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Cash Is There for Chrysler's Suitors- With Conditions

■ Financing: Takeover offer fuels speculation that car maker may team with a foreign counterpart or leveraged-buyout firms.

By James F. Peltz
TIMES STAFF WRITER

Guesses are aplenty over whether Kirk Kerkorian or some other suitor will manage to buy Chrysler Corp. for upward of $20 billion. But merger experts Thursday said one thing is certain: The cash can be raised for a deal for even that colossal.

"We don't see any shortage of lenders lining up" for such a takeover under the right terms, said Lloyd Greif, head of a Los Angeles investment banking firm bearing his name. A buyout of the third-largest U.S. car company "is a juicy, T-bone steak to a lot of financial players," he said.

Kerkorian's Tracinda Corp. said his bid would require financing of about $12 billion, either from bank loans or debt securities, or both. Chrysler promptly rebuffed his overture.

Yet his offer triggered speculation that other suitors might either join the Kerkorian team or make their own offers. Foreign car makers such as Mercedes-Benz of Germany, Toyota Motor Corp. of Japan and Fiat of Italy were mentioned although some of them publicly downplayed any desire to get into a bidding war for Chrysler.

U.S. industrial powerhouse General Electric Co. also was cited, as was Korean electronics giant Samsung because of its interest in entering the auto business. Other candidates are Peugeot and Renault in France, said Christopher Cedergren, an analyst in Thousand Oaks with the research firm Auto Pacific Group Inc.

Most of Peugeot's and Renault's sales are in Europe, but with that market expected to open to more trade later this decade, "those guys won't be as protected as they once were, and they're going to have to start broadening their horizons," Cedergren said.

There's also speculation that a car maker might team with one of the U.S. investment firms that became famous in the 1980S for using pooled funds to engineer corporate takeovers, particularly "leveraged buyouts" that relied heavily on borrowed cash. Besides Kohlberg Kravis Roberts & Co., they include Forstmann Little & Co. and the Blackstone Group.

But "it's unlikely that one fund in itself could do this deal" following the RJR Nabisco Holdings fiasco, said Wall Street merger specialist Greif.

Burdened by the huge debt it incurred in its $25-billion purchase of RJR Nabisco Holdings in 1989, Kohlberg Kravis earned only single-digit annual returns from its investment before unloading its remaining RJR stock earlier this year. That huge deal, which capped the merger mania of the 1980s, taught lenders to tighten the terms for lending cash for takeovers.

> **'If it has a good strategic fit to it, [the deal] probably would be easier' to finance than one with 'a financial buyer who might be flipping an asset.'**
>
> JEREMY G. FAIR
> *Executive vice president, Bank of America*

Banks for instance, are more aggressive today in takeover lending, but they've also raised their standards.

They want more cash, or equity, put up by the buyer, and they want the target company to generate more than enough cash to pay off the debt.

Jeremy G. Fair, executive vice president at Bank of America, said that while he couldn't comment on Chrysler's situation per se, banks today also prefer lending to buyers that are in the same business as their targets.

"Flipping assets" was routine in the go-go 1980s, when many deals were financed by issuing high-yield, high-risk junk bonds. Though used less often today, junk bonds are still around and could be used in combination with bank loans to finance a deal as big as Chrysler, analysts said.

"If the deal is structured and priced right, it'll fly," said Terrence Dwyer, a senior vice president and junk-bond specialist for Duff & Phelps.

Still, it will take hard work to arrange such a massive buyout in a way that will make lenders and investors willing to assume the risk, bankers warned.

Said one takeover chief at a big New York investment firm: "I am not convinced it's a lead -pipe cinch."

BID FOR A GIANT AUTO MAKER

Chrysler Corp. Chairman Robert Eaton emphasizes that the company is not for sale during a news conference Thursday.

Glossary:
Poison Pills and Greenmail

Poison pills and greenmail became standard business lexicon amid the 1980s boom in hostile takeovers, but they had faded from the 1990s scene until Wednesday's surprise offer by Kirk Kerkorian to acquire Chrysler Corp.

POISON PILL

A mechanism for a company to defend itself against a hostile takeover by making the cost of takeover prohibitively expensive. When a hostile bidder buys more than a certain percentage of a company's stock, the poison pill is activated that allows existing shareholders to buy additional stock at a low price—in effect driving up the cost of the unwelcome takeover. Shareholders sometimes oppose a poison pill because it may prevent them from receiving the highest possible price for their stock.

Chrysler has a poison pill that allows shareholders to buy shares at half-price when a single party acquires more than 15% of the auto maker's stock. Kerkorian owns 10% of Chrysler's shares; he earlier persuaded the company's board to raise the poison pill threshold from 10% to 15%.

Poison pills are legal as long as they are used to ward off all potential investors. They cannot be triggered to scare away an unwelcome suitor if the target company's board has put the company up for sale. Last year, a Delaware court ruled that Paramount Communications could not use its poison pill to ward off suitor QVC, because the company had already agreed to be sold to Viacom, a move that put Paramount "in play." But Chrysler's poison pill could be used against Kerkorian because the management team has insisted the auto maker is not for sale.

GREENMAIL

A hostile suitor uses greenmail when it buys up a large portion of a company's stock and induces the target to buy back the shares at a higher-than-market price in exchange for a promise to abandon the takeover attempt. It is considered an unethical maneuver because it enriches a major shareholder at the expense of others.

Although greenmail is not explicitly against the law, legal experts say it wouldn't be defensible in court because it involves offering a preferential price to a single shareholder. It has been used only occasionally in the past and not recently, because any board that agreed to it would surely draw a lawsuit from the institutional investors. A more likely scenario for Kerkorian is that he would sell his 10% stake to another outside party at a premium over the market price. That is legal because it does not directly involve Chrysler or its other shareholders.

—KAREN KAPLAN