FILE NAME: CertainTeed (CERT)

DATE: 1962 Mar 29

DOC#: CERT062

DOCUMENT DESCRIPTION: Memo - CERT Negotiations to Acquire Keasbey & Mattison

[illegible]
March 29th [illegible]

KEASBEY & MATTISON COMPANY
AND
CERTAIN-TEED PRODUCTS CORPORATION

The present position of the negotiations for the acquisition by Certain-teed of the pipe plants of K. & M. Co. is as follows:-

1. Certain-teed will acquire the four Asbestos Cement Pipe Plants operated by K. & M. Co. at Ambler, St. Louis, Santa Clara and Hillsboro, i.e. the land, buildings and machinery, for which they would be prepared to issue to T. & N. (O) Ltd. (the owner of the K. & M. shares) 580,000 shares of common stock of Certain-teed.

2. Certain-teed would also pay for in cash the inventories of raw materials and finished goods relating to the pipe plants.

Economics of the Proposal

(a) From the point of view of Certain-teed

Certain-teed have in issue 2,553,690 common stock of the par value of $1, on which for the year to 31st December, 1961, they earned approximately $5,900,000 after taxes, which represents approximately $2.4 per share. In return for the issue of a further 580,000 shares for the K. & M. pipe plants etc. (exclusive of inventories) we estimate they would receive in net income, after taxes, $2,000,000 per annum, which represents approximately $3.3 per share. Certain-teed expect to earn $3 per share with their own business in the 1962 financial year, and before long to be earning $4 per share.

(b) From the point of view of K. & M. Co.

The book value of the net assets of K. & M. Co. at 30th September 1961 (after including the shares held in Certain-teed Products Corporation and Bestwall Gypsum Co. at approximate market value) was $25,014,000. We would receive 580,000 Certain-teed shares, which at to-day's market price are worth $29,000,000, and in addition, on liquidation of K. & M., we would receive the funds derived from the sale of the textile plant and conversion of the remaining assets into cash (after paying liabilities) and which we estimate would amount to between $5,000,000 and $6,000,000. If permission could be obtained Mr. Lizars would like us to use this money in the purchase of further Certain-teed shares.

If the proposals are accepted and Certain-teed issue an additional 580,000 shares to K. & M. Co., the T. & N. Group, with the shares which it already owns in Certain-teed, would have a holding of approximately 21%, and if the funds derived from the liquidation were used in the purchase of further Certain-teed shares, we could increase our holding to between 24% and 25% which, in effect, represents voting control.

Disadvantages from the T. & N. point of view

At the present time K. & M. Co. is a wholly-owned subsidiary and its profits are incorporated with those of T. & N. Ltd. The average profits of K. & M. Co., before taxes, which have been brought into the Profit & Loss Account of T. & N. Ltd. over the past five years amount to £726,309, and if the proposals are accepted our trading profits would be reduced by this amount and be substituted by an estimated dividend from Certain-teed, on the 580,000 shares they would issue, of $348,000, or, say, £120,000. Although the earnings on Certain-teed shares are approaching $3 per share, which, on 580,000 shares would represent $1,740,000, they have restricted their dividend to 60 cents per share, and we understand there is not much likelihood of an increase in the near future.

Against this must be set the fact that for the current year ending on 31st March, 1962, with the losses which will be incurred on closing down the Building Products Division, K. & M. Co. are unlikely to have any profit available for inclusion in the T. & N. consolidated accounts at 30th September, 1962.

29th March, 1962

G.T. pencil notes

1973 St Gobain [illegible]
[illegible] T & N made [illegible]
[illegible] purchase of 183,000 shares (£[illegible])
– T&N's holding = 13.4%.
1974 T & N [illegible] £7.[illegible] on [illegible]
later [illegible] £[illegible]
1976 [illegible] 12.7% interest to St Gobain [illegible]
$37.4

4/1055

KEASBEY & MATTISON COMPANY

Details from Accounts 1951 to 1962
(All figures in $1,000)

	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Pre-Tax Profits as certified by the Auditors	2,364	2,216	2,006	1,612	1,870	3,454	3,255	2,181	1,389*	1,823	1,520	387
K.& M.'s Pre-Tax Profits	2,327	2,282	1,970	1,579	1,893	3,473	3,344	2,255	1,317	1,867	1,520	176
Miscellaneous expenses not provided for in Departmental profit figures	413	162	1	97	12	38	287	353	1,020	669	720	886
Total of Departmental Profits	2,740	2,444	1,969	1,482	1,881	3,511	3,631	2,608	2,297	2,536	2,240	710
Building Products -												
Turnover	8,466	7,210	7,402	7,047	5,653	5,444	7,652	7,218	6,854	5,696	5,379	4,786
Profit or Loss	1,020	494	212	5	54	71	494	697	1,133	947	1,144	1,146
Profit %	12.1	6.8	2.9	0.7	0.9	1.3	6.4	9.7	16.5	16.6	21.3	24.0
Textile -												
Turnover	734	1,439	1,302	1,559	1,149	1,587	1,553	1,405	1,325	1,570	-	1,289
Profit or Loss	5	26	104	128	72	63	86	18	43	10	-	90
Profit %	0.7	1.8	8.0	8.2	6.3	3.9	5.6	7.8	3.2	0.6	-	0.7
Industrial Products -												
Turnover	5,063	5,950	5,212	5,729	5,032	4,750	5,119	4,766	3,807	3,751	5,067ø	4,086
Profit or Loss	830	965	571	493	372	178	320	64	316	572	706	538
Profit %	16.4	16.2	10.9	8.6	6.5	3.7	6.2	1.3	8.3	15.3	13.9	13.2
Pipe -												
Turnover	4,953	5,886	6,847	6,597	8,337	12,390	12,665	12,440	14,581	16,110	17,547	17,025
Profit	895	1,011	1,290	956	1,536	3,341	3,719	3,223	3,703	4,045	4,090	2,484
Profit %	18.1	17.2	18.9	14.5	18.4	27.0	29.4	~~26.4~~	25.4	25.1	23.4	14.6
								23	18.	19.	19	

* After including loss on sale of plant at Stockport (roofing paper manufacture) this figure becomes $1,193,000

ø Includes Textiles, for which separate analysis for 1961 not available.

9th February, 1962

KEASBEY & MATTISON COMPANY
AND
CERTAIN-TEED PRODUCTS CORPORATION

With the closing down of the Building Products Division of K. & M. Co., effective 10th February, 1962, the company will virtually become a one product company, i.e. Asbestos Cement Pipes. Mr. Rawson Lizars, the Chairman, and Mr. Malcolm Meyer, the President of Certain-teed Products Corporation, have expressed interest in acquiring the pipe plants from K. & M. Co. or alternatively the entire company, and meetings have recently been held in Manchester at which these two gentlemen were present. At the most recent meeting held in London on Friday, the 2nd February, Mr. Alan Russell, of Helbert, Wagg & Co. Ltd. and Mr. J. H. Thomson, of Messrs. Allen & Overy, were present.

Mr. Lizars was interested originally in acquiring the issued share capital of K. & M. Co. and becoming responsible for the cleaning up necessary following the closing down of the Building Products Division. He later indicated that he could not make an offer for the shares of the company in view of the anticipated poor profit record of K. & M. Co. this year and the publicity which would necessarily have to be given to the acquisition of the company by Certain-teed in the U.S.A. He therefore made an alternative suggestion which he has promised to submit in writing, on the following basis:-

1. Certain-teed will acquire the four Asbestos Cement Pipe Plants operated by K. & M. Co. at Ambler, St. Louis, Santa Clara and Hillsboro, i.e. the land, buildings and machinery, together with the Asphalt Roofing Plant at Perth Amboy, for which they would be prepared to issue to T. & N. (O) Ltd. (the owner of the K. & M. shares) 600,000 shares of common stock of Certain-teed.

2. In addition, if within two years they decided not to operate the Asphalt Roofing Plant they would dispose of it and pay to K. & M. Co. any excess received over $1,200,000.

3. Certain-teed would also pay for in cash at once the inventories of raw materials and finished goods relating to the pipe plants and the accounts receivable in connection therewith.

4. Certain-teed would act as the Managing Agent of T. & N. Ltd. in winding up K. & M. Co. and turning into cash the remaining assets.

Economics of the Proposal

(a) From the point of view of Certain-teed

Certain-teed have in issue 2,553,690 common stock of the par value of $1, on which for the year to 31st December, 1961, they earned approximately $5,900,000 after taxes, which represents approximately $2.4 per share. In return for the issue of a further 600,000 shares for the K. & M. pipe plants etc. (exclusive of inventories and accounts receivable) we estimate they would receive in net income, after taxes, $2,000,000 per

4/1056.7

annum, which represents approximately $3.3 per share. Certain-teed expect to earn $3 per share with their own business in the 1962 financial year, and before long to be earning $4 per share.

(b) <u>From the point of view of K. & M. Co.</u>

The book value of the net assets of K. & M. Co. at 30th September 1961 (after including the shares held in Certain-teed Products Corporation and Bestwall Gypsum Co. at approximate market value) was $25,014,890. For this we would receive 600,000 Certain-teed shares, which at to-day's market price of 48½ are worth $29,100,000. In addition, we would receive the funds derived from the sale of the textile plant and conversion of the remaining assets of K. & M. Co. into cash (after paying liabilities) and which we estimate would amount to between $5,000,000 and $6,000,000. If permission could be obtained Mr. Lizars would like us to use this money in the purchase of further Certain-teed shares.

If the proposals are accepted and Certain-teed issue an additional 600,000 shares to K. & M. Co., the T. & N. Group, with the shares which it already owns in Certain-teed, would have a holding equivalent to 21.., and if the funds derived from the liquidation were used in the purchase of further Certain-teed shares, we could increase our holding to between 24% and 25% which, in effect, represents voting control.

<u>Disadvantages from the T. & N. point of view</u>

At the present time K. & M. Co. is a wholly-owned subsidiary and its profits are incorporated with those of T. & N. Ltd. The average profits of K. & M. Co., before taxes, which have been brought into the Profit & Loss Account of T. & N. Ltd. over the past five years amount to £726,309, and if the proposals are accepted our trading profits would be reduced by this amount and be substituted by an estimated dividend from Certain-teed, on the 600,000 shares they would issue, of $360,000, or, say, £120,000. Although the earnings on Certain-teed shares are approaching $3 per share, which, on 600,000 shares would represent $1,800,000, they have restricted their dividend to 60 cents per share, and we understand there is not much likelihood of an increase in the near future.

Against this must be set the fact that for the current year ended on 31st March, 1962, with the losses which will be incurred on closing down the Building Products Division, K. & M. Co. are unlikely to have any profit available for inclusion in the T. & N. consolidated accounts at 30th September, 1962.