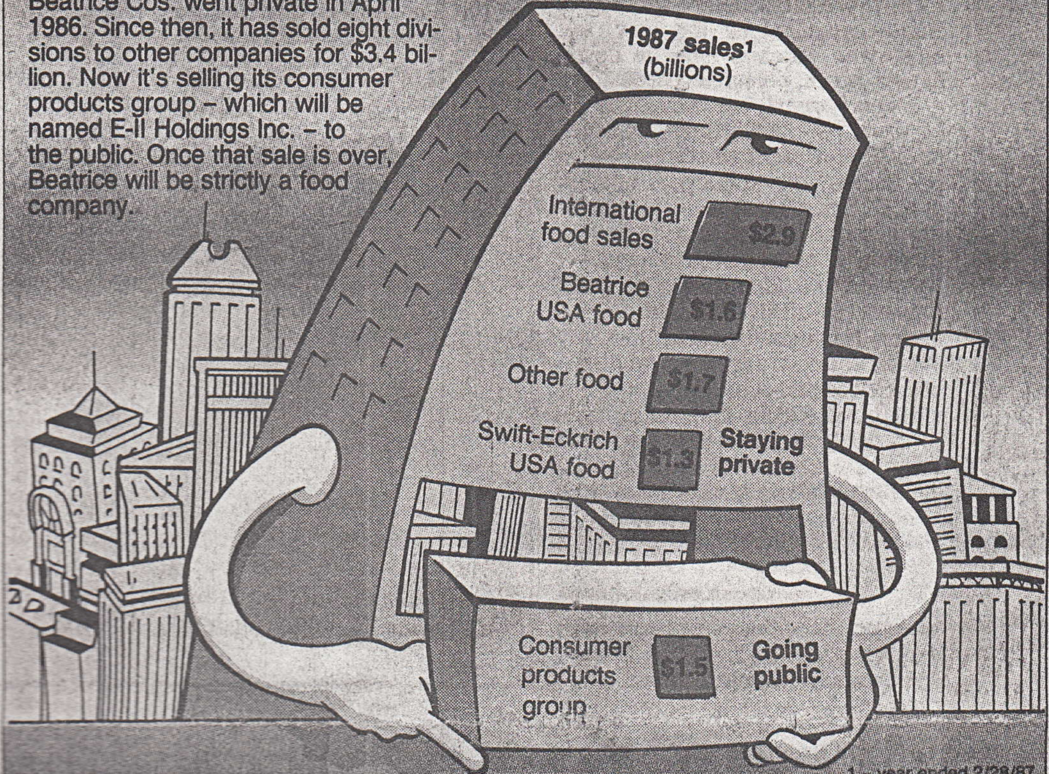
Beatrice sells non-food biz

Beatrice Cos. went private in April 1986. Since then, it has sold eight divisions to other companies for $3.4 billion. Now it's selling its consumer products group – which will be named E-II Holdings Inc. – to the public. Once that sale is over, Beatrice will be strictly a food company.



Source: Beatrice Cos.

1 – year ended 2/28/87

They're not Beatrice

Holdings sold since going private in April 1986:

Unit	Price
Personal products (including Playtex, Max Factor, Halston)	$1.15 billion
Some Coca-Cola bottling operations	$1 billion
Americold warehouses	$480 million
Dairy operations	$315 million
Avis	$250 million
Webcraft printing	$223 million
Knitwear (including Danskin)	$14 million

Source: BCI Holdings

By John Sherlock, USA TODAY

COVER STORY

A smaller spinoff goes public in June

DONALD KELLY: He remains chairman, but not CEO, of Beatrice

By Jay McCormick
USA TODAY

The latest chapter in the Beatrice Cos. saga opened late Wednesday with dealmaster Donald P. Kelly leaving the consumer products giant to run a smaller firm.

The new company — E-II Holdings Inc. — will be formed out of privately held Beatrice's non-food operations, plus a few of its smallest food units. Beatrice plans to sell shares of the company to the public in June.

The spinoff announcement comes just 13 months after Kelly helped wrap up a takeover of Beatrice. In April 1986, Kelly and financiers Kohlberg, Kravis, Roberts & Co. paid $50 a share — a total of $6.2 billion — to buy all outstanding Beatrice stock and make it a privately held company.

Kelly remains chairman of Beatrice, but not chief executive. His move pulls him away from a three-year period when his fortunes and Beatrice's became entangled, thanks to the overreaching ambition of former Beatrice Chairman James Dutt. The sale of E-II Holdings should take Kelly and KKR a big step closer to making a profitable success out of a Beatrice buyout that some on Wall Street thought was too heavy with debt to succeed.

Kelly put up $5 million and KKR and other partners put up $412 million more for the purchase. They issued preferred stock (later bought it back), bonds and borrowed from banks to cover the rest of the purchase price.

How their latest plan will work:

Please see COVER STORY next page ▶

Beatrice cleans cupboard

Continued from 1B

■ Kelly will leave his job as Beatrice CEO and become chief executive of E-II Holdings. Beatrice will sell 36 million shares in that company for $15 to $18 a share, raising a total of $540 million to $648 million. Kelly and KKR will control 49% of the new company. E-II also will sell $1.5 billion of debt. Out of these, Beatrice will get $800 million to help pay off its $4 billion-plus debt. Kelly's company will include such brand names as Samsonite luggage, Stiffel lamps and Rusty Jones car rustproofing and Martha White Flour. Those and other brands brought sales of $1.5 billion to Beatrice in the year ended Feb. 28, 1987.

■ The rest of Beatrice will remain private — for now. Frederick Rentschler, now Beatrice president, will replace Kelly as CEO. He'll have the task of running one of the largest USA food companies, with worldwide sales of $7.5 billion last year. Brands include: Tropicana orange juice, Wesson oils, Butterball turkeys, Orville Redenbacher popcorn.

■ KKR is expected to sell all or part of the food company, possibly later this year. It could fetch $5 billion or more. Including the sale of E-II Holdings and other Beatrice units, KKR and Kelly might be able to raise a total of more than $9 billion by breaking up and selling the company they paid $6.2 billion for. Their profit on the deal could approach $3 billion. That could mean a return of well over 600% on the $417 million investment Kelly and KKR set aside when they started after Beatrice in late 1985.

If it all works out, Kelly could switch from buying a new Cadillac or Mercedes every year to buying new Rolls-Royces. He owns 1.2% of Beatrice and could own as much as 7.5% if he exercises all of his options to buy more stock at cut-rate prices. That could mean a profit of more than $100 million for Kelly alone.

Despite the monetary benefits to KKR and Kelly of the E-II sale, some wonder why Kelly would leave his job as CEO of Beatrice to head the smaller firm.

And analysts wonder what Kelly will be able to do with E-II Holdings.

"There's such a mix of stuff there," said Stephen Carnes, an analyst at Piper, Jaffray & Hopwood Inc. in Minneapolis. "It runs from lamps to water softeners to luggage and everything in between. It doesn't have the straight-on marketing force" a more focused firm might have.

Others are bemused by the move but confident in Kelly's ability to make money out of almost any set of companies. Kelly could quickly whip the mishmash of unrelated companies into a highly profitable company, they say. And if he can't, he could sell the units and start over. Plus, he'll have $1.2 billion from the debt offering to shop for other firms.

"If Don Kelly is going to put his name on it, it will be a good company," said Dan Good, an investment banker at Shearson Lehman Bros. Inc.

The deal also gives Rentschler, 47, a chance to be chief executive of a major company instead of working for someone else. Known as an inspired marketer of foods, Rentschler will inherit the biggest part of Beatrice.

Though analysts and marketing experts praise the strength of Beatrice's food brands, Kelly leaves Rentschler with some tough challenges. Only a few of Beatrice's brands are market leaders. Wesson is the No. 1 vegetable oil, with a 27.6% share of the retail market, and Orville Redenbacher leads all other microwave popcorns, says the Infoscan service of Information Resources.

But Tropicana frozen orange juice, at 7.1% of the market, distantly trails leader Minute Maid and its 22.3% share. Hunt's tomato sauce was edged out by Contadina and Peter Pan peanut butter sales lag both Jif and Skippy brands.

"The (brand) leader is the one who will call a lot of the marketing and pricing shots," said analyst Carnes. Market leaders get the best shelf space in markets more often than other brands.

