden. In the U.S. we are quoted on NASDAQ via a sponsored ADR program.

After having gone through the development I have described for you one can summarise some distinct factors of strength that characterise the Electrolux Group today e.g. (picture 9).

On the other hand some of these positive factors might from another (Risk Management) angle mean a threat to Electrolux.

**Large-scale production.** Household products are not high-tech in nature. Therefore it's necessary to keep the production costs down. This is achieved by having relatively few but large factories. To have an increased number of factories, which each is relatively small in size, producing the same type of product means that you are less sensitive to a break-down of production at one location than if you have only one big factory for the product in question.

Large product range. Within the Group's large product range you have some products that may be tricky from product liability point of view. A good example is the chain-saw. If you sell chain-saws in the USA you have to take into consideration that there will be accidents resulting in product liability claims against the manufacturer.

Political and foreign exchange exposure. The presence in a large number of countries and the fact that the Group has sales in different currencies means that there are risks both from political point of view as well as from the foreign exchange point of view. We have recently experienced this the hard way with Iraq's invasion of Kuwait, where we have a J/V company.

One can go on and select factors that may at the same time have both a positive element and an element of threat in them.

All these circumstances convinced us already in the first half of the 1970's that we had to study and get a better knowledge of what risks we were carrying on our own books as well as what risks we are covered against via insurance and for what premiums.

We made up these very simple rules for what should be insured (Picture 10). The RM department was created as a separate unit late in the 1970's.

I've mentioned before that acquisitions of other companies has long been an adopted policy for the Electrolux Group. You have a check list to consider before making the final decision to go ahead with an acquisition. Naturally, the business risk aspects here come first as a prerequisite for a go ahead. Thereafter you also take in the static risks i.e. the risks that are normally defined as being the target for the RM department to control and you start the traditional RM process.(Picture 11).

The main problem is to get knowledge of and outline the solution to those risks that are not easily found in the balance sheet or in other official documents of the target company.

- It is important to know who your counterpart is. Will he have enough financial strength to live up to the undertaking he has committed himself to during the negotiation process. If your counterpart is a reputable public company of good standing it's more comforting than if he is an individual without known means. An undertaking or guarantee is not worth much if it can't be fulfilled.
- What type of transaction are you doing e.g. buying stocks or assets. The legal implication and the shift of responsibility differ. Here the governing contract between the two parties is of utmost importance. (Picture 12).
- There are two areas which according to my experience have emerged or two key areas in the discussions. Pollution is one and you can see from this picture (Picture 13) that it has several angles.
- Risks related to personnel such as, workmens' compensation, medical or pension undertakings, employee benefits (Picture 14). One example is the following;

Electrolux' US subsidiary White Consolidated Industries, Inc. (WCI) has been sued before Federal Court in Pittsburgh, USA, by the Pension Benefit Guaranty Corporation and by certain Blaw Knox Corporation Pension Plans.

The Pension Benefit Guaranty Corporation (PBGC) is the government agency responsible for the payment of defaulting pension obligations.

The background to the legal actions is the sale in 1985 by WCI of its division for the production and sale of industrial products mainly for the steel industry to Blaw Knox Corporation, who in connection therewith took over the division's Pension Plans.

Blaw Know Corporation is an independent company which has no relationship with WCI's subsidiary Blaw-Knox Construction Equipment Company which manufactures and sells road paving equipment.

PBGC seeks a declaration that WCI will be liable to the PBGC for the unfunded benefit liabilities of certain of the Blaw Knox Pension Plans if these plans are terminated because of lack of sufficient funds. The alleged unfunded benefit liabilities of the Blaw Knox plans are estimated in the PBGC suit presently to be USD 100 million. The Pension Plans seek contributions necessary to fully fund the plans as of the time of the sale of the Blaw Knox Division.

Electrolux believes the PBGC action disregards existing legal precedents and that the private action by the Pension Plans is also devoid of merit. The timing of both actions appears to have been motivated by the plaintiffs' view that applicable statutes of limitation might otherwise expire. WCI intends vigorously to oppose both actions with all means at its disposal.

Electrolux acquired WCI in 1986 which at that time was a public company in the US with some 17,000 shareholders. We had naturally in 1986 no possibility to be aware of all circumstances which might cause problems in the future. PBGC seems to be short of funds and is hence trying to find a "deep pocket" somewhere.

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I have here told you about the ways we work with RM in the Electrolux. We have learnt that there are normally no easy solutions to the problem. No A & M deal is quite similar to previous one. You will all the time learn new things and gain experience. It's important to deal in a rational way and all the time move your position a bit forward. For this you need to gather information and evaluate the meaning of it. If you do it right you will overcome the hurdles that may arise. To quote Winston Churchill.  
(Picture 15).

