GAF file

BUSINESS

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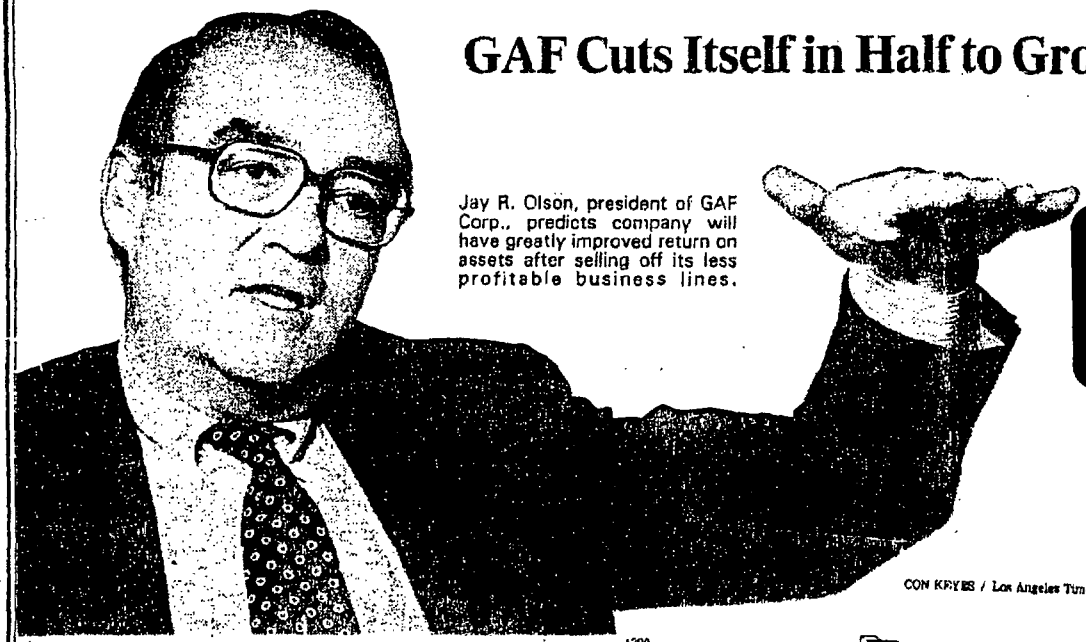
GAF Cuts Itself in Half to Grow



Jay R. Olson, president of GAF Corp., predicts company will have greatly improved return on assets after selling off its less profitable business lines.

CON KEYES / Los Angeles Times

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Phases Out of Photo Field to Focus on Roofing, Chemicals

By JOHN A. JONES, *Times Staff Writer*

GAF Corp., which started out as a photographic supply firm in 1842 and plans to sell off the last of its photographic business in two years, is betting on a housing boom in the '80s to bring profits from roofing and other building materials.

Building products will account for over half of GAF's sales; industrial chemicals will bring in the rest after the company has disposed of eight other business lines.

The massive restructuring program makes it difficult for GAF to estimate its 1980 earnings and sales, Jay R. Olson, president and chief operating officer, said in a recent interview here.

"Budgeting for 1981 is equally complex, because we have two companies going forward," Olson said. The eight business lines to be sold accounted for about $525 million of GAF's total sales in 1979. The two business lines remaining accounted for about $675 million. Those two businesses accounted for an estimated 90% of 1979 profits, however. The planned sale will virtually cut the company in half, trimming away the less-profitable business lines and keeping the ones expected to do best in the long run.

Loss Forecast

GAF has said that a $265-million reserve for costs of the sell-off will result in an overall loss for GAF when 1980 results are announced, but that profits should be up in 1981 and beyond.

For 1979, GAF reported net earnings of $28.2 million or $1.83 per share on sales of $1.213 billion. Profits were down 17.5% from 1978's, despite a 14% increase in sales.

The businesses to be sold include divisions that make vinyl flooring, vinyl siding, paper and millboard, automobile adhesives and paddings, pictorial products, including the View-Master picture viewer and toys, and a classical music radio station in New York City.

Also on the block is a photographic products plant that produces items primarily used by graphic artists.

