

April 25, 2007

COMMENT FROM **breakingviews**

## KKR's Boots Bid Shows Power Of Insiders in U.K. Buyout Deals

April 25, 2007

KKR has got Boots almost in the bag. The U.S. buyout firm raided the U.K. retailer's shares, leaving KKR with a holding of 29%, including the stake of Deputy Chairman Stefano Pessina. That was enough to lock out a rival consortium led by financier Guy Hands, which has withdrawn.

Could Mr. Hands have overcome the obstacles Kohlberg Kravis Roberts placed in his way? He might have raised his conditional offer for Alliance Boots to well above KKR's £11.39 (\$22.79) a share in the hope that Mr. Pessina and KKR would change their minds and sell their shares. But he would have had to offer at least £11.50 -- and Mr. Pessina was unwilling to work with any other private-equity firm.

Alternatively, he might have settled for less than 75% of the shares. That, though, would reduce the leverage he could pile on Boots, and negate some tax perks. It would also give Mr. Pessina and KKR a powerful bully pulpit from which they could vote down any big changes that Mr. Hands proposed, or demand he buy them out at a high price.

Sound familiar? Resistance from a big shareholder and a reluctance to settle for fewer than 75% of the shares also defeated Blackstone Group's £12 billion consortium bid for supermarket group J Sainsbury. In both cases, the bidder wasn't prepared to accept the risk of a low return in order to bag the deal.


So what can future bidders learn from KKR's strategy? Well, if you're planning a public-to-private deal in the U.K., it helps to have an insider on board. It was Mr. Pessina's support that put Boots in play, since the board, had it rejected KKR's bid outright, might have inadvertently waved goodbye to at least two senior executives.

Mr. Hands also should have given some clue as to how he reached his valuation of Boots. Such secrecy might seem sensible to buyout firms that don't want to see their ideas stolen. But it means boards have little reason to take private-equity bidders seriously, and investors have little reason to feel they're losing out.

### ABN Amro

**ABN Amro Holding** has placed a booby trap in the path of **Royal Bank of Scotland Group** by agreeing to sell its U.S. subsidiary to **Bank of America** without a shareholder vote. After all, the consortium assembled by the U.K. bank only wants to bid for the whole of ABN -- not three-

### DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: [www.djreprints.com](http://www.djreprints.com).

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

quarters of it. But the device may yet blow up in the Dutch bank's hands.

ABN's shareholders aren't likely to take kindly to being deprived by the bank's management of the chance to receive a higher bid than the one **Barclays** is promising to propose. Chris Hohn's TCI -- the hedge fund that put ABN in play by demanding a breakup -- already has fired a broadside. Mr. Hohn is demanding that ABN disclose the circumstances under which the sale to Bank of America could be revoked.

It also doesn't help that Barclays's offer has slid in value since the deal was announced. The value of its bid was less than €4.50 (\$46.84) an ABN share yesterday, including the final dividend of 60 European cents. The stock closed at €5. Analysts have hazarded that the RBS consortium could pay as much as €40 a share.

The bid's value may be slipping because of what is known as the winner's curse. ABN's booby trap has increased the likelihood of Barclays buying ABN. That, in turn, makes it less likely that the British bank will be on the receiving end of a bid. What's more, it prompts questions about whether promised synergies can be delivered. The offer only stacks up if Barclays can deliver the substantial cost savings and revenue enhancements it has promised. If it cannot -- or, rather, if investors are unconvinced -- Barclays shares will slide.

Much has been made of the good price that Bank of America is paying for LaSalle, the U.S. bank that ABN is selling. But what really matters to its investors is what Barclays will pay for the whole group -- LaSalle proceeds and all. And the more modest that number is, the harder it is for ABN to keep resisting a rival bid.

### **Hedge-fund pay**

"A lot of little crumbs." That was how Tom Wolfe described the income stream of finance professionals in his novel "The Bonfire of the Vanities." Industrialists bake the cake, but the bankers, dealers and asset managers slice it up and pass it around. Their reward is keeping the crumbs as they drop.

For the 25 best-paid hedge-fund managers of 2006, those crumbs looked more like great big golden cakes. Their average income was \$570 million, up 57% over 2005, according to Alpha Magazine. The average was helped by three billion-a-year men: James Simons of Renaissance Technologies, Kenneth Griffin of Citadel and Edward Lampert of ESL. But it took a cool \$240 million income just to get into the top tier.

Leading industrialists can't keep up with these market titans. The full numbers for 2006 aren't available yet, but the average 2005 income for the top 25 bosses of U.S. companies was \$75 million. That may sound huge to the average worker, but it is almost mediocre in the hedge-fund world. The 2006 numbers will be higher, but consultants Equilar expect only a 6% increase in the average reward for the chiefs of the top 500 companies.

Financiers have almost always made more money than producers. That's one reason that money-lending got such a bad reputation. But the current gap seems particularly wide. It also is particularly hard to justify. Most of the great financiers of the past -- Andrew Carnegie, the Rockefellers and the Morgans -- made at least some of their fortunes from arranging the construction of real industrial enterprises.

In contrast, few top hedge-fund managers have strayed far from the confines of the secondary markets. Those are zero-sum games, in which every winner is matched by a loser. So one man's large crumbs are everyone else's slightly smaller slices. All praise, then, to Mr. Lampert, who started his fortune on the trading floor but is now trying his hand at running Sears, the U.S. retailer.

--John Foley, Mike Verdin and Edward Hadas

- This column is written by [breakingviews.com](http://breakingviews.com)<sup>1</sup>, an online financial commentary site.

**URL for this article:**

<http://online.wsj.com/article/SB117744962991581033.html>

**Hyperlinks in this Article:**

(1) <http://breakingviews.com>

**Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved**

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).