

## Guinness' Flawed Genius

'Happy 1987 from Guinness' is the cheery message on poster sites throughout the country. 'Unhappy 1987' is the message from Guinness' boardroom as £375,000 a year chairman and chief executive Ernest Saunders is sacked and three other directors quit in a scandal which shows just how perilous the City can be for its new found Sids and their money. It is the City's first big bang after Big Bang.

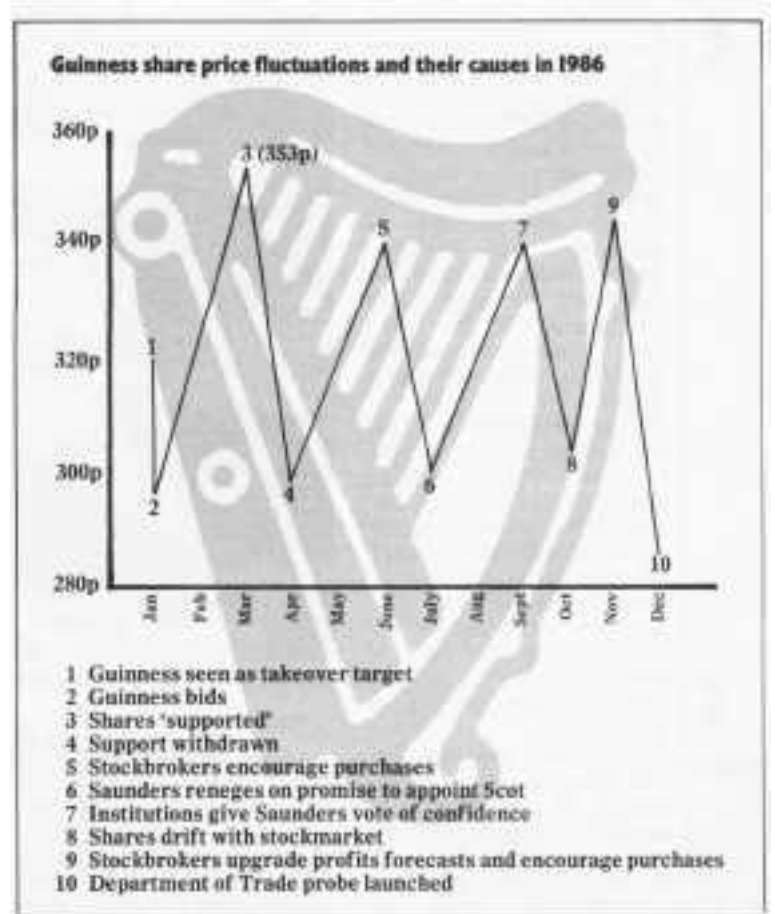
On December 1, 1986, Guinness entered its own Book of Records as the biggest company ever to be formally investigated by the Department of Trade. The DTI inspectors were following-up allegations of illegality in the Guinness takeover of the Distillers whisky and gin group, finalised in April 1986. They acted on a tip-off from the American Securities and Exchange Commission which has just fined Ivan Boesky £100m for insider trading. Boesky was a Distillers shareholder.

Since then, barely a day has passed without details of Guinness' secretive and sometimes allegedly illegal deals leaking out. Much of it reads like pulp fiction. There is a £200m slush fund, a 'war cabinet', a secret \$100m transatlantic deal and a covert support operation. There are bank accounts in London, Zurich Vienna, New York and elsewhere.

But it is not pulp fiction. It concerns £3billion, largely from pension and insurance funds. It also concerns the future of thousands of jobs in the Scotch whisky industry.

It is not immediately clear why a 200-year-old brewery whose products are more widely sold in the UK and Ireland than any other alcoholic drink should need slush funds and offshore bank accounts: funny money doesn't sell beer.

For the answer, go back to the early 80s. The champagne and claret quaffers of



the City then saw Guinness as a 'sleepy' declining brewery surrounded by a ragbag of 150 businesses ranging from sweets to canal boat holidays. What Guinness needed was management. It got that by headhunting Saunders from Nestle.

He 'rationalised' - cutting down, selling off and closing up parts of the business. He ditched the Guinness campaign in favour of the Genius campaign. Profits and the share price went up. But there is a limit to 'rationalisation', so the inevitable next stage is growth by takeover.

Cash now plays little part in takeovers. Besides creating a tax problem, bids are now so large that no company can afford the money. Instead of cash, the bidder now offers to swap shares in the target company with those of its own. They literally buy assets with paper.

Saunders, by now synonymous with Guinness in the City, flexed his muscles on a chain of newsagents and then took over the Arthur Bell

Scotch group in an acrimonious bid battle. In early 1986, when City gossip suggested that Guinness could itself be a takeover target, Saunders saw his chance of a deal that would treble both the profits and the total value of his company's shares. The giant Distillers group, which gave the world Johnny Walker, Gordon's gin and thalidomide was in a mess. Friendless in the City, at the end of 1985 it was fending off an unwelcome takeover challenge from Jimmy Gulliver's Argyll group.

Saunders, in secret talks with Distillers, secured their approval for a friendly merger, which was to be on his own terms. The worth of his bid depended entirely on the value of Guinness shares. At March 20 1986, the Argyll bid looked set to win, with the Guinness share price weak at 280p. Over the next fortnight Guinness shares moved to a peak 353p, a move that clinched the deal, putting Guinness' price for Distillers up from £2 billion to £2.5 billion

# FOCUS

at no cost to Guinness. At the time, the sudden share surge seemed inexplicable. Now it is obvious that Guinness was mobilising its friends and its bankers to 'support' and push up the share price. Methods ranged from indemnities through its bankers to guarantee the buy-back price of shares purchased, to the illegal purchase of its own shares. At the same time, Guinness was driving down the value of Argyll shares.

In the context of the mega-bid atmosphere of the past two years, which has made billion pound deals commonplace, it is stretching credulity to suggest that no other company has availed itself of similar opportunities. Guinness was only rumbled because Ivan Boesky found it more expedient to pay his \$100m fine and sing than to go to prison.

Government and the City will paint the Guinness episode as an aberration. It is seen as un-British. The BBC now surpasses *Private Eye* in its references to Saunders' pre-war Austrian origin and his decision to anglicise his name. The other directors to quit are respectively Swiss, French and American - a truly cosmopolitan crew who fail to understand English niceties.

But Guinness was not an aberration. It responded to the logic of what the City demanded and what the government condoned by its failure to refer the bid to the Monopolies Commission. Had Guinness not helped its share price up by 25% in late March 1986, its chances of winning Distillers would have been minimal. That would have been disastrous in the eyes of the City for Guinness' future, and calamitous for Saunders' image. The stakes were just too high to allow for failure.

Saunders' genius went so far, but the scale of the Guinness operation and degree of illegality slanted the odds against him. His nemesis was to be found out - not by the City or DTI - but by the tough regulators of the New York stock market. •

*Tony Levene*