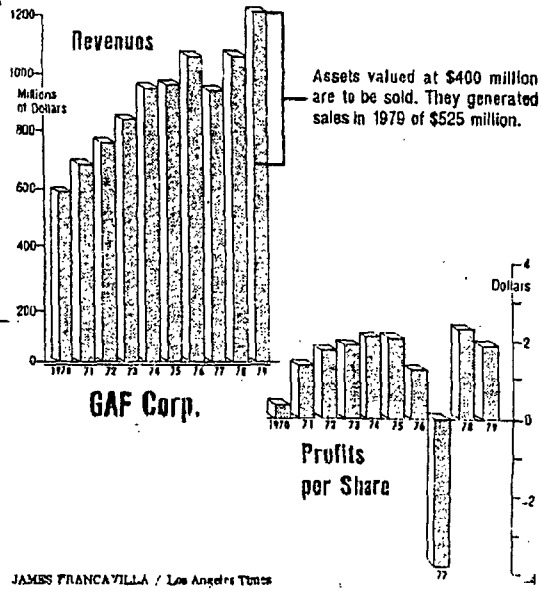
Top Unit Is Profitable

The largest business up for sale is GAF's reprographics line, which produces duplicating devices used by engineers. GAF said this is "a profitable business in which the company is a world market leader."

A ninth operation, a latex plant in Chattanooga, was sold early in December.

Olson said he expects the eight businesses to be sold to eight separate buyers rather than one company buying the whole package.

"We are very pleased with the initial response," Olson said.



Assets valued at $400 million are to be sold. They generated sales in 1979 of $525 million.

JAMES FRANCAVILLA / Los Angeles Times

"We've had a surprising number of inquiries, in the hundreds, for virtually every product line. Now we're sorting out the tire kickers from the real buyers. I think we're going to have an auction."

The for-sale businesses have combined net assets of about $400 million, Olson said, and their sale is expected to yield $135 to $140 million, plus $75 million in tax benefits.

"That's a conservative estimate," Olson said.

Plan To Cut Debt

The cash will enable GAF to reduce its debt and to support the expansion of the surviving business lines, greatly increasing the company's return on assets, Olson said.

GAF's current debt-to-capital ratio is 45%, and Olson said the restructuring is expected to reduce that ratio to 35%.

Olson characterized GAF's present return on shareholders' equity as "totally unsatisfactory," and said the restructuring should make it "much better." He declined to give figures. The latest reported return

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GAF: Cutting Its Assets to Increase Its Profit Potential

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on GAF's equity was 8.8% at the end of 1979.

Rather than following a trend to de-conglomerate, as some diversified companies have done, GAF is simply trying to clear its financial decks to make more profits and a higher return on assets, Olson said. Its formula for doing that is to reduce the company's total capital by selling off assets; raise its income by concentrating on its most profitable lines of business and reduce its high short-term interest costs by cutting short-term debt.

Olson estimated that 1980 sales from operations that the company plans to keep were "in the low $700-million range," but he said he could not estimate last year's profits. He declined comment on an estimate by Jack Kavanagh, analyst at Merrill Lynch, Pierce, Fenner & Smith Inc., that those operations generated about $1 per share after taxes, or about $13.5 million in 1980 profits.

Profits from both building materials and chemicals declined in the first nine months of 1980, as previously reported. Building materials profits were down 12% from the corresponding nine months of 1979, while sales of those products fell 3.2% in the general home building decline

Chemical Profits Down

Chemical profits fell 13%, despite an 8.7% rise in sales, partly because of the lower demand for roofing materials, which include some of the chemical division's products.

But Olson said he is still "very bullish on the '80s" because 20 million new housing starts have been projected for the decade.

"Two-thirds to three-quarters of our business goes into re-roofing," he added. "Replacement roofing is not a discretionary expenditure. When your roof leaks, you've got to so something about it."

Olson was in Los Angeles earlier this month to dedicate a new roofing plant built by GAF in Fontana as part of the firm's $50-million program to boost its production of glass-based roofing materials throughout the South and the West. The plant produces roof shingles based on a glass fiber mat instead of the paper-like materials used in conventional composition shingles. Last year GAF opened a plant in Chester, S.C., to make the glass mat.

Chemical production, the other half of GAF's business after the restructuring plan is complete, is expected to grow with increased use of acetylene derivatives, the basis for new, high-strength plastics in tomorrow's automobiles, and surfactants, which are used in detergents, cosmetics and solvents.

Prospects Bright

Both kinds of chemicals have broad industrial applications, Olson said, but the acetylene derivatives represent "a fairly new product line, now in its teens," with strong growth prospects.

Olson was elected president of GAF last Jan. 16. He succeeded Richard Fleming, who resigned less than six months after moving to GAF from Air Products & Chemicals Inc. of Allentown, Pa., where he was executive vