

P264

File

The Dyson-Zisner-Moran Corporation

March 8, 1984

Memo To: FILES BLACK BOOK
From: Steven D. Hollopeter
Subject: Household International
Prospect Heights, Illinois

CONFIDENTIAL

This memorandum is an evaluation of the economics of acquiring Household International at the request of John Moran.

It will be recalled that Household International is comprised of four business groups. The Financial Services Group includes Household Finance Corp. (HFC), which is one of the nations largest diversified financial service companies. HFC provides a broad range of financial services including personal loans, real estate, secured loans, consumer banking, income tax services, consumer education, leverage leasing, and commercial financing. The Merchandising Group includes the the Vons chain of supermarkets, several general merchandise chains, home furnishings stores and two wholesale distribution companies. The Manufacturing Group includes the Wallace Murray Companies and the King Sealy Thermos Company. The Transportation Group includes the National Car Rental System, a small airline and a portable dredge leasing operation.

Financial results are as follows: (FYE 12/31)

	<u>Sales, \$MM</u>	<u>Operating Income, \$MM</u>	<u>Net Income, \$MM</u>
1983	7,911.9	860.9	206.4
1982	7,767.5	746.9	123.4
1981	7,290.0	837.1	142.2

A summary of the financial results for each business group is provided in Attachment I. The Balance Sheet as of December 31, 1983 is as follows:

Moran EXHIBIT 4
FOR DISCUSSION
3/4/84

A00923

CONFIDENTIAL

SMM

<u>Assets</u>	
Cash	50.7
Investments in Securities	647.9
Finance Receivables	4541.6
Trade Receivables	346.1
Inventories	873.9
Revenue Earning Vehicles	608.1
Property and Equipment	880.0
Goodwill	202.5
Other	<u>295.2</u>
Total Assets	8446.0
 <u>Liabilities & Equity</u>	
Short Term Debt	1070.3
Customer Deposits	419.3
Payables	1172.2
Insurance Reserves	322.9
Capital Leases	167.6
Long Term Debt	3442.6
Other	<u>248.8</u>
Total Liabilities	6843.7
Convertible Preferred	172.7
Other Equity	<u>1429.6</u>
Total Liabilities & Equity	8446.0

Household has 58.9 million common shares (fully diluted) trading on the NYSE at a current price of about \$26 per share. This price is about 7.4 times 1983 earnings and about 0.95 times book value. Household paid a dividend of \$1.68 per share in 1983 which equates to about a \$0.26 per share carrying cost at the current price.

Acquisition economics are evaluated assuming 100% of Household's common stock is acquired for \$32 per share (25% premium) and the finance, merchandising and transportation businesses are immediately sold. Assumption's relating to the sale proceeds from each business group are summarized in Attachments II and III. The economics are as follows:

A00921

CONFIDENTIAL

-3-

	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
<u>Acquisition Economics:</u>			
Purchase Price (\$32/sh.)	1888	1888	1888
Total Debt	4700	4700	4700
Sale Proceeds-Fin.	(4586) ¹	(4733) ²	(4910) ³
Sale Proceeds-Merch.	(682) ³	(682) ³	(682) ³
Sale Proceeds-Transp.	(830) ¹	(360) ²	(945) ⁴
Net Capital	490	313	51
Operating Income	66	66	66
Pre-Tax Income	13%	21%	129%
<u>Debt Coverage:</u>			
Cash from Operations	92	92	92
Interest Expense (13%)	(64)	(41)	(7)
Est. Tax (46%)	(1)	(12)	(27)
Capital Expenditures	(29)	(29)	(29)
Net Available for Debt	(2)	10	29

¹ 8 x 1983 Net Income plus debt.
² 9 x 1983 Net Income plus debt.

³ 10 x 1983 Net Income plus debt.
⁴ 12 x 1983 Net Income plus debt.

Case 1 assumes the financial services and transportation businesses are sold for 8 times earnings and the merchandising business is sold for 10 times earnings. This results in a 13% pre-tax return and it would be difficult to service the acquisition debt. Case 3 is based on value line averages assuming the finance and merchandising businesses are sold for 10 times earnings and the transportation business is sold for 12 times earnings. In this case, an acquirer would own the manufacturing businesses outright in two to three years time. It should be noted that the purchase price assumes 100% of the stock is purchased. If DKM were to implement this transaction, the purchase price would be reduced by about \$97 million because it already controls about 2.98 million shares of Household International.

If the earnings multiples assumed in Case 3 can be achieved, this would be a very attractive deal. I recommend that we pursue this idea further.

JAL
SDH

SDH/mr

A00925

Household International, Inc.
Business Segment Data

CONFIDENTIAL

Financial Services

<u>Year</u>	<u>Sales, \$MM</u>	<u>Operating Income, \$MM</u>	<u>Operating Margin</u>	<u>Net Income, \$MM</u>
1983	1,161.1	601.3*	51.8%	146.9
1982	1,049.7	593.1*	56.5%	127.1
1981	994.7	533.8*	56.5%	66.5

Merchandising

1983	5,307.5	110.3	2.1%	39.6
1982	5,310.1	48.8	0.9%	3.5
1981	5,080.0	140.5	2.8%	55.3

Manufacturing

1983	807.6	70.9	8.8%	22.0
1982	759.5	42.0	5.5%	13.4
1981	573.1	70.0	12.2%	33.4

Transportation

1983	637.5	96.8	15.2%	29.6
1982	648.2	80.5	12.4%	17.1
1981	632.2	107.0	16.9%	22.6

*Excludes interest expenses of \$330.3, \$375.3 and \$433.5 million respectively

Memo: Corporate Administration expenses were \$13.4 million in 1983.

A00926

Household International
Financial Summary

CONFIDENTIAL

	Business Segment Data: 1983				Total ⁽¹⁾
	<u>Fin.</u>	<u>Merch.</u>	<u>Mfg.</u>	<u>Transo.</u>	
Operating Income	601	110	71	97	860
Depreciation	<u>8</u>	<u>54</u>	<u>26</u>	<u>143</u>	<u>231</u>
Cash from Operations	609	164	97	240	1091
Capital Expenditures	<u>(12)</u>	<u>(70)</u>	<u>(29)</u>	<u>(230)</u>	<u>(341)</u>
Pre-Tax Cash Flow	597	94	68	10	730
Net Income	147	39.6	22	29.6	206.4
Book Value-Equity	793	541	445	241	1602
Debt	3410	282	90	590	4700

(1) Includes effects of corporate overhead charges.

A00927

Household International
Sale Proceeds, \$MM

	Case 1		Case 2		Case 3	
	Fin.	Merch.	Fin.	Merch.	Fin.	Merch.
Equity	1176	400	1323	400	1500	400
Debt	3410	202	3410	282	3410	282
Total	4586	682	4733	682	4910	682
Operating Income	601	110	601	110	601	110
Pre-Tax Return	13%	16%	13%	16%	12%	16%
P/E	8X	10X	9X	10X	10X	10X
Book Multiple	1.5X	0.7X	1.7X	0.7X	1.9X	0.7X
Operating Income	1.0X	1.2X	1.0X	1.2X	0.9X	1.2X
Interest Exp.						
Trans.	240		270		355	
	590		860		590	
	830		97		945	
	12%		11%		10%	

CONFIDENTIAL