May 1, 2007, 11:45 am

The Flip Side of the Breakup Debate at Citi and GE

Posted by Dana Cimilluca

The arrival of spring on Wall Street has got investors in some of America's biggest companies restless. Chilled by stagnating stock performance, investor demands for a breakup are beginning to burst forth at General Electric and Citigroup. Meantime, calls for the unwinding of Time Warner's merger with America Online, quieted briefly by a recent rebound in its shares, are never more than a bad quarter away.

As GE CEO Jeff Immelt and Citigroup's Chuck Prince grapple with whether to shrink their corporations, Deal Journal checked in with a corporate shrink. Flip Flippen *(left)* counsels company executives and has a book coming out today called "The Flip Side: Break Free of the Behaviors That Hold You Back." The book is about how people can overcome 'personal constraints' to improve productivity and happiness. We wanted to know how issues such as the CEO's egos come into play in such situations as considering a break up, since breakups can mean a reduction in stature.

Deal Journal: *When debating the merits of a breakup, people often focus on the numbers, but what about the softer issues like egos and personnel questions?*
Flip Flippen: Those are the really key issues. Any great CEO will struggle with his or her ego, and the challenge is to keep it in check. Nobody does it naturally. The really good CEOs know it's not about them. Sometimes, if they forget, their employees remind them. [He then told a story of a company he wouldn't name where a CEO's lieutenants went behind his back and successfully convinced the board to break up the company.] If you're not listening to your executive team, you're just blowing smoke up your own shorts.

DJ: *Do you have examples of CEOs resisting calls for a breakup for the right reasons?*
FF: Yes. You'll find leadership teams often times that talk about resisting the pressure because they know they're about to enter a big up cycle. When Trinity Industries [a maker of transportation and construction products] faced pressure to break up, CEO Tim Wallace said, "we know what we're doing and we're not carving it up."
They fought that challenge off and the stock went from something like $17 to $47. [Trinity is a client of Flippen's.]

DJ: *What else do you tell CEOs facing pressure from shareholders to break up?*
FF: They have to respond to that, they really do. If you've got to carve [the company] up, you can still do it the right way. Their thought always ought to be, **My goal is the success of every entity, and if you spin it off it's got to be able to succeed on its own.**

DJ: *How should a CEO communicate in a situation like this?*
FF: What leaders have to remember is people are going to forget the deal but remember how they were treated. One very large bank [beset with takeover rumors; he declined to name names] sent its communications guy all over the country telling people it's not going to happen and it's all safe. Thirty days later they pull the trigger on a deal. For six months they'd been telling people a complete lie. You can't do business that way; people won't forget that.

DJ: *How would you summarize your philosophy of CEO leadership?*
FF: Let me read you a line from my new book: No organization can rise above the

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constraints of the leadership and if those decisions are driven by ego, then that company is constrained by the ego of the CEO.

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Shareholders Hand CME a Bigger CBOT Bill

Posted by Dana Cimilluca

Shareholders of IntercontinentalExchange, in a takeover battle with Chicago Mercantile Exchange Holdings, appear to have ice in their veins. The same can't be said for CME shareholders.

CME shareholders have been spooked lately by a slowdown in trading on the exchange, which helped send CME's stock down more than 5% yesterday. According to this Financial Times article today, the share-price decline has caused the gap between the CME offer and the higher ICE bid for the Chicago Board of Trade's parent company, CBOT Holdings, to swell to $1.5 billion.

Shares of ICE, meanwhile, are little changed since Atlanta's upstart trader of energy and other contracts made its surprise $9.7 billion bid for the CBOT in late March.

Judging from trading on the U.S. Futures Exchange, which just began allowing individual investors to bet on the outcome of the deal, CME is still likely to prevail. (See the different probabilities investors put on the various possible outcomes here.)

With the CBOT's board expected to share its view of the two offers as early as this week, one thing is clear: **The market expects that whoever prevails is going to have to pay more than the current offers.**. At the current stock price, CBOT's market cap is roughly $300 million more than the ICE bid.

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Diller vs. Peltz vs. Diller

Posted by Deal Journal Editors

In the battle for deal-maker CEO pay supremacy, Monday brought **Barry Diller** vs. **Nelson Peltz** vs. …. **Barry Diller**.


Diller

According to a proxy filed Monday, as chairman of Expedia, Mr. Diller's total pay under the SEC's new "total compensation" column was $11.3 million, mostly the result of the cost of options awards. Mr. Peltz, chairman and CEO of Arby's parent Triarc, received total compensation valued at $16.5 million, in large part reflecting an incentive cash bonus of $10.7 million, according to the company's proxy. But wait: Also filing Monday was IAC/InterActiveCorp, former parent of Expedia. As chairman and CEO of IAC, Mr. Diller's compensation was valued at $17 million, again mostly because of options awards — and putting Mr. Diller's total Expedia-IAC compensation at about $28 million, well ahead of Mr. Peltz for 2006.

There's another twist, however. Triarc separately disclosed Monday that Mr. Peltz, who established his deal-making reputation with the turnaround of Snapple in the late '90s, is due a severance payment as part of a planned restructuring of Triarc. His payout: $50 million.

- For an in-depth look at CEO compensation sums in proxy statements, check out WSJ.com's **CEO Compensation Scorecard**.

– Tim Hanrahan

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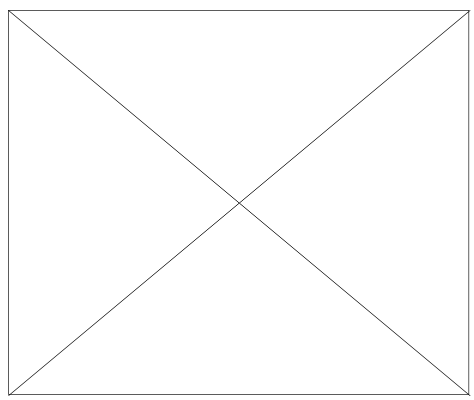

May 1, 2007, 8:33 am

Ed Zander's Alice-in-Wonderland Moment

Posted by Dana Cimilluca

Motorola CEO Ed Zander's unorthodox comment about his customers last week had more than just Deal Journal scratching its head.

In a full-page ad in The Wall Street Journal today, Carl Icahn, who's battling with Zander for a seat on the cellphone maker's board, says the comment from Zander — "I love my job. I hate my customers" – "sounds like something straight out of Alice in Wonderland." (Zander's comment was first reported in this WSJ article last week.)

According to this WSJ article today, Icahn's latest offensive, coming in a letter to Motorola's shareholders, marks **the first time since the campaign began in January that he has attacked Zander personally over the company's sagging results.**

The billionaire's offensive already was resonating with Motorola shareholders, and just six days before the company's annual meeting, Zander may need to pull a (white?) rabbit out of a hat if he's going to prevail in the vote.

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April 30, 2007, 6:08 pm

Wilder's Barely Passing Grade at TXU

Posted by Dana Cimilluca

Since he became CEO of TXU in February 2004, John Wilder successfully restructured the Texas utility and lit a fire under its stock, which has more than tripled since then. That isn't stopping the company's board from asking, "What have you done for us lately?"

In an amendment to TXU's 2006 annual report that was filed today with the Securities and Exchange Commission, TXU said Wilder, 49, **got a bonus of $1.6 million, or about 65% of his target bonus of $2.5 million.**

Why the stinginess? The company didn't say much beyond: "While [TXU] delivered record earnings per share and operating cash flow results in 2006, the company fell short of its incentive funding metrics relative to challenging goals approved by the Organization and Compensation Committee."

But perhaps some hints can be found in this statement in the filing: "The estimated value of [TXU's] retail business has declined in this time period due to market share losses and high wholesale prices." And from this Wall Street Journal article from February, which says that while fourth-quarter earnings rose 33%, **the company's reliability slipped.**

Before you shed any tears for Wilder, keep in mind that the chief executive, who is expected to remain at the utility after buyout firms Kohlberg Kravis Roberts and TPG complete their $32 billion leveraged buyout of the company, **still got a total pay package valued at $10 million, according to the filing.**

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April 30, 2007, 4:38 pm

The Private-Equity Tax Boom

Posted by Tennille Tracy

The Deal Journal question of the day. The number $12.4 billion equals:

a) the amount of money Missouri estimates it would lose if a pandemic flu broke out among its citizens;
b) the money the state of Colorado earns from the beer industry;
c) federal tax revenue attributable to the private-equity industry.

Ok, so as anxious as A makes us and as thirsty as B makes us, we admit it was a trick question and that d) all of the above, is the correct answer. Naturally, Deal Journal was most interested in answer C, which was calculated by the American Shareholders Association, a shareholder advocacy group.

The Washington group said **private-equity firms did so many successful deals last year that the industry accounted for more tax revenue in 2006 than ever before.** ASA Executive Director Daniel Clifton said the average of the previous 11 years was $6.9 billion. He notes that this is a rough estimate, since it's difficult to determine how much private-equity firms earn in profit. Still, he said, if anything the number is conservative.

taxboom

We don't mean to suggest that private-equity firms themselves paid $12.4 billion in taxes last year. Rather, **a large part of that total was paid by shareholders to reflect capital gains on stock they sold to private-equity firms in buyouts.** Nevertheless, private-equity deals were a big reason the U.S. government took in a record amount of "non-withheld taxes" last year, which is public-policy speak for saying the taxes people paid on capital gains, dividends, stock options and bonuses. That record total was an eye-popping $387 billion.

Of course, as impressive as the tax numbers sound, we can't forget the flip side of the equation, which is that the buyout boys' business is based using low-cost debt to buy companies, and that the companies deduct the interest paid on that debt.

The shareholder group says it examined the issue because **it noticed that capital-gains taxes (and other non-withheld revenue) were increasing faster than shareholder wealth (read total U.S. market cap) and it wanted to figure out why.** The results certainly are timely, given that Capitol Hill politicians are thinking about raising taxes paid by the private-equity firms themselves.

"The debate on the private-equity tax issue has made it seem as if the industry was receiving some special windfall and this is clearly not the case," Clifton said.

We imagine the Private Equity Council, the PE industry's recently established trade group, **has saved the ASA's web site in its Favorites folder.**

–Tennille Tracy is a reporter for Private Equity Analyst, a publication of Dow Jones Newsletters, and a contributor to Deal Journal.

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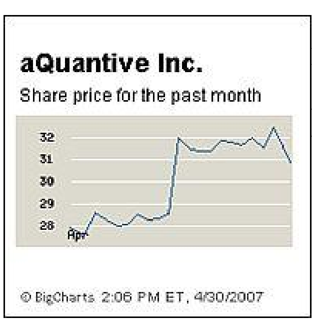
April 30, 2007, 1:56 pm

aQuantive: Sitting Out the Online Ad Party?

Posted by Dana Cimilluca

The dominos are falling in the online ad world, with Right Media the latest to get snapped up by an Internet giant at a huge price. One that may remain standing — or at least fall with less of a bang — is aQuantive.



That's the prediction from Citigroup analyst Mark Mahaney today, who cut his rating on aQuantive to "hold" from "buy." According to a research report this morning, even though aQuantive is a "very viable takeout candidate," **the value of the online ad agency still is only 14% more than the stock price even in a best case sum-of-the-parts valuation scenario**. (The stock was recently at $30.92 a share, for a market cap of a little more than $2.5 billion.)

The dynamic that led Google to pay $3.1 billion for DoubleClick this month, or as much as 10 times the online ad-placement firm's expected annual sales, may not be replicable in the case of aQuantive, a 10-year old company based in Seattle, according to Citigroup. (In the case of DoubleClick, Google and rival Microsoft, two of the best endowed corporations on earth, got into a heated competition for the company.)

The market may be listening to Citigroup. Even after today's move by Yahoo, which values closely held Right Media at more than four times what it was valued at just six months ago, aQuantive shares are down 5%.

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April 30, 2007, 11:01 am

Online Broker Trade Thyself

Posted by Dana Cimilluca

With many individual investors sitting on the sidelines, some analysts are betting that the next big online trade will be by one of the brokers themselves.

According to StreetInsider.com, Deutsche Bank is making the case for a merger between TD Ameritrade Holding and E*Trade Financial, arguing that a **deal between the online brokers could boost earnings per share by a third.** A deal between E*Trade and Charles Schwab, the biggest online broker, could produce similar benefits, the analysts say.

The report adds to chatter lately about continued consolidation on virtual Wall Street. A slowdown in online trading following the volatility in global markets earlier this year caused both E-Trade and Ameritrade to trim their outlooks for 2007, and it might force them into each other's arms to cut costs. **It isn't only the online brokers that could be the acquirers, CNBC says, but big financial institutions looking to tap the individual investor.**

Ameritrade and E*Trade shares are up sharply in the past 10 days, with E*Trade at $22.33 and sporting a $9.4 billion market cap and Ameritrade at $17.23, or $10 billion. Even Ameritrade CEO Joe Moglia acknowledges the possibility for dealmaking, though his words sound a note of caution for anyone expecting a deal tomorrow.

According to our colleagues at Dow Jones Newswires, Moglia says, "I think that there is still excess capacity in the industry." He adds: "I think eventually - and I underline the word eventually - you will see more consolidation."

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April 30, 2007, 9:28 am

Moto-CEO Nightmare: Shareholders Back Icahn

Posted by Dana Cimilluca


Icahn

Chalk up another victory for Carl Icahn, and another setback for Motorola CEO Ed Zander.

A number of the cellphone company's big shareholders back the billionaire investor's effort to get on the company's board and shake it up, according to Crain's Chicago Business. **Shareholders owning more than 25 million shares seem ready to vote for Icahn at the shareholder meeting May 7**, according to the piece in the newspaper today. Just last week, Zander failed in his effort to convince influential proxy adviser Institutional Shareholder Services to back his effort to keep Icahn off the board.


Zander

It wasn't always like this. Before Motorola reported a big first-quarter loss, many of the company's shareholders weren't too keen to have the aging corporate raider on their board. **The shift is yet another signal of the growing clout of the 71-year-old**, whose stature has been enhanced recently by his successful investments in companies including Federated Department Stores and Time Warner.

Indeed, Icahn and his ilk are spreading fear in corporate-executive suites world-wide.

Even Citigroup, the banking colossus with a market cap of more than $250 billion, is girding for an assault from so-called shareholder activists, the Financial Times reports. No doubt that Zander will continue to lobby his shareholders fiercely. According to Crain's, Icahn is seeking changes at the "upper levels" of Motorola's management.

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April 30, 2007, 8:20 am

Europeans Are Coming, Banks and Exchanges in Their Sights

Posted by Dana Cimilluca

European companies continue to grab more than their usual share of M&A headlines, and their appetites aren't confined to their own shores, with more U.S. companies in the crosshairs.

ABN Amro Holdings. The group, led by Royal Bank of Scotland, that is trying to snatch the Dutch bank away from Barclays lined up much of the funding needed for its $99 billion bid, according to this Wall Street Journal article.

Bank of America. The bank, which would buy ABN's U.S. arm as part of the deal that's already been set with Barclays, will not go down without a fight. The Times of London reports that BofA threatened ABN with a $220 billion lawsuit — twice ABN's market cap (and the equivalent of the gross domestic product of Greece) — if it doesn't move forward with the deal. See this previous WSJ story for more on the suit and this Deal Journal post from Friday for more on BofA's crusade.

Citigroup. With the Barclays sale process underway in the first place largely because of an activist hedge fund in the U.K., it's no wonder that, according to the Financial Times, Citigroup executives fear the world's biggest financial services company could become the target of activist hedge funds itself.

Deutsche Boerse. The German exchange is close to a deal to buy New York's International Securities Exchange for about $2.6 billion, according to this WSJ article.

Yahoo-Right Media. In the wake of Google's $3.1 billion deal for DoubleClick, Yahoo is expected to announce a $680 million deal to purchase the 80% of online ad exchange Right Media that it doesn't already own.

Telecom Italia. Italian officials can sleep better at night. The WSJ reports that a $5.6 billion deal by Spain's Telefónica and three Italian financial institutions ensures control of Telecom Italia will remain in Italian hands.

Merck KGaA. Teva Pharmaceutical Industries, Actavis Group and Apax Partners Worldwide are planning bids for the German company's generic-drug unit by today's deadline, Bloomberg reports. The deal could be valued at $5.5 billion.

Dominion Resources. Eni, Italy's largest oil company, agreed to buy Richmond, Va.-based Dominion Resources's Gulf of Mexico exploration-and-production assets for $4.8 billion.

Delta. The airline, exiting bankruptcy-court protection today, may sell its Comair unit.

–With Stephen Grocer

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