December 27, 1995

To Our Clients:

Mergers, Takeovers and Proxy Fights:
The Outlook for 1996

At this writing the outlook for 1996 is continuation of the high volume of merger activity we experienced in 1995.

We can also expect a continuation of the Kerkorian-Chrysler and Le Bow/Icahn-RJR Nabisco type of proxy fight activity and the related Michael Price-Chase Bank type of pressure on a company to restructure or be acquired.

Most of the 1995 merger activity consisted of friendly negotiated strategic acquisitions. The underlying fundamentals that gave rise to the 1995 deals appear, at year end, to be even more conducive to increased activity. Interest rates are down and further cuts are expected. Lower interest rates mean higher stock valuations, both in the market and in a discounted cash flow analysis. Banks have excess liquidity and are avidly seeking loans. Corporate debt to equity ratios are conservative and earnings and cash flows are increasing. LBO funds have raised huge amounts of cash which have yet to be invested. The desire to reduce costs through horizontal mergers and the need to remain competitive by accessing new markets or through vertical integration will also continue to fuel merger activity in 1996. Lastly, there has been a change in attitude in the boardroom: The directors of major companies like IBM, Johnson & Johnson and Wells Fargo are today willing to approve a hostile takeover bid if it is a "strategic imperative."

While the fallout from the type of strategic mergers we are experiencing can be hard on employees and communities that are "downsized," it is clear that they are a competitive necessity and result in greater ability to compete and higher productivity and profits. There does not appear to be any basis on which to argue against them or curb them.

Not so, however, the kind of proxy fight activity represented by the Chrysler and RJR Nabisco situations. Here corporate raiders are attempting to gain control of major corporations for personal gain and without any assurance that all shareholders will be treated equally and receive an appropriate premium. Combined with the power of institutional investors and the activities of Michael Price and similar activist investors, this new style corporate raider may presage a period in which a proxy fight or the threat of a proxy fight is a significant destabilizing factor in corporate life.

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