# Global Finance

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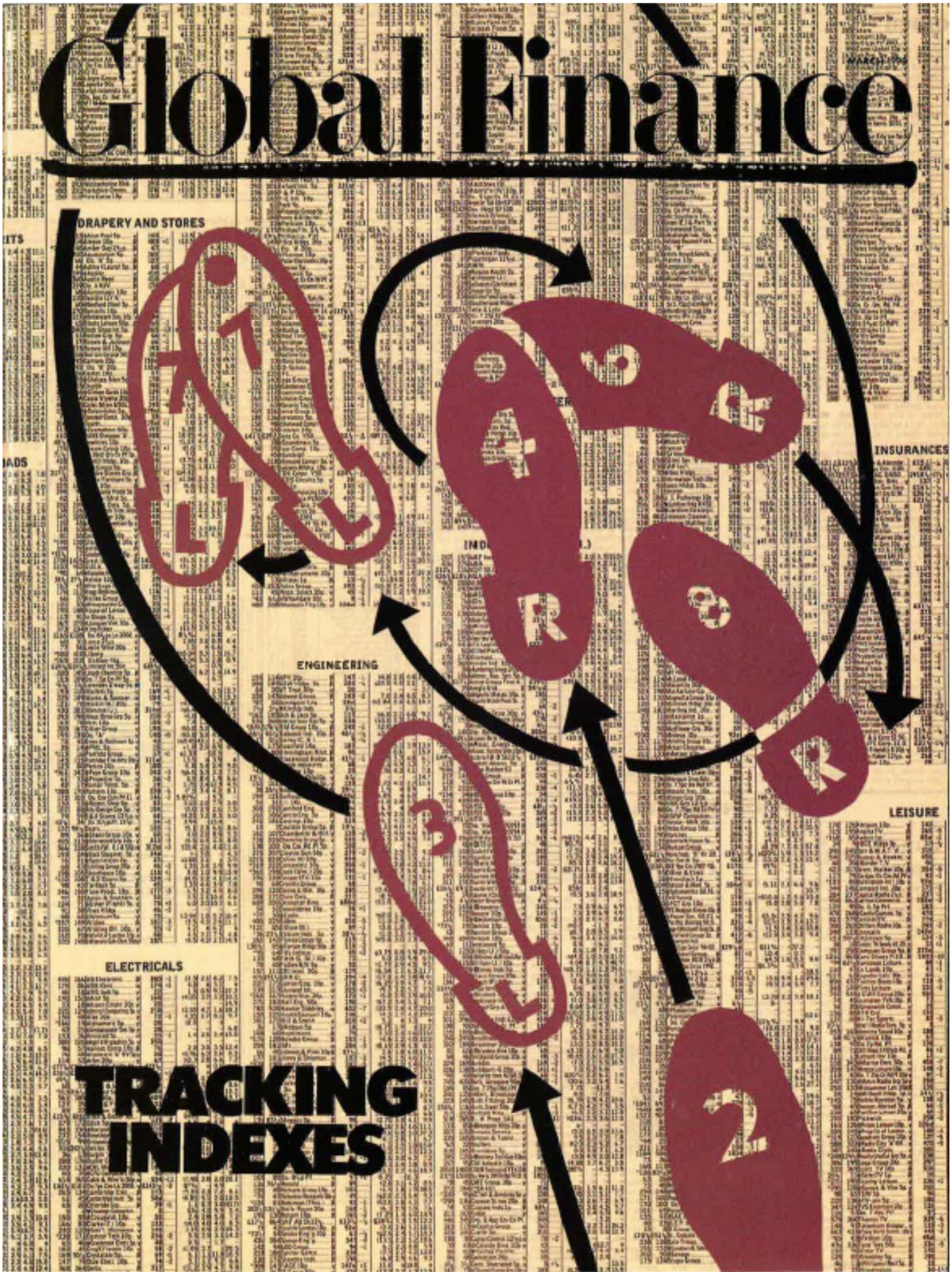


# TRACKING INDEXES


**GLOBAL EXPANSIONIST**

**Treasurer Ray Dufresne says Albany international has built up its synthetic cloth manufacturing business by acquiring in non-US markets that have become big enough to support its operations.**

By Robert Nelson

# Today's Tenet Is "Swallow Or Be Swallowed"

## Even middle market companies are getting the message as the M&A megadeal shrinks in the 1990s.

Albany International makes paper machine clothing, the synthetic cloth that allows paper to roll through the mills during production. In the 1950s and 1960s the company, based in Albany, New York, pursued a strategy of starting up greenfield sites in other countries. But in 1969, with sales of $110 million, it turned to what was then a bold strategy for a middle market company: growth driven by cross-border acquisitions. Today it owns 16 plants outside the United States, half of which have been acquired rather than started from scratch.

"We have one rule of thumb," says Ray Dufresne, corporate treasurer. "We follow the paper industry, and wherever it reaches sufficient critical mass to support our operation, that's where we go." Over the intervening decades Albany International has acquired two companies in France and one each in Norway, Sweden, Finland, the United Kingdom and Brazil. In March 1989 it made yet another purchase, Carl Veit, a small West German paper machine clothing manufacturer. Although the price of the acquisition was less than $10 million, it gave Albany the largest share of yet another foreign market. "Human resources are key to our success," says Dufresne. "With a going concern you acquire human resources."

Two decades ago, Albany International was a middle market pioneer, charting a course typical only of the biggest of companies. Today Albany International, the world's largest manufacturer of paper machine clothing, with sales at $505 million, is poised to graduate from the middle market ranks. And hundreds of midsize companies-those with sales between $100 million and $500 million-are following the same strategy that got Albany where it is now.

According to KPMG Peat Marwick, the international accounting and consulting firm, the number of cross-border acquisitions increased from 2,408 in 1988 to nearly 2,600 in 1989. Because M&A data focuses mainly on the acquisition-and not on the company making the acquisition-it is difficult to determine the exact number of acquirers that are themselves midsize companies. But middle market companies made up the bulk of the targets, and observers believe that many of the acquirers are them-

**FRENCH ACQUIRER**

**UK auto parts maker Adwest bought a company in France when it feared losing a key customer—Renault, says finance director Martin Harley.**

selves middle market companies. Moreover, they expect the trend to continue.

"The 1980s was the decade of the megadeal," says Lloyd Greif, vice chairman of Sutro & Co., the oldest US investment bank on the West Coast. "The 90s will be the era of the middle market transaction." Sutro has done 43 middle market M&A deals in the past three years—for a total of $2.5 billion. And the firm did nearly twice as many last year (19) as in 1987 (10). Almost a third were cross-border transactions, and the percentage is growing. Greif attributes the rise in middle market M&As to the increased availability of financing and to the tremendous appeal of middle market strategic acquisitions. "The middle market buyer is a synergistic buyer. One and one is not two: it is three, or four, or five. With middle market M&As, the resulting company is much stronger than the original two."

Japanese companies are relative latecomers to the M&A game. Nevertheless, middle market acquirers accounted for 13% of the more than 1,300 deals done by Japanese companies in the United States last year, according to Ulmer Brothers, a New York investment bank that specializes in Japanese

M&A. "We use one word for the potential in small to medium-size companies investing in the United States, and that is 'powerful,"' says Dan Schwartz, managing director. 'The trend is widespread and is across the industrial spectrum."

In addition, midsize companies from Taiwan, Hong Kong, Korea, Singapore and Thailand are all increasing their M&A activity—primarily within Asia itself but also in Europe and the United States. "You ain't seen nothing yet when it comes to Asian buyers," says Greif. "It took Japan a while to learn the M&A game. I don't see this same learning curve with other Asian countries. They move very quickly and are very entrepreneurial."

Last year, for instance, Unicord Group, a $300-million private-label supplier of tuna, became the first Thai company to make a US acquisition, beating out the Japanese giant Mitsubishi in an auctioned deal for Bumble Bee Seafoods, a California-based tuna producer. The $269-million acquisition of Bumble Bee was a big bite for Unicord, despite its position as the leading Thai tuna exporter to the United States. “Leveraged financing made Unicord’s acquisition possible,” says Greif, who arranged the deal. The financing structure included $195 million in senior debt and $5 million in subordinated debt, which was placed privately with a US financing institution.

The price was high, but Unicord saw a strategic opportunity that was too good to pass up. “They did it because the synergies were so strong,” says Greif. “It was a great deal.” Although it was a private-label supplier for Bumble Bee in the United States, Empress in Britain and other companies in Europe and Asia, Unicord lacked a brand name, which the Bumble Bee acquisition provided. Unicord's processing facilities in Bangkok offered Bumble Bee lower production costs than those in Puerto Rico, where Bumble Bee processed before the acquisition. In addition, Unicord can lower its costs further by processing the tuna in Thailand and then shipping it to Bumble Bee's Puerto Rico plant for packaging, allowing the company to avoid US import tariffs on packaged tuna. Finally, the deal included a now dormant processing plant that, when opened, will create jobs and trigger the reemergence of a US tuna canning industry on the West Coast.

Several years ago the United States was the major target of cross-border M&A, but in 1989, total cross border purchases (not just middle market) in North America fell, while in Europe the number of deals surged to unprecedented levels. According to KPMG, there were 847 cross-border purchases of European companies in 1988 and 1314 in 1989. Peter Wisher, who heads M&A at Charterhouse, the investment banking arm of the Royal Bank of Scotland, says that over the past four years Charterhouse, which specializes in the middle market in Europe, has seen its revenue base multiply by 10. In the past three years cross-border acquisitions have gone from nothing to 25% of its business.

> Many middle market companies see cross-border acquisitions as a way of obtaining a dominant position on an international scale.

As 1992 approaches and with it the unified marketplace of Europe, companies are trying to prepare for the heightened competition that will inevitably result. Typically, three or four companies can be leaders in a given marketplace. With 12 separate markets in the European Community, there's room for more than 30 companies per industry to claim some type of leadership. But in the single European market envisioned for post-1992 this becomes problematic.

When the United Kingdom's Vickers, an engineering, defense and automotive group, decided it could not become a market leader in the furniture business in post-1992 Europe, its strategy of divesting itself of Comforto, the West German manufacturer of furniture, fit nicely with the strategy of furniture manufacturer Haworth, based in Holland, Michigan. The third-largest furniture company in the world, with $400 million in sales, Haworth purchased Comforto from Vickers in 1988 for $50 million. The acquisition gave Haworth eight to nine new lines of seating-each line a product offering of five or more chairs and each a brand with credibility and name recognition in Europe. In addition, through Comforto Haworth obtained a valuable distribution channel throughout Europe, making it more competitive with European companies.

But 1992 is by no means driving all the middle market acquirers, even those based in the European Community. For Britain's Unitech, based in Reading, Berkshire, the primary consideration in two recent US acquisitions was expanding sales in the Far East. Unitech, with $500 million in sales, manufactures power supplies electrical connectors and devices to regulate electrical current to the giants of the electronics industry. Arnold says that the company was already a market leader in Europe and was looking to sell more to Asia. So in December 1988 Unitech bought Veeco, a company in Melville, New York, with $260 million in sales, for $328 million. In April 1989 it bought another US company, Wells Electronics in South Bend, Indiana, for $20 million. Both Veeco and Wells have strong sales in the Far East.

Since middle market companies tend to be in niche markets, many of them see cross -border acquisition as a way of obtaining a dominant or significant position on an international scale. In June 1989, for instance, London's Automated Security Holdings, a leading European supplier of electronic surveillance equipment, with £83 million ($120 million) in sales, bought API Alarms in Los Angeles for “over $100 million.” Says Clive Campion, group financial director, “We have been seeking to drive into the markets where we are not represented.” At about the same time, Automated also strengthened its hand in its own market by purchasing another UK company, Group Four Alarms, from the company's Netherlands-based owner for $94 million. Both acquisitions are part of Automated's strategy to be number one or two in each market it serves, he says.

The benefits of larger economies of scale and the trend on the part of purchasers to cut back overhead by reducing the number of suppliers are other catalysts for cross-border acquisitions. Fear of losing a valuable customer pushed Adwest Group, a UK-based auto components maker, with $ $167 million in sales, to acquire in France. When the huge French automaker Renault decided to cut back its suppliers by 80%, Adwest knew that its only chance was to get closer to the purchaser through vertical integration. “Purchasers don’t want too many suppliers,” says Martin Harley, Adwest’s finance director. “Rather than buy a clutch cable from Adwest and the clutch mechanism from someone else, a company would likely lean toward the assembler that can sell both.”

To stay in the game, last July Adwest acquired Lavel et Gaymard—a French cable assembler—for $21 million. Now Adwest can provide the parts and can assemble brake, clutch, gear change and accelerator cables—four complete mechanisms. Today, Adwest remains one of Renault’s two primary parts suppliers, and it is also a major supplier to Peugeot. Like its counterparts in middle market companies across the industrial spectrum, Adwest's strategy is to grow and grow quickly. “Whether it means expanding vertically or acquiring competitors, our goal is to become a bigger player,” says Harley.

In mining, where a company's value is judged by the level of its reserves, making new finds and extracting them at low cost is critical to remaining competitive. Homestake Mining, a $300 million San Francisco-based gold mining company, followed this plan in 1988 when it acquired a IO-year lease on an operating mine 600 miles north of Santiago, Chile. Says Dick Stumbo, Homestake's chief financial officer: “We have proven technical expertise and a very strong balance sheet. So it's natural for us to try to combine with a company that is weak on the balance sheet or that has an ore that is metalurgically tough.”

Homestake paid Codelco, a huge Chilean copper mining concern, $51.2 million plus some operating capital to acquire the right to mine all the property's reserves for the next 10 years. There was also a bonus to the acquisition; it gave Homestake a base in a country whose gold district is largely untapped.

Homestake, Albany International, Adwest and the others are leaders, but there are plenty of followers. The desire to grow, and to grow quickly, has steered the once calm middle market into a feeding frenzy. As middle market companies race to keep up with their competition, it's swallow or be swallowed. “We don't want to be a minnow compared with the whales,” says Adwest's Harley. “If this means acquisitions, that's all part of the game.”