Then-Beatrice Chairman Dutt was hoping to improve his company's marketing clout and ability to grab shelf space in 1984, when he decided to buy Esmark Inc. In late spring 1984, Beatrice offered $2.7 billion for Esmark, where Kelly was chairman. The bid beat an offer Kelly and others made in hopes of making Esmark a private company.

Kelly left the company, saying he might retire so he could lower his golf handicap. He could have afforded that: He received a $2.7 million payment because he lost his job in a buyout. Before he left, Kelly held a meeting with stock analysts. He showed them a slide of a castle in Europe. "That's my home now," he said. "I call it 'On Golden Parachute.' "

Dutt lacked Kelly's sense of humor. His management style soon pushed out top managers including Rentschler and Joel Smilow — now chairman of International Playtex. That and other problems led the Beatrice board to fire Dutt in the summer of 1985.

By November, Kelly and Kohlberg, Kravis, Roberts & Co. had launched their attack on Beatrice. After more than a month of maneuvering, Beatrice's board agreed to the buyout and the deal was closed in April 1986.

Kelly — faced with $1.5 billion in bank loans that had to be paid within 18 months — wasted no time in tearing apart the conglomerate Dutt had built. Within nine months, he had raised $3.4 billion by selling Beatrice units. Among the sales: Avis for $250 million, some Coca-Cola bottling operations for $1 billion, Playtex and some cosmetic companies for $1.15 billion, and dairy operations, $315 million.

Contributing: Kevin Johnson

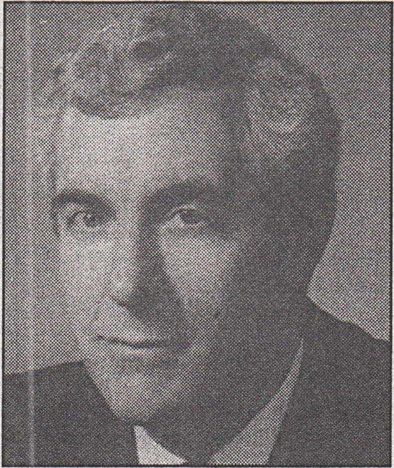
Beatrice cooking with new CEO

When food executive **Frederick Rentschler** was called in eight years ago to help a **Phoenix** museum market itself, he asked only two questions: "What can we offer the public?" "What are the ingredients?"

Rentschler won't need to change the wording for his new job. The 47-year-old chief operating officer of **Beatrice Cos.** will head the stew of food companies remaining after his pal and mentor, Beatrice CEO **Donald Kelly**, takes the non-food units public. Rentschler wasn't available to be interviewed about his plans, but his track record speaks volumes.

Food industry lore is rife with stories of how Rentschler spiced up morale and the bottom line at **Hunt-Wesson**, where he was CEO from 1980 to 1984. An avid barbecuer at his Arizona ranch, he demanded Hunt make a barbecue sauce to rival **Kraft's**. And he insisted Hunt's ketchup be thickened after seeing **H.J. Heinz Co.** poke fun at it in TV ads.

"He has tremendous marketing savvy," says **Ronald Morrow**, managing director and food analyst at **Smith Barney Harris Upham & Co.** "He did a lot for Hunt-Wesson."



RENTSCHLER: Tremendous savvy

Born in **Cincinnati** and reared in **New York**, Rentschler started as a salesman at **Armour Dial Inc.** and rose to president before moving to Hunt-Wesson. Along the way, say those who watched him, he developed a warm, personal style.

When **Esmark Inc.** bought Hunt-Wesson's parent, **Norton Simon Inc.**, in 1983 and required Rentschler to cut the payroll, employees initially dubbed him "Darth Vader." "But he did it so well he wound up getting more out of people, even though they knew they wouldn't have a job in six months," says **Bill Pfund**, former investor relations chief at Esmark. "He's very straightforward. He doesn't dog-and-pony you."

His people skills failed him, however, with former Beatrice CEO **James Dutt**, who forced Rentschler out after Beatrice bought Esmark in 1984. Kelly brought Rentschler back last year.

— **Kevin Johnson**

Insiders reported by Doug Carroll, Pat Guy and Andrea Stone