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The Role of Management in the Evaluation of a Proposed Corporate Acquisition

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CULMINATING PROJECT

THE ROLE OF MANAGEMENT IN THE EVALUATION OF A PROPOSED CORPORATE ACQUISITION

BY

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INTRODUCTION

As William Glueck, a well-known name in the study of management explains, "management is the effective utilization of human and material resources to achieve the enterprise's objectives."[1] In accomplishing what may appear to be a simple definition, Fayol indicates the manager must perform the basic functions of planning, organizing and controlling.[2]

While management, therefore, can be studied by function, it also requires the use of an interdisciplinary approach involving theories and techniques of other sciences as well. For example, the principles of psychology, sociology, and economics are intertwined aspects in Fayol's basic functions as they pertain to the more specific management areas such as marketing, staffing, expansion, etc. Therefore, management is considered to be a complex science integrating material from many different disciplines.[3]

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[1] William F. Glueck, Management (Hinsdale, Illinois: The Dryden Press, 1977), p. 6.

[2] Ibid., p. 10.

[3] Ernest Dale, Management: Theory and Practice, 3rd ed. (New York: Mc-Graw Hill Book Company, 1973), pp. 4-11.

The emphasis and importance of these interrelated management aspects vary as the business conditions change on a day-to-day basis. Therefore, the manager should be knowledgeable of as many of these interrelated aspects and disciplines as possible in order for him to make the appropriate decision at the appropriate time. This on-the-job experience, coupled with textbook knowledge of the theories and techniques, are what make the manager.

I have selected, for my Culminating Project, a case study of an actual corporation. This case study covers all of the aspects of my studies, with specific emphasis on a function of management which presents one of the greatest challenges to management: growth through merger and acquisition. This case will afford me the opportunity of applying the knowledge I have gained in my studies in Management at Lindenwood IV to the actual management challenges of the CIBA-GEIGY Corporation.

Pertinent facts and information taken from the case will be presented, with accompanying student-prepared analyses and assessments. Recommendations and concluding statements will then follow.

CHAPTER I

CIBA-GEIGY LIMITED AND CIBA-GEIGY CORPORATION

Background

CIBA-GEIGY Limited was created by a merger of two parent Swiss companies, CIBA AG and J.R. Geigy AG, in October 1970. Its business was products rather than services. These products were almost entirely specialty chemicals; that is, patent-protected, high technology products that had a specific purpose or filled a particular need.

This worldwide CIBA-GEIGY group consisted of the Swiss parent (CIBA-GEIGY Limited) located in Basel, Switzerland, and some sixty affiliated companies. These affiliated companies were located in the regions of Europe, North America, Latin America, Asia, Africa, Australia and Oceania.

Both original merging firms had significant holdings in the United States. As a result of the merger of the parent companies, the two United States subsidiaries inevitably became one organization. This one organization became the CIBA-GEIGY Corporation with headquarters in Ardsley, New York. The CIBA-GEIGY Corporation had approximately 8,000 employees in the United States, most of whom were located at its principal facilities in New York, New Jersey, Alabama, Louisiana, Rhode Island, and North Carolina.

Organizational Structures

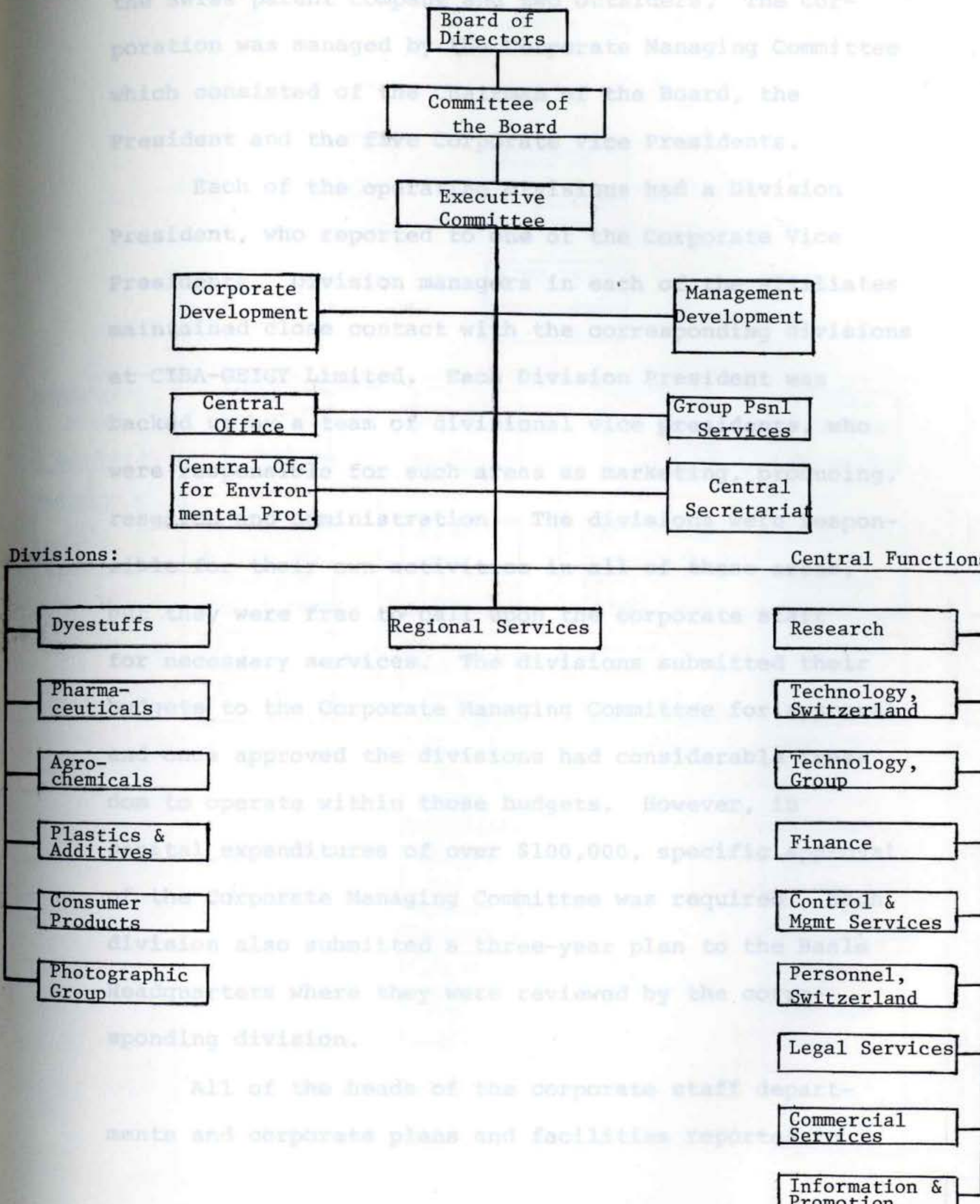
Figure One summarizes the organizational structure of the top management of CIBA-GEIGY Limited. The Committee of the Board prepares the fundamental principles of business policy for consideration by the board, supervises business activity, sanctions investment projects in excess of 10 million Swiss francs, and deals with fundamental questions of personnel, investment and financial policy.

The Executive Committee is responsible for the implementation of business policies approved by the board. The Division heads are responsible for worldwide strategy in specific market sectors. They also review specific product-market strategies of operating companies.

The Regional Services area monitors the group's investment in its sixty international affiliates; reviews overall business plans of subsidiaries; and parcels out sector strategies to group-level divisions for review.

Figure Two depicts the CIBA-GEIGY Corporation organizational chart. The Board of Directors consisted

Figure 1
TOP-MANAGEMENT STRUCTURE OF CIBA-GEIGY LIMITED ORGANIZATION



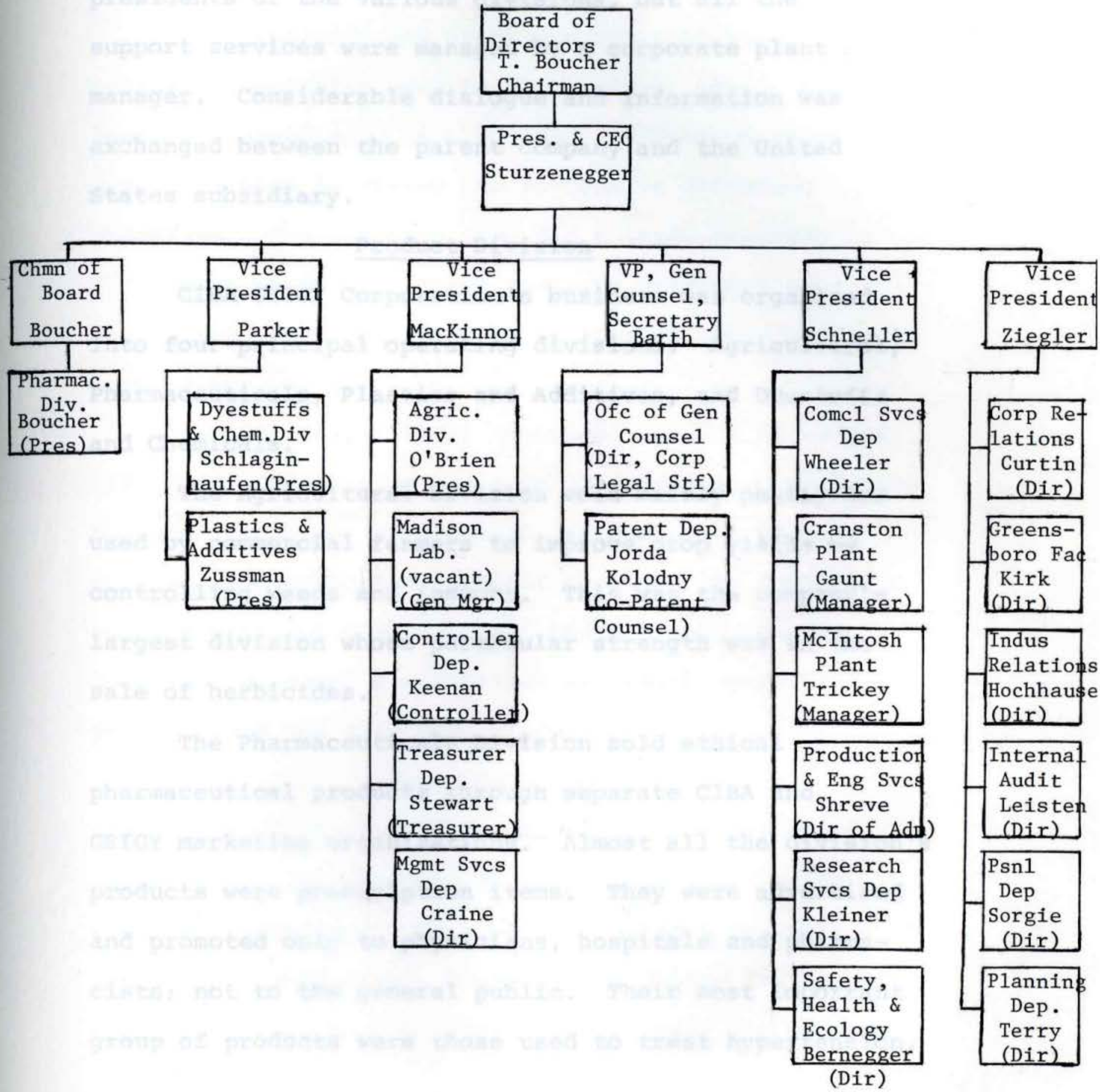
of four company officers, four representatives from the Swiss parent company and two outsiders. The Corporation was managed by the Corporate Managing Committee which consisted of the Chairman of the Board, the President and the five Corporate Vice Presidents.

Each of the operating divisions had a Division President, who reported to one of the Corporate Vice Presidents. Division managers in each of the affiliates maintained close contact with the corresponding divisions at CIBA-GEIGY Limited. Each Division President was backed up by a team of divisional vice presidents, who were responsible for such areas as marketing, producing, research and administration. The divisions were responsible for their own activities in all of these areas, but they were free to call upon the corporate staff for necessary services. The divisions submitted their budgets to the Corporate Managing Committee for approval and once approved the divisions had considerable freedom to operate within those budgets. However, in capital expenditures of over $100,000, specific approval of the Corporate Managing Committee was required. Each division also submitted a three-year plan to the Basle Headquarters where they were reviewed by the corresponding division.

All of the heads of the corporate staff departments and corporate plans and facilities reported to

Figure 2

CIBA-GEIGA CORPORATION ORGANIZATIONAL CHART



one or another of the Corporate Vice Presidents.

Two of the larger plants: Cranston and McIntosh served more than one division. Their production activities were directed by the production vice presidents of the various divisions, but all the support services were managed by a corporate plant manager. Considerable dialogue and information was exchanged between the parent company and the United States subsidiary.

Product Division

CIBA-GEIGY Corporation's business was organized into four principal operating divisions: Agricultural, Pharmaceuticals, Plastics and Additives, and Dyestuffs and Chemicals.

The Agricultural Division sold mainly pesticides used by commercial farmers to improve crop yields by controlling weeds and insects. This was the company's largest division whose particular strength was in the sale of herbicides.

The Pharmaceuticals Division sold ethical pharmaceutical products through separate CIBA and GEIGY marketing organizations. Almost all the division's products were prescription items. They were advertised and promoted only to physicians, hospitals and pharmacists; not to the general public. Their most important group of products were those used to treat hypertension, arthritis, depression and diabetes.

The Plastics and Additives Division sold a wide range of products, including epoxy resins, polymer additives, pigments, and fiberglass reinforced epoxy pipe.

The Dyestuffs and Chemicals Division sold synthetic dyestuffs used in the textile, paper, and leather industries. It also sold a number of chemicals used to assist in dyeing and in textile finishing processes. The division also did a large business in florescent whiteners, which soap and detergent companies used in their products to improve the appearance of the wash.

In addition to these principal product divisions, CIBA-GEIGY Corporation had a small consumer specialities business which was run through Madison Laboratories. However, top management did not consider the business to be a successful operation. Madison Laboratories sold such consumer specialities as breath spray, dental cream and skin care products.

Sales Position

CIBA-GEIGY Limited had basically no home sales market with approximately 98 percent of their sales outside Switzerland. This was in contrast to their competitors in Germany, England, the United States, or Japan who could bank on their home markets for between

40 percent and 70 percent of their business.

By 1973, however, just three years after the formation of the subsidiary, CIBA-GEIGY Corporation, the Corporation accounted for almost one-fourth of the merged companies' total sales. Total sales for 1973 for CIBA-GEIGY Corporation was in excess of $550 million. Total sales of CIBA-GEIGY Limited and its sixty affiliated companies was approximately $2.6 billion. This placed them about number fourteen among the world's chemical companies.

By product in the CIBA-GEIGY Corporation, agro-chemicals were in the lead with 41 percent of the total sales in 1973. The Division's pesticide sales were in a solid number one position with 20 percent of the United States market.

The Pharmaceuticals Division took 28 percent of the total sales in 1973. This division was considered to be among the seven largest in the United States.

Dyestuffs and Chemicals came next with 16 per-cent of the total sales. In dyestuffs, CIBA-GEIGY was number three in the United States market.

Plastics and Additives secured 13 percent of the total sales. The CIBA-GEIGY Corporation was estimated to be number two or three in epoxy resins and number one or two in reinforced plastic pipe in the United States.

Madison Laboratories, the consumer business, came in last with only 2 percent of the total sales for 1973.

Financial Position of CIBA-GEIGY Corporation

Cash flows to the parent company from CIBA-GEIGY Corporation took four forms: (1) Dividends were paid to the parent company on an annual basis; (2) CIBA-GEIGY Corporation paid a significant amount of money to the parent company as part of its share of the group research budget; (3) Cash flowed to the parent company in connection with royalty agreements; (4) A minimal amount of cash flowed to Switzerland in payment for purchases of intermediate and finished products.

Figure Three provides a student-prepared CIBA-GEIGY Corporation Balance Sheet as of December 31, 1973. From the Balance Sheet, various key financial computations and accompanying explanations are presented in Figures Four, Five and Six.

Corporate Objectives

CIBA-GEIGY's corporate objectives can be summed up in the statement provided by Mr. A. M. (Don) MacKinnon, one of the Division Vice Presidents:

> We wish to remain a very research-oriented organization with vigorous and ongoing internal growth. However, we also look to our acquisition program as a means of complementing this growth. I should emphasize that we have no interest in becoming a vast conglomerate. We are not making acquisitions merely to

Figure 3

CIBA-GEIGY CORPORATION
BALANCE SHEET
YEAR ENDED DECEMBER 31, 1973
(in millions of Swiss francs)

Assets		
Current Assets		
Liquid Funds	$1,493	
Receivables & Other Current Assets	2,234	
Stocks	1,925	5,652
Long-Term Assets		
Interests in Associated Companies & Loans	244	
Fixed Assets	6,326	6,570
Total Assets		$12,222
Liabilities		
Current Liabilities		
Suppliers	$ 432	
Banks	945	
Other Current Liabilities, Including Provisions	1,281	2,658
Long-Term Liabilities		
Debenture Loans	375	
Other Loans & Long-term Liabilities	958	1,332
Total Liabilities		3,990
Equity		
Group Equity		8,232
		$12,222

Figure 4

CIBA-GEIGY CORPORATION

1973

WORKING CAPITAL
(in millions of Swiss francs)

Total current assets

- Total current liabilities

= Working Capital

5,652

- 2,658

= 2,994

Working capital represents the volume of current assets financed from long-term sources. It is that part of a firm's current assets that will stay with the firm, and is a measure of the firm's immunity to financial squeeze.[4]

As shown, the CIBA-GEIGY Corporation Working Capital position is good. This good capital position can be partly attributed to the fact that capital expenditures were closely coordinated with the parent company to assure that worldwide production capacity remained in balance.

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[4] George A. Christy and Peyton F. Roden, Finance, Environment and Decisions, 2nd ed. (New York: Canfield Press, 1976), p. 246.

Figure 5

CIBA-GEIGY CORPORATION

1973

CURRENT RATIO

(in millions of Swiss francs)

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = \text{Current Ratio}$$

$$\frac{5{,}652}{2{,}658} = 2.126$$

This ratio is a rough indication of a firm's ability to service its current obligations. Generally the higher the current ratio, the greater the cushion between current obligations and a firm's ability to pay them.[5] It is the most widely used measure of business liquidity.[6]

As can be seen by this computation, the CIBA-GEIGY Corporation has a good Current Ratio.

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[5] RMA '78 Annual Statement Studies, (Philadelphia: Robert Morris Associates, [1978], p. 6.

[6] Christy and Roden, Finance, pp. 246.

Figure 6

CIBA-GEIGY CORPORATION

1973

DEBT-EQUITY RATIO

(in millions of Swiss francs)

$$\frac{\text{Total Current Liabilities}}{\text{Total Equity (Net Worth}} = \text{Debt-Equity Ratio}$$

$$\frac{2,658}{8,232} = 0.3228$$

The lower this ratio the better. It gives the relationship between capital contributed by creditors and that contributed by owners. It expresses the degree of protection provided by the owners for the creditors. The higher the ratio, the greater the risk of being assumed by creditors. A lower ratio generally indicates greater long-term financial safety.[7]

As this computation shows, the CIBA-GEIGY Corporation has a very low Debt-Equity Ratio which is good.

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[7] Ibid., p. 240.

> become bigger. We are interested only in those companies which would complement our current business or put us into related new business areas.

Mr. MacKinnon also indicated that CIBA-GEIGY's own cash flows would primarily be used to finance the acquisition. As of the Spring of 1974 time frame, the Corporation was willing to invest up to $250 million in new acquisitions with $150 million of this expected to come from United States sources.

Acquisition Program

The CIBA-GEIGY Corporation formed an Acquisition Task Force in September 1973 as a part of the company's acquisition program. Mr. MacKinnon, one of the Division's Vice Presidents, and company acquisition enthusiast, chaired the group. He was the only executive of the CIBA-GEIGY Corporation who had extensive mergers and acquisition experience.

Other members included CIBA-GEIGY's general counsel, the corporate secretary, the director of corporate planning, and three staff executives from the corporate planning and treasury functions. The three staff executives from the corporate planning and treasury function, acted as full-time members of the Task Force, and reported to Mr. Robert Terry, the Director of Corporate Planning.

The major responsibilities of the group were to first, establish basic criteria for any acquisitions

CIBA-GEIGY might make, and second, to determine areas of acquisition interest. Figure Seven provides the acquisition criteria as established by the Task Force. This criteria was distributed to leading investment banking firms and large commercial banks so that these organizations could refer potential acquisition candidates to CIBA-GEIGY.

Mr. MacKinnon was pressing for diversification in the United States. He personally was interested in household products as one possible area of opportunity for the company. He and other members of top management of the CIBA-GEIGY Corporation were impressed with the opportunities that a major acquisition program in the United States could bring the corporation as a whole.

One of the impressing factors, they felt, was that with the United States dollar undervalued relative to the Swiss franc and with prices on the New York Stock Exchange at a ten-year low, it appeared an opportune time to acquire United States companies at favorable prices. Further, officers of both the United States subsidiary and the Swiss parent hoped that reinvesting the United States cash flow in the United States would allow the United States subsidiary to repatriate dollars to the parent under more favorable conditions in the future.

Mr. MacKinnon also felt that diversifying

Figure 7

CIBA-GEIGY TASK FORCE ACQUISITION CRITERIA

In general, we are looking for acquisition candidates which meet the criteria listed below, and which might be available for cash. It is possible that in the case of a particularly attractive situation, we might be willing to take a major stock position offering the probability for a control position or full ownership at a later date.

1. The candidate should participate in growing markets.
2. The candidate should have a proprietary position in its markets.
3. The candidate's operations should be likely to be favorably affected by CIBA-GEIGY's know-how in the fields of research, development, manufacture, and marketing of complex synthetic organic chemicals.
4. The candidate's business should be product rather than service oriented.
5. The candidate should have sales of $50 million or more.
6. The candidate should earn a good gross profit margin on sales.
7. The candidate should have the potential to yield a return on investment of 10 percent or more.
8. The probable purchase price should not exceed $250 million.

Since CIBA-GEIGY's business in the United States approximates 25 percent of the worldwide sales, we are particularly interested in companies that would offer potential for substantial growth outside the United States through the efforts of our worldwide resources.

acquisitions could help open new paths of growth for the United States subsidiary while providing a hedge against increasing research and development costs, which were limiting the company's traditional specialty chemicals business. In 1973, the parent company reported that the group's United States sales had increased only 4 percent in contrast to the worldwide average increase of 14 percent (measured in local currencies).

At the time of the merger in 1970, CIBA and GEIGY entered into a Consent Decree which prohibited them, until September 1975, from acquiring any other person engaged in the United States in any of the same lines of commerce as CIBA-GEIGY Corporation, except upon fifteen days prior notice to the Department of Justice. If within such fifteen days prior, the Justice Department requests information relating to the proposed transaction as authorized by the Antitrust Civic Process Act, then the transaction cannot be consummated until an additional period of sixty days after the company furnishes the information so requested to the Department of Justice.

Figure Eight provides the Areas of Acquisition Interest as established by the Task Force. The Task Force did not include such items as seed breeding and food additives since the Agricultural Division had

Figure 8

CIBA-GEIGY TASK FORCE AREAS OF ACQUISITION INTEREST

1. The whole area of specialty chemicals is of interest to us. A definition of specialty chemicals would include among others, certain of the following characteristics:

   They are sold in moderate volumes, but at high per unit selling prices, at least two times raw material costs.

   They are usually sold under brand names, and are promoted to the end user based on performance specifications for what they do.

   They require a relatively high level of research and development, based on a knowledge of the customer's technology.

   Although gross profit margins typically run at least 50 percent of sales, heavy expenditures for marketing and research may yield only an average after tax margin on sales, but a high return on investment.

   Other types of specialty chemicals which could be of interest to us include such items as: specialty adhesives, biocides, moulding compounds, coatings, specialty cleaning products, flame retardants, intermediates for cosmetics, detergents, etc., chemicals for pretreating and finishing textiles, etc.

2. Proprietary pharmaceuticals and cosmetic and toiletry products.

3. Animal health products, including feed additives and veterinary products.

4. Proprietary household and garden products such as those marketed by S. C. Johnson.

5. Suppliers of products to the health care industry, including disposable hospital

and medical products, diagnostic aids, dental and optical supplies.

6. Products, processes and related services for the environmental industry, i.e., air, liquid, and solid waste treatment. It should be noted that our interest in these areas is not in the equipment side, but our orientation is toward the chemicals and related services side.

7. Photo chemicals and related products.

already conducted extensive studies in these areas using outside consultants and had identified most of the candidates which might be of interest to them.

After providing the acquisition criteria to the investment banking firms and commercial banks, CIBA-GEIGY screened fifteen to twenty thousand companies. With the aid of Standard & Poor's and Moody's industrial directories, the Task Force reviewed approximately 10,000 publicly-owned companies. These companies were evaluated in terms of their criteria for industry and growth. In addition to the manual screening, a computer review by industry which was conducted for CIBA-GEIGY by a leading investment banking firm, was used for reviewing the companies. Dun & Bradstreet computer tapes were purchased and allowed the Task Force to review another 8,000 companies. In addition, the Task Force worked with all of the company's divisions to identify any companies or divisions of other companies in which they might have had an interest.

After several months of screening, approximately 100 companies were identified as meeting CIBA-GEIGY's general criteria. A two-page summary covering each company was prepared by the Task Force for review by the corporate managing committee. From these 100 companies, a final selection of six acquisition candidates was made.

The only candidate identified to the student in this case was Airwick Industries. Pertinent information of Airwick Industries will follow in Chapter Two.

It should be noted that while detailed reports were prepared from public sources on each of the six companies, a special Airwick Task Force from CIBA-GEIGY had actually interviewed key vice presidents at Airwick Industries concerning a possible acquisition. Further, for five years, a French subsidiary of CIBA-GEIGY Limited had distributed Airwick products in France. However, although Mr. MacKinnon was originally interested in household products as one area of possible opportunity, the Task Force had also identified attractive acquisition candidates in non-household areas. Therefore, he was not certain whether CIBA-GEIGY should attempt to move into household products.

CHAPTER II

AIRWICK INDUSTRIES, INC.

Background

Airwick Industries, Incorporated, located at Carlstadt, New Jersey, originally began as Airkem, Incorporated, in the late 1930's when an independent researcher worked with a blind subject for four years to produce Airwick Liquid. This liquid was a natural odor control for most common indoor malodors.

Until this liquid was developed, most odor control products simply masked or overpowered unpleasant odors with a strong and supposedly more pleasant aroma. Therefore, Airwick Liquid was a salable product.

The following will be a chronological listing of the Airwick Industries growth activities until 1974, the time of the proposed acquisition.

In October of 1972, Airwick acquired the King-Kratz Corporation. The King-Kratz Corporation produced and marketed a line of chemicals and dispensers for water treatment in swimming pools.

Airwick acquired the Seablue Corporation in January of 1974. The Seablue Corporation was a distributor of swimming pool equipment and supplies. It also manufactured and sold high-rate sand filters and diving stands. The Corporation had sales and distribution centers in Atlanta, Baltimore, Charlotte, Cincinnati, Dallas, Houston, Kansas City, Memphis, Miami and New Orleans. Prior to its acquisition by Airwick, the Seablue Corporation was the largest customer of the King-Kratz Corporation.

Organizational Structure

The case study did not provide any information as to the Airwick Industries' organizational structure or key executives and positions.

Product Division

As of June 1974, the time of the proposed acquisition, Airwick Industries' principal products consisted of odor counteracting air fresheners, together with a full line of sanitary maintenance items, such as disinfectants, cleaners, and insecticides containing odor counteraction features and certain swimming pool products. These products were marketed through four operating segments:

(1) Consumer: household products distributed through food brokers in the United States and Canada. There were six major products, of which three were in the air freshener category: Airwick Solid, Airwick Liquid and Airwick Spray. These three accounted for

97 percent of the division's net sales. The remaining 3 percent included On Guard, an automatically dispensed toilet bowl cleaner; Airwick Cat Litter Deodorant Spray; and a disinfectant spray. All of the consumer segment profits came from Airwick Solid and Airwick Liquid in 1973.

The air freshener market had grown substantially in the solid-type product during the 1970 - 1973 period. However, at the same time, this market area was becoming highly competitive. Some of these competitors were larger, better known and financially stronger than Airwick Industries and were able to expend large sums in advertising and promoting their products. According to statistics of a four-week period in 1974, Airwick's Solid was eclipsed as the number one brand; however, research proved that consumer intent to repurchase was extremely high.

In early 1974, Airwick had begun to produce Airwick Solid as a private label solid air freshener for chain stores. Several contracts had been signed and the company felt the private label business would be as profitable as the existing Airwick Solid business on a per unit basis. The overall Airwick idea behind this was to eliminate competition while gaining more factory volume.

This segment's products were sold through a system of sixty-three food brokers across the United States. These brokers were under the supervision of seven Airwick-employed regional managers who reported to the sales manager. This broker situation was set up in 1963, when a transfer of marketing rights to Lever Brothers had not alleviated the Airwick sag in domestic retail sales that had begun in the mid-1950's. The company originally assigned the development of a sales force and distribution system to this national distributor, because the then-Airkem Incorporated did not have the required resources to break into the home-centered market.

The company spent a good deal of money promoting sales in 1963 and also started and continued to pay commissions to the newly-established sales brokers at the rate of 7.5 percent. Although there were exceptions, the standard industry commission over the years was 5 percent. All of this caused the company to have a net loss in 1963, but sales stopped declining. Earnings growth in the late 1960's were also penalized due to development costs and promotion for new products, but overall the company was profitable through 1974.

(2) Institutional; commercial, institutional, industrial products distributed through franchised distributors and fourteen company branch offices in

the United States and Canada.

The two classes of this Airkem Institutional Division were commercial products and emergency odor removal products. Commercial products contributed substantially all of the division's sales and profits. These commercial products included a semisolid odor counteractant trademarked Solidaire, as well as a liquid and spray odor counteractants, odor-controlled insecticides, and sanitary maintenance items such as disinfectants and detergents. Equipment was also designed, manufactured and sold to dispense a number of these products. In Canada, a line of floor and carpet care equipment manufactured by another firm, was marketed.

The commercial products were used by institutions, such as hospitals, nursing homes, schools and motels. Specialized odor-controlled formulations were sold for spray-system application in atmospheric control of odors emanating from factories and other industrial establishments.

The emergency odor removal products included counteractant formulas designed to remove or reduce certain odors, such as the odor of smoke from fire in residences, automobiles, and commercial and industrial establishments.

Products were principally sold through the approximately fifty-five franchised distributors that were responsible for sales in specified geographic areas in the United States and Canada. The franchised distributors in the United States usually used the name, Airkem, in their trade sales. As a matter of fact, the division advertised the products trademarked "Airkem" nationally.

The division also acted as its own distributor of Airkem products, and performed all the functions of a franchised distributor, through branch offices in fourteen geographical areas. Branch start-up and staffing costs created higher operating expenses which adversely affected the earnings of the division since 1971. In total, the branch offices accounted for thirty-one percent of the division's sales in 1973.

(3) International: household, commercial, institutional, and industrial products were marketed through distributors in more than fifty foreign countries.

Approximately 97 percent of the sales and substantially all the profits of this division came from the British subsidiary, Airkem (Export) Limited which handled all of the marketing in Europe and other international markets. Airwick Solid was the division's best product.

The division's principal plant, located in Hitchin, England, manufactured Airwick concentrates, but the distributors did the finishing and packaging. The home office of the company managed marketing in Latin America, the Caribbean, and Taiwan.

Airwick had a policy of not participating in advertising expenses, not interfering in the local marketing issues, nor signing long-term contracts with distributors in the overseas areas. Pre-tax margins overseas were higher than at home because more expenses were assumed by the overseas distributors than by United States distributors.

The potential for growth in Europe appeared good. The competition was less intense than in the United States since odor counteractants and related products were relatively new.

(4) Aquatic: swimming pool treatment chemicals and dispensers sold through distributors and dealers in the United States and Canada.

This segment was comprised of the King-Kratz and the Seablue Corporations. The market was expected to grow at eleven percent during the 1971 - 1975 period. One-half of this eleven percent was expected to be in the in and on-ground pools. King-Kratz was already in a strong position in the in-ground market and they were strong in the nonresidential pools. However, breaking into the above-ground market would require development of a home owner-oriented product line. It would also require getting it into mass merchandisers. To do this would require additional financial and marketing resources. King-Kratz was, in 1974, also attempting to get closer to the dealer and go direct. This would mean a substantial increase in marketing expenses.

Financial statistics were not provided in the case study for King-Kratz; however, in 1974 Seablue was among the lowest performing profit centers in the company with a net loss of $48,950.00 for the period ending December 31, 1973.

Figure Nine provides the revenues and pre-tax income for each of the four segments from 1969 through 1973. As can be seen from the figures provided, the Consumer segment is by far the best segment. This is due to completion of national distribution and the market acceptance of a new product, Airwick Solid, in the United States retail markets. There were also better manufacturing efficiencies resulting from integrated, higher-volume production of this product within the company's plants.

The International sales and margins also increased because of the broadening distribution and market acceptance of Airwick Solid in the European retail markets. The Institutional segment declined over the

Figure 9

AIRWICK INDUSTRIES, INC.

REVENUES AND PRE-TAX INCOME FOR

MAJOR OPERATING SEGMENTS

1969 - 1973
(dollars in thousands)

Consumer

	Revenues		Pre-tax	
1973	$17,500	52%	$2,475	49%
1972	14,251	51	2,090	55
1971	11,066	50	1,222	47
1970	6,785	43	(23)	--
1969	4,606	37	(304)	--

Institutional

	Revenues		Pre-tax	
1973	$9,100	27%	$ 800	16%
1972	8,117	29	429	11
1971	7,048	32	615	23
1970	6,380	40	931	69
1969	5,835	46	1,210	86

International

	Revenues		Pre-tax	
1973	$4,050	12%	$1,500	30%
1972	2,920	11	1,047	28
1971	1,895	8	590	22
1970	1,294	8	386	29
1969	1,022	8	310	22

Aquatic

	Revenues		Pre-tax	
1973	$2,950	9%	$250	5%
1972	2,485	9	221	6
1971	2,158	10	203	8
1970	1,468	9	58	4
1969	1,118	9	193	14

period shown because of higher marketing expenses and increased costs of goods, warehousing and transportation not offset by increases in selling prices.

Advertising

Heavy advertising was an important part of Airwick's marketing program. The company was spending money to advertise both the Airwick and Airkem name in various markets. Given the increased competition, it appeared that advertising expenditures would have to increase in order to maintain position against competing products. For example, in the deodorizer and air freshener market, statistics provided indicate that Airwick was being outspent by over $200,000.00 in just the first six-month period of 1974.

Manufacturing

The Airwick products were basically manufactured at the following locations:

In the United States:

Carlstadt, New York Plant and St. Peters, Missouri Plant	Formulas were manufactured, blended, and packaged into finished products. Plastic packaging components were also manufactured.

King-Kratz products were processed at the St. Peters, Missouri, plant.

Richardson, Texas Plant	Swimming pool filters and diving stands were manufactured at this Seablue Corporation plant.
In Canada:	
Canadian facility	As of June 1974, Airwick commenced direct production of some products which had previously been subcontracted.
In England:	
Hitchin, England	Formulas were manufactured, blended and then transferred to independent distributors to be packaged as finished products.
In Latin America and the Caribbean:	Most of the products were imported in finished form from the United States.

It should be noted that although most of the raw materials regularly required by Airwick had been historically available in sufficient quantities; since the latter part of 1973, the company had experienced some industry-wide shortages of some basic chemicals which could limit the expansion of sales and production in the Institutional and Aquatic marketing areas.

Research and Development

Airwick's research and development department consisted of thirty-eight employees in 1974, of whom twenty-six held degrees in chemistry, biology and engineering. Their efforts were primarily directed toward the development of new products and the improvement of present products. This included the design and development of dispensing units, molds for forming containers, and package design. The department also furnished technical assistance to the field sales organization.

Expenditures for the department were approximately $418,000, $488,000 and $629,000 during 1971, 1972 and 1973 respectively. The amount budgeted for 1974 was $671,000.

Financial Position

Figure Ten provides a Consolidated Balance Sheet for Airwick Industries, Inc., and Subsidiaries for the years ended December 31, 1972 and 1973. From this Balance Sheet, various key financial computations and accompanying explanations and comments are presented in Figures Eleven, Twelve and Thirteen. As will be

Figure 10

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
YEAR ENDED DECEMBER 31
(in thousands of dollars)

Assets	1973	1972
Current Assets		
Cash	$ 1,770	$ 1,683
Short-term investments--at cost which approximates market value		993
Customers' receivables	3,747	3,101
Other receivables	137	61
Inventories		
Finished goods	2,379	1,313
Work in process	393	180
Raw materials	1,980	1,185
	4,752	2,678
Prepayments, advances, and other items	515	477
Total current assets	10,921	8,993
Property, plant and equipment--at cost, less accumulated depreciation and amortization	5,187	3,038
Other assets		
Prepayments of obligations to former distributor, less amortization of $652,000 in 1973 and $569,000 in 1972	351	433
Patents, trademarks and other, less amortization of $371,000 in 1973 and $334,000 in 1972	188	182
Prepaid pension costs	470	500
Deferred charges and other	519	320
	1,528	1,435
	$17,636	$13,466

Liabilities	1973	1972
Current Liabilities		
Notes payable--bank	$ 870	$
Current maturities of long-term debt	69	92
Accounts payable	2,363	1,777
Accrued compensation and other expenses	759	538
Income taxes	1,238	1,033
Total current liabilities	5,299	3,440
Long-term Debt	511	609
Deferred income taxes	189	11
Commitments		

Stockholders' equity		
Capital stock		
Preferred--authorized, 100,000 shares of $1 par value, none issued	-	-
Common stock, par value $0.05--authorized 6,000,000 shares; issued and outstanding, 3,464,942 shares in 1973 and 3,447,482 shares in 1972	173	172
Additional contributed capital	3,510	3,444
Retained earnings	7,954	5,790
	11,637	9,406
	$17,636	$13,466

Figure 11

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES

1972 AND 1973

WORKING CAPITAL

(in thousands of dollars)

Total current assets

- Total current liabilities

= Working Capital

1972:	1973:
8,993	10,921
-3,440	- 5,299
=5,553	5,622

As can be seen by these figures, Airwick Industries was in a good financial position in both 1972 and 1973 insofar as their working capital was concerned.

Figure 12

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES

1972 AND 1973

CURRENT RATIO

(in thousands of dollars)

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} = \text{Current Ratio}$$

<u>1972:</u>

$$\frac{8{,}993}{3{,}440} = 2.614$$

<u>1973:</u>

$$\frac{10{,}921}{5{,}299} = 2.060$$

As can be seen by the above computations, Airwick Industries has a good Current Ratio for both 1972 and 1973.

Figure 13

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES

1972 AND 1973

DEBT-EQUITY RATIO

(in thousands of dollars)

$$\frac{\text{Total Current Liabilities}}{\text{Total Equity (Net Worth)}} = \text{Debt-Equity Ratio}$$

<u>1972</u>: $\frac{3,440}{9,406} = 0.3657$

<u>1973</u>: $\frac{5,299}{11,637}$ 0.4553

As the above computations indicate, Airwick Industries' Debt-Equity Ratios for 1972 and 1973 are good.

shown in these Figures, the overall Airwick Industries' financial position as of December 31, 1973, is good and the company can be considered a profitable company. However, it should be noted that when Airwick purchased the Seablue Corporation in January of 1974, they depleted their cash fund by $4 million.

Airwick's Consolidated Statement of Earnings for the years 1969 through 1973 is presented in Figure Fourteen. From the information contained in this Statement of Earnings and the Consolidated Balance Sheet, Receivables Turnover Ratios for 1972 and 1973 with accompanying explanations and comments are provided in Figure Fifteen.

Computation of a price earnings ratio would be beneficial for the buyer's information; however, not enough information in the case study is provided to compute the ratio.

Figure Sixteen presents a computation of the percent of the actual annual increases in net earnings for the years 1969 through 1972. No doubt, CIBA-GEIGY would want to take the four-year average increase of 43 percent and project it out over a minimum of five years so they could anticipate possible future earnings flow.

Figure 14

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
(in thousands of dollars)

	Year Ended December 31				
	1969	1970	1971	1972	1973
Sales and other revenue					
Net sales	$12,376	$15,724	$21,855	$27,307	$33,024
Other revenue	205	203	312	466	772
	12,581	15,927	22,167	27,773	33,796
Costs and other charges					
Cost of sales	5,120	6,755	9,495	11,236	13,778
Selling & admin exps.	5,934	7,674	9,937	12,600	14,860
Interest exp.					
Long-term debt	53	45	46	47	59
Other	23	61	24	4	45
Misc. charges	42	40	35	98	71
	11,172	14,575	19,537	23,985	28,813
Earnings before income taxes	1,409	1,352	2,630	3,788	4,983
Income taxes	702	610	1,195	1,677	2,300
Net Earnings	$ 707	$ 742	$ 1,435	$ 2,111	$ 2,683
Avg number of common shares outstanding (Note 1)	3,062	3,071	3,205	3,399	3,457
Earnings per share of common stock	$0.23	$0.24	$0.45	$0.62	$0.78
Cash dividends declared on common stock (Note 2)	$0.08	$0.08	$0.09	$0.11	$0.15

Notes:

1. Earnings per share of common stock have been computed on the weighted average number of common shares outstanding in each year, after giving retroactive effect to the 3 and 2 stock split in 1972 and the 2 for 1 stock split and the reclassification on a share for share basis of Class A and Class B common stock for a single class of common stock in 1973 and retroactive adjustment for shares issued in 1972 in connection with the acquisition of King-Kratz Corporation in a pooling of interests.

Shares issuable under employee stock options and warrants are excluded from the weighted average number of shares in determining earnings per share on the basis that the dilutive effect is less than 3 percent.

2. Dividends per share of common stock have been computed on the number of shares outstanding at time of declaration, after giving retroactive effect to the changes described in Note 1. The pooled company paid no dividends.

Figure 15

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES

1972 AND 1973

RECEIVABLES TURNOVER RATIO

(in thousands of dollars)

$$\frac{\text{Net Sales}}{\text{Net Receivables}} = \text{Receivables Turnover Ratio}$$

1972:

$$\frac{27,307}{3,162} = 8.63$$

1973:

$$\frac{33,024}{3,884} = 8.50$$

This ratio measures the number of times accounts and notes receivable turn over (trade) during the year. The higher the turnover of receivables, the shorter the time between sale and cash collection.[8]

The above computation results indicate that receivables turned over 8.63 times in 1972 and 8.50 times in 1973. This is good.

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[8] RMA '78, p. 6.

Figure 16

AIRWICK INDUSTRIES, INC., AND SUBSIDIARIES

PERCENT OF ACTUAL ANNUAL INCREASE IN NET EARNINGS

1969 THROUGH 1972

(in thousands of dollars)

<u>1969</u>: $$\begin{array}{r} 742 \\ -\ 707 \\ \hline 35 \end{array} \qquad \frac{35}{707} = 0.0495 \text{ or } 5\%$$

<u>1970</u>: $$\begin{array}{r} 1,435 \\ -\ 742 \\ \hline 693 \end{array} \qquad \frac{693}{742} = 0.933 \text{ or } 93\%$$

<u>1971</u>: $$\begin{array}{r} 2,111 \\ -1,435 \\ \hline 676 \end{array} \qquad \frac{676}{1,435} = 0.471 \text{ or } 47\%$$

<u>1972</u>: $$\begin{array}{r} 2,683 \\ -2,111 \\ \hline 572 \end{array} \qquad \frac{572}{2,111} = 0.270 \text{ or } 27\%$$

$$\begin{array}{r} \hline 172\% \end{array}$$

172% divided by 4 years = 43% average annual increase in net earnings

CHAPTER III

ASSESSMENT OF CIBA-GEIGY TASK FORCE ACQUISITION CRITERIA

The following are student-prepared assessments and comments of how the candidate, Airwick Industries, meets or does not meet CIBA-GEIGY's Task Force Acquisition Criteria.

1. The candidate should participate in growing markets.

Airwick is obviously participating in growing markets as evidenced by the competition in the United States, specifically in the areas of Airwick Solid. The Institutional Division was competing in a growing market with Solidaire and other products which was estimated to be $500 million at the consumer dollar level or about $250 million in terms of factory dollars. Growth in the aquatic market area was also expected to continue.

2. The candidate should have a proprietary position in its market.

Airwick definitely qualifies as a candidate in this area with the majority of their products.

3. The candidate's operations should be likely to be favorably affected by CIBA-GEIGY's

know-how in the fields of research, development, manufacture, and marketing of complex organic chemicals.

Airwick's research, development, manufacturing and marketing of their product line definitely fall into the same category as some of CIBA-GEIGY's because of the fact that they are chemical-oriented.

4. The candidate's business should be product rather than service oriented.

All of Airwick's business is product rather than service oriented.

5. The candidate should have sales of $50 million or more.

With a top figure of $33,796,000 Total Sales in 1973, Airwick does not qualify as a candidate in this area.

6. The candidate should earn a good gross profit margin on sales.

Below is a computation of Airwick's gross profit margin on sales for the years 1971 through 1973. Computation is done using thousands of dollars.

<u>1969</u>:

12,376 (Net Sales)

<u>-5,120</u> (Cost of Goods Sold)

= 7,256 divided by 12,376 = 0.586 or 58.6%

<u>1970</u>:

15,724

<u>-6,755</u>

= 8,969 divided by 15,724 = 0.570 or 57.0%

1971:

21,855

-9,495

=12,360 divided by 21,855 = 0.565 or 56.5%

1972:

27,307

-11,236

=16,071 divided by 27,307 = 0.588 or 58.8%

1973:

33,024

-13,778

=19,246 divided by 33,024 = 0.582 or 58.2%

The gross profit margin tells management the ability of sales to generate earnings before any costs of business except goods are met. It is computed by subtracting Cost of Goods Sold from Net Sales. This difference is then divided by the Net Sales figure. The significant of the ratio itself shows the percentage by which selling prices can fall, and indicates the percentage by which cost of goods sold can increase, before gross profits vanish.[9] Therefore, the higher the percentage the better. From the computations above with resulting percentages, it is evident that Airwick has a good gross profit margin.

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[9] Christy and Roden, Finance, pp. 225-226.

7. The candidate should have the potential to yield a return on investment of 10 percent or more.

Below is a computation of Airwick's return on investment for the years 1972 and 1973. Computation is done using thousands of dollars.

<u>1972</u>:

$$\frac{2{,}111 \text{ (Net Profit)}}{9{,}406 \text{ (Total Stockholders' Equity)}} = 0.224 \text{ or } 22.4\%$$

<u>1973</u>:

$$\frac{2{,}683}{11{,}637} = 0.230 \text{ or } 23.0\%$$

Return on Equity or Investment tells how much the company is earning on funds contributed by stockholders after all expenses, including interest, have been met. It is computed by dividing Net Profit by Total Stockholders' Equity. The higher the percentage the better.[10] Therefore, from the computations above with resulting percentage, it is evident that Airwick has a return on investment well above 10 percent. However, to truly assess the actual picture of this rate, the Task Force should compare the Return on Investment rates of all the candidates within the industry.

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[10] Ibid., p. 228.

8. The probable purchase price should not exceed $250 million.

Airwick's total equity as of December 31,1973, was only $11,637,000; therefore, if CIBA-GEIGY purchased the company at book value which is equated by taking the number of shares outstanding into the Net Worth, it would cost them the Net Worth price with book value being $3.37 per share ($11,637,000 divided by 3,457,290 shares outstanding). However, since it has been shown that Airwick Industries is in a good financial position, it is doubtful it can be purchased anywhere near book value. However, without the information available to determine the current market price of the stock and its price earnings ratio, it is difficult to determine what the premium price per share would be. It could range from a low of $8.00 per share to a high of $15.00 per share which would equate to a range of $27,658,320 (low) to $51,859,350 (high). This is still below CIBA-GEIGY's high of $250 million.

CHAPTER IV

ASSESSMENT OF CIBA-GEIGY TASK FORCE AREAS OF ACQUISITION INTEREST

The following are student-prepared assessments and comments of how the candidate, Airwick Industries, relates to the CIBA-GEIGY Task Force Areas of Acquisition Interest.

1. The whole area of specialty chemicals is of interest to us. A definition of specialty chemicals would include among others, certain of the following characteristics:
   They are sold in moderate volumes, but at high per unit selling prices, at least two times raw material costs.
   They are usually sold under brand names, and are promoted to the end user based on performance specifications for what they do.
   They require a relatively high level of research and development, based on a knowledge of the customer's technology.
   Although gross profit margins typically run at least 50 percent of sales, heavy expenditures for marketing and research may yield only an average after tax margin on sales, but a high return on investment.

   The types of specialty chemicals we currently produce and others which could be of interest to us include such items as: specialty adhesives, biocides, moulding compounds, coatings, specialty cleaning products, flame retardants, intermediates for cosmetics, detergents, etc., chemicals for pretreating and finishing textiles, etc.

Airwick Industries can definitely be considered to be a company which handles specialty chemicals. This is verified by their products such as disinfectants, cleaners, insecticides, swimming pool products, and odor counteracting air fresheners, which are all developed and manufactured from a combination of various specialty chemicals.

As far as statistics on sales volumes and unit selling prices of products are concerned, this information was not provided in the study.

Airwick Industries does sell most of their products under brand names. They also closely monitor the performance specification requirements of their products and promote them to the end user based on their findings.

Because of the nature of Airwick's products, their Research and Development Department must continually perform their work based on the knowledge of their customer's technology.

As previously computed and explained, Airwick's gross profit margins for 1972 and 1973 were both above 50 percent. The company's Return on Investment Ratios for 1972 and 1973 were also well above that which the Task Force Acquisition Criteria required.

2. Proprietary pharmaceuticals and cosmetic and toiletry products.

None of Airwick's products fall into this category.

3. Animal health products, including feed additives and veterinary products.

None of Airwick's products fall into this category of animal health products.

4. Proprietary household and garden products such as those marketed by S. C. Johnson.

Airwick's Liquid and Solid Air Fresheners, On Guard, Cat Litter Deodorant Spray, and disinfectant spray all fall into the category of household products such as those marketed by S. C. Johnson.

5. Suppliers of products to the health care industry including disposable hospital and medical products, diagnostic aids, dental, and optical supplies.

Airwick's Institutional Segment's commercial products which were marketed to hospitals, nursing homes, schools, and motels contributed substantially to the division's sales and profits.

6. Products, processes and related services for the environmental industry; i.e., air liquid, and solid waste treatment. It should be noted that our interest in these areas is not in the equipment side, but our orientation is toward the chemicals and related services side.

Airwick Industries is not at this time involved in products for use by the environmental industry; however, if the company were acquired by CIBA-GEIGY, this may be an area to be investigated or worthwhile to be investigated.

7. Photo chemicals and related products.

Airwick Industries is not involved in photo chemicals and related products.

CHAPTER V

ASSESSMENT OF CONCLUSIONS AND RECOMMENDATIONS OF THE AIRWICK TASK FORCE

Following are student-prepared assessments and comments pertaining to the detailed conclusions and recommendations of the special Airwick Task Force from the CIBA-GEIGY Corporation. This special Airwick Task Force was established to look specifically at Airwick as a possible acquisition candidate whereas the overall CIBA-GEIGY Task Force looked at a large number of acquisition candidates. The Airwick Task Force also interviewed various Airwick Vice Presidents to obtain their views of a possible acquisition by CIBA-GEIGY.

1. Airwick is a profitable company whose earnings may have temporarily plateaued due to severe competition in the Consumer segment of their business.
2. Competition in the Consumer segment of the business will definitely restrict growth and reduce profitability of this segment in the immediate years ahead. Indeed, without a more carefully prepared marketing plan, a well-conceived new products program, and additional advertising expenditures, it will be difficult to achieve an increase in sales of much more than 5 - 6 percent annually.

The student agrees that Airwick is a profitable company and there is severe competition facing the

Consumer segment of the company. It is also agreed that there are some problems in this segment with regard to their marketing plan, advertising expenditures and new products. However, it is not felt that it is as grim as the picture painted above with regard to future sales and earnings due to some possible and recommended fixes.

For example, although the study indicates that Renuzit had recently eclipsed Airwick as the number one brand in air fresheners, research in the solid segment indicated that Airwick had maintained strength with an extremely high 92 percent consumer intent to repurchase after trying the product. This fact is encouraging.

Further, the three Airwick air fresheners accounted for 97 percent of the division's net sales in 1973 with 3 percent for three obvious losing products: On Guard, an automatically dispensed toilet bowl cleaner; Airwick Cat Litter Deodorant Spray; and a disinfectant spray. Therefore, the division should completely drop the three losing products, at least until such a time when the segment is back on its feet or research improves the products. The advertising expenditures budgeted for promoting these three items should be used to further promote the three air freshener products.

The idea of Airwick producing private solid air fresheners for chain stores is a good idea. The resulting elimination in the competition and gain in factory volume will also help the Consumer segment's sales picture for the future. This move will also cut down on advertising costs.

Since Mr. MacKinnon and the Airwick Task Force discuss this Consumer segment problem again and again, it might be wise if they obtained an outside consultant to provide them with further analyses and guidance on this situation. Their products are too good to just give up on them. Further, if it should be found that the segment is lacking in management experience, then they should take necessary action to correct this deficiency.

> 3. The Institutional Segment of Airwick (Airkem Institutional Division) is in excellent shape. They have good management, good products, and a good marketing program. They participate in a large, fractured market where the leading competition is estimated to have only 8 percent share of the market as compared to an estimated 5 percent for Airwick. There is good potential for this division.

Basically this is a valid assessment; however, the 31 percent of division sales from the branch offices is not good when looking at their high overhead expense.

> 4. The International Segment appears to be a profitable part of Airwick in terms of contribution as a percent of revenues. Current growth rates can most likely be maintained.

Distribution of Airwick Solid should continue in the European retail market since the competition is less severe than in the United States and the pre-tax margin savings is an advantage. This market area is also obviously wide open at this time and an opportune time for Airwick Solid to get a good hold on the market.

5. While the Aquatic segment appears to be healthy, it does not appear to be the kind of business that would normally be attractive to CIBA-GEIGY.

Although the Task Force feels the Aquatic Segment appears healthy, it definitely is not related to the Airwick product line. If the company could sell this segment for a profit, it would be wise to consider doing so.

6. Airwick's present financial position is difficult because of a need for cash. At year-end 1973, the company had only a minimum of debt outstanding, but as of May 7, 1974, it had $8 million in short-term loans outstanding paying prime interest rates. The cash shortage seems to have been caused by the recent acquisition of the Seablue Corporation for $4 million in cash; the necessity of building inventories for the Aquatic segment of the business, which is seasonal, and the turndown in Airwick's Consumer business over the last nine months.

One of the big mistakes made by Airwick was the purchase of the Seablue Corporation with cash which they could have more wisely appropriated to the enhancement of Airwick's other segments. In other words, the Airwick Comptroller apparently became overly zealous with what appeared to be a cash-rich position and made an acquisition for an acquisition's sake rather than making an acquisition for the overall betterment of the company.

Airwick had short-term funds available in the form of cash but acquisitions should be made with funds that are more of a permanent nature like retained earnings, long-term debt, etc. Basically, they spent cash which is a relatively short-term phenomenon for most businesses for a company which is by anyone's standards a long-term investment. They made the classic mistake of supporting a long-term investment with short-term funds and thereby allowed themselves to be put into a position of becoming an acquisition candidate themselves. CIBA-GEIGY is not in this same position; therefore, they could afford to use cash to purchase Airwick.

> 7. Production is relatively simple and efficient. While the new St. Peters plant is impressive, the Carlstadt, New Jersey, plant is overcrowded and needs immediate relief.

Unfortunately, there is no information in the study to verify or contradict this statement. However, any acquiring company does not look at the bricks and mortar when looking at an acquisition candidate. In other words, spending a lot of money on fancy buildings is not the key issue in an acquisition of this nature--

it is the product that is the important area and the overall financial position of the company.

8. The research and development activity appears to be suffering from under-funding and a lack of direction.

Information in the study does not significantly verify this statement. However, if it is felt there is a problem, it is suggested they obtain the services of an outside consultant, upon acquisition, to straighten out the problems or hire a new head of the department who is more qualified for the position. Furthermore, higher management should become more involved in this area and monitor the situation and direction until they feel it is operating in accordance with overall company policies.

9. Airwick appears to be highly people oriented. The president addresses a substantial number of employees by their first name and seems to know a great deal about them. This personal attention is reflected in their benefit programs which appear to compare favorably with those of CIBA-GEIGY.

This appears to be a valid assessment although the case does not verify the information concerning the president's relationship with the employees. The fact that the benefit programs compare favorably could be considered a selling point for the possible acquisition.

10. Potential syngergisms:

a. Madison Laboratories has personnel

with marketing skills which may help Airwick; Airwick has the sales organization which Madison Laboratories lacks.

With the information provided in the study, it appears that Airwick does not, in fact, have a Sales Department per se. This is pointed out on numerous occasions in the case; for example, Airwick has always formed out its sales function to outside sources through various manufacture representatives, brokers, etc. At one point, Airwick reverted to using one of the best known firms, Lever Brothers, to market their products. This tactic apparently did not help Airwick's situation, however.

Further, Madison Laboratories has enough problems to cause concern for a spin-off; therefore, it would not be advisable to task them with any new responsibilities. Madison Laboratories is also too far removed and too small to tackle an entire company like Airwick.

Therefore, the suggested rationale of either of these areas helping the other would be a false assumption in reality.

b. CIBA-GEIGY has money which Airwick needs to grow.

This may be true, but it would not be wise for CIBA-GEIGY or any other company to make an acquisition with the purpose being to throw money into the new acquisition. An acquisition should be able to pay for itself. If not, the parent company should definitely analyze the causes before throwing in a great deal of extra monies.

c. CIBA-GEIGY has available space and equipment which may be useful to Airwick.

There is no information in the study to verify the need for CIBA-GEIGY to seek a source for unused space, nor that Airwick requires extra space.

d. CIBA-GEIGY's chemical ability and research facilities could improve Airwick's products and provide Airwick with a better research and development effort with little increase in incremental costs.

This appears to be a valid assessment and a positive factor for acquisition.

e. CIBA-GEIGY's Agricultural Division has products which could be marketed by Airwick.

This is no information whatsoever in the case study to confirm this point.

11. A savings of $1 million in Airwick's overhead could be achieved which would add to the return of any contemplated investment in Airwick.

This statement cannot be verified as there is no information in the study concerning any Airwick overhead problems.

CHAPTER VI

ASSESSMENT OF QUESTIONS RAISED BY MR. MACKINNON AND THE ACQUISITION TASK FORCE

This chapter contains additional questions raised by Mr. MacKinnon and the Acquisition Task Force. The questions will be summarized and accompanied by a student-prepared assessment.

Household Products

1. Mr. MacKinnon and the Task Force were not yet firmly decided whether or not CIBA-GEIGY should be in the household products business.

This is one of the questions or decisions that the Task Force or top management should have answered early in the acquisition program. Further, since the Task Force previously talked to various vice presidents in Airwick regarding a possible acquisition, they to some degree have already committed themselves to the household products area. Furthermore, the case study points out that Mr. MacKinnon was interested in household products from the very beginning. Also, someone apparently was quite interested since a special Airwick Task Force was established.

2. It was also not clear to Mr. MacKinnon

and the Task Force if Airwick Industries was the best vehicle for developing a position in the household products area if in fact they decided to enter that area.

The study does not provide any information on the other candidates; therefore, a complete assessment cannot be made with regard to this statement. However, it has been determined that Airwick Industries can be considered a profitable company with growth potential and can probably be purchased well below the $250 million limit of CIBA-GEIGY.

<u>Other Possible Mergers</u>

3. During this same time frame in 1974, CIBA-GEIGY was just completing a tender offer for a majority of the shares of a hybrid seed company and was holding discussions with two other acquisition candidates complementing other areas of CIBA-GEIGY's business. Therefore, although it was believed these diversifying acquisitions, if consummated, would not eliminate the possibility of further acquisitions, there was concern that post-merger problems would consume more top management time and corporate funds than currently expected.

It is unwise for any company to have more than one acquisition plan in work at one time . If a company does have more than one acquisition plan in work, then top management should have control of the entire situation at all times to make final decisions to preclude premature proposals or offers and relating devastating results. Once an acquisition or merger is consummated, top management continues to be involved to get things off dead center and on the right track. Once that is achieved, general management should take over.

It appears that in this case, there are apparently too many so-called people in charge heading in different directions without anyone or any one group in control.

Policies

4. The study states that after the merger of CIBA and GEIGY, the group decided that consumer product markets should be considered an appropriate area for growth. However, the company allowed each subsidiary to decide for itself if they felt it was worthwhile entering into any of these consumer markets.

Top management should be making this type decision for the subsidiaries based on recommendations from the subsidiaries themselves. This will allow top management to maintain control and continuity over all subsidiaries as well as institute their own established company policies. If in fact, the group decided that consumer product markets were to be considered an appropriate area for growth, then each subsidiary should execute a study in this area or an outside consultant team should execute a study subsidiary-wide and provide recommendations on the feasibilities or nonfeasibilities to the group. From this, a top management decision can be made.

This statement provides further background to

Mr. MacKinnon's doubts and the Task Force's doubts about whether or not they should consider entering the consumer area. It points out that Mr. MacKinnon and the Task Force have not, apparently, been communicating with top management or they would have been aware of this basic company desire to entire the consumer area.

<u>Madison Laboratories</u>

5. CIBA-GEIGY was so concerned with the problems in the Madison Laboratories Division that they were considering divesting it. In fact, by the time the Airwick study was presented, CIBA-GEIGY had already held three sets of discussions with companies interested in acquiring Madison. At the same time, they were suddenly concerned about where Airwick would fit in if they divested Madison Laboratories.

These questions or doubts all relate to the basic premise or perception that a decision was made early in the game to force-fit Airwick into the company. Consideration should have been given prior to this unwritten decision as to where it would fit into the organization. Furthermore, it was unwise thinking to begin with, because to reiterate: the thought of combining two supposed problem areas with the hope of success is poor management. The consultant team that was suggested earlier to be brought in for the purpose of determining the feasibilities and non-feasibilities of entering the consumer area would also be able to provide recommendations on possible areas of fit for different proposed products.

Consumer Segment

6. Mr. MacKinnon again elaborates on his concern that Airwick might have to develop a catch-up advertising program; that the softening United States economy was not an encouraging environment for nonessential consumer goods; and that heavy competition might be forthcoming in the European market if big consumer product companies decide to buy into the market with me-too products at a lower price.

To repeat comments and assessments already provided: an advertising analysis should be made to obtain the scope and depth of any suspected problems; poor-selling products should be dropped, at least temporarily and accompanying advertising monies spent on the good-selling products; private labeling contracts should continue to be encouarged; if the European market fills with strong competition after entry of the new products, private labeling should also be encouraged; the softening United States economy may have an effect on some Airwick products, but not as much as on a brand new product and research has shown that consumers are willing to repurchase Airwick products.

Aquatic Segment

7. Mr. MacKinnon now points out that although CIBA-GEIGY felt that Airwick's Aquatic segment was not a proper

> synergism for the company, Airwick President and Chairman expressed a feeling that a spin-off or straight sale of the segment would not be agreeable to them.

Again, this is further justification that it was unwise for CIBA-GEIGY personnel to discuss a possible acquisition with Airwick personnel until a decision was made to attempt an acquisition. It appears that this acquisition has been too much in the seller's arena especially when the management begins dictating terms or conditions of what the eventual ownership can and cannot do before an actual offer has been given.

<u>Valuation and Negotiating Strategy</u>

8. After the decision was made that Airwick could be acquired for the right price, and that a tender offer was to be the approach, the valuation issue became a prime concern. The price of Airwick's shares held steady around the $8 level during the first quarter of 1974. However, as the negotiations began to enter final stages, the shares ran up to almost $10 per share. Mr. MacKinnon felt this was caused by the fact that information regarding potential merger negotiations had somehow leaked to the financial community and Airwick was being actively courted by other potential acquirors.
   Another area of concern posed by Mr. MacKinnon involved what they felt was a difficulty in establishing a value for the discrete parts of Airwick's business and the joint-use assets of several of the divisions.
   In determining their offer, CIBA-GEIGY was also concerned about the fact that Airwick Industries had a stock option and bonus program for its management

employees, and CIBA-GEIGY did not have stock options. There was also a question of whether to continue Airwick's bonus program. Furthermore, CIBA-GEIGY was attempting to arrive at an answer should the subject of written management contracts be brought up and requested during negotiations. CIBA-GEIGY had never written such contracts with its key employees.

In reply to the above, first of all, there are basic steps to follow in order to arrive at an appropriate range for a possible acquisition. One of the primary steps is to look at the trading spread or market value of the common stock outstanding of the company (acquisition candidate) during the past twelve to twenty-four months.

Furthermore, a value is determined on the basis of overall performance of the company, specifically its earning power because under normal circumstances, one of the reasons for seeking an acquisition is the intention that the acquisition will produce sufficient income to pay for itself. Therefore, CIBA-GEIGY's concern regarding establishing a value based on the discrete parts of Airwick's business and joint-use assets of the divisions is not applicable.

Figure Seventeen provides the price range of Airwick's common stock through the second quarter of 1974. It also shows the number of unexercised options held by Airwick's officers and directors. However,

Figure 17

PRICE RANGE OF AIRWICK'S COMMON STOCK*

1972 - 1974

	High	Low
<u>1972</u>:		
First quarter	$14.28	$9.12
Second quarter	21.88	13.78
Third quarter	24.81	17.50
Fourth quarter	23.38	18.68
<u>1973</u>:		
First quarter	23.63	14.13
Second quarter	19.38	13.38
Third quarter	24.38	15.88
Fourth quarter	23.88	8.50
<u>1974</u>:		
First quarter	11.00	6.50
Second quarter	13.00	6.00

* Adjusted to reflect a 3 for 2 stock split in May 1972 and a 2 for 1 stock split in February 1973.

Unexercised Options, All Directors and Officers, April 4, 1974

Number of shares	97,300
Average option price	$6.89

this stock price information is too vague to give the student an adequate basis for establishing a value of the stock.

What should be considered here in establishing the tender offer is the fact that Airwick's upper management personnel have substantial amounts of stock options available to them at a price of $6.89. They also have a bonus program and may request management contracts; common shares have jumped in price from $8 to $10 probably due to the fact that Airwick has let it be known that they are available for acquisition.

Additionally, the acquiror needs to realize that any company being acquired will opt for all of the benefits they can get. Furthermore, the acquiror should realize that it is beneficial to have the basic management of the acquisition candidate on their side. Therefore, CIBA-GEIGY needs to come up with a reasonable and fair bid, attractive enough to appeal to both shareholders in the market place and option holders.

If the tender offer is reasonable, attractive, and high enough, both shareholders and option holders will accept, and the bonus program will thus not be a problem.

Organizational Issues

9. Of final concern to CIBA-GEIGY was an organizational issue. Basically this concern was: If we buy this company, where will it fit?

This is a prime question which should have been addressed before initial consideration was given to acquiring Airwick Industries, much less in the final stages of negotiations. However, throughout the case, there are innuendos that CIBA-GEIGY had a decision made long before the Task Force was ever formed. This is verified by the fact that CIBA-GEIGY had conversations with Airwick concerning a possible acquisition before the Task Force came up with the final list of candidates.

Basically what CIBA-GEIGY needs to do and should have done earlier regarding the fit problem is sit down and analyze what areas in the acquisition candidate complement and which supplement CIBA-GEIGY. From such an analyses, or fit chart, the alternatives would present themselves as to the best fit.

Figure Eighteen provides a basic delineation of the key divisions of the CIBA-GEIGY Corporation and Airwick Industries. From this chart and the information provided in the case, it becomes apparent that although the basic congruence between the two companies lies in the relationship between CIBA-GEIGY's subdivision, the small consumer division or Madison Laboratories, and the Consumer segment of Airwick, it is not exactly a fit. This is due to the problems inherent in Madison Laboratories.

Figure 18

KEY DIVISIONS OF CIBA-GEIGY

AND AIRWICK INDUSTRIES, INC.

CIBA-GEIGY	Airwick Industries, Inc.
Agricultural	Consumer
Pharmaceuticals	Institutional
Plastics and Additives	International
Dyestuffs and Chemicals	Aquatic

Sub-Division:

Madison Laboratories

CHAPTER VII

CIBA-GEIGY ALTERNATIVES AND OPTIONS

In the final analysis, it would appear that CIBA-GEIGY basically has two alternatives or options with regard to the possible acquisition of Airwick Industries, Incorporated: they can either proceed with the necessary actions in order to purchase Airwick or they can stop negotiations and not purchase Airwick.

CHAPTER VIII

RECOMMENDATIONS AND CONCLUSIONS

There are pluses and minuses involved in the acquisition of any company. Very rarely is it possible to find an acquisition candidate which meets all of a company's desires or requirements. In the paragraphs below, the student will attempt to recapitulate some of the pluses and minuses and facts with regard to this acquisition case.

CIBA-GEIGY indicates they have funds available of up to $250 million for the purchase of an acquisition. Even if Airwick holds out for a high of $15 per share, which would mean a cost of $51,859,350 to CIBA-GEIGY, this figure is still well below their $250 million limit.

It is an advantageous time for CIBA-GEIGY to make a purchase with the United States dollar undervaluation to the Swiss Franc. As a matter of fact, the Swiss Franc basic buying equivalency to the American dollar was 32¢ as of the 21st of June 1974.

Furthermore, although Airwick does not meet CIBA-GEIGY's criteria with regard to total annual sales of $50 million, its total sales figure of $33,796,000 for 1973 is not that far away from CIBA-GEIGY's requirement to not make it a viable condidate.

In addition, it has been shown that Airwick's overall financial position is good. Their gross profit margin is good as is their return on investment percentage. As a matter of fact, both of these figures are above that required by CIBA-GEIGY in their acquisition criteria.

Other facts on Airwick's positive side are as follows: they are participating in growing markets with various proprietary specialty chemical products; they are a product rather than service-oriented business; their chemical produced products and related research and development and manufacturing processes complement CIBA-GEIGY; and they produce household consumer products which is an area which CIBA and GEIGY outlined as a potential growth area when they merged. The Swiss parent also has a small research program going in the household odor area which is a further indication that Airwick Industries would complement their plans.

Furthermore, since Airwick products are already being distributed in more than fifty foreign countries as well as through a CIBA-GEIGY French subsidiary and an Airwick British subsidiary, the Airwick products could also be further marketed through CIBA-GEIGY's foreign market channels.

Airwick's operating segments are doing well with the exception of a few advertising and marketing problems in the Consumer segment and an unrelated Aquatic segment. The problems in the Consumer segment are not insurmountable and recommendations have been stated by the student as to possible corrections. The Aquatic segment, on the other hand, is not truly related to Airwick or CIBA-GEIGY. Furthermore, the Seablue Corporation of this segment had a net loss of $48,950.00 for the period ended December 31, 1973. It is felt this is a minus area when it comes to the possible acquisition.

Based on the positive points delineated above and other points to follow, it is the student's recommendation that CIBA-GEIGY continue with the acquisition process of Airwick Industries. Granted Airwick is not a perfect acquisition for CIBA-GEIGY, but as pointed out, it has a lot to offer.

Furthermore, it is felt, as indicated earlier in this paper, that CIBA-GEIGY had decided to purchase Airwick early in the game. This was unwise management, as was discussing a possible acquisition with Airwick even before all acquisition candidates had been selected by the Task Force. It is therefore recommended that in future acquisition programs, CIBA-GEIGY should hire the services of an outside, more-qualified acquisition consulting firm. Such a firm would be able to provide more objective results. Further, such a firm would consist of more qualified individuals in the merger and acquisition field which was obviously missing in this case due to the fact that the only member of the Task Force who had any such experience was Mr. MacKinnon. Such a firm would also urge management to make the necessary decisions as to the type company and product area desired before the acquisition firm started looking for candidates. Such action would preclude the uncertainties and lack of exact direction witnessed in this case as well as management's conception of force-fitting an acquisition because of premature unqualified decisions.

As far as actual purchase is concerned, a tender offer is the appropriate approach. The offer should be approximately $12 or $13 per share which is mid-way between the low and high range of $8 - $15. This is a fair and reasonable offer and should be attractive enough to appeal to both the shareholders in the market place and the option holders. Further, it is felt that such a bid is appealing enough that the bonus program will not be a problem.

CIBA-GEIGY should avoid any commitments, however, with Airwick as to the Aquatic segment, because after a required detailed analysis is completed of this segment, and if it is decided it is best to spin it off, then CIBA-GEIGY should in fact do so, providing a profit is possible.

It is also recommended that CIBA-GEIGY complete, upon purchase, a detailed analysis of the marketing, R&D, advertising, and sales areas of Airwick so that all possible problem and weak areas can be identified and corrected. This analysis will also aid in the smooth absorption of the company into CIBA-GEIGY's overall management plan.

With regard to the actual fit of Airwick, it is definitely recommended that they not be put under Madison Laboratories. As a matter of fact, if Madison Laboratories is not divested, it may be beneficial to add them under Airwick's span of control. It is, however, recommended that an Airwick subsidiary headquarters be established in France to manage marketing and distribution of products in all of the foreign markets in the Eastern Hemisphere as well as maintain an Airwick headquarters in its present location, Carlstadt, New Jersey, to maintain present operations and promote further expansion in the Western Hemisphere area.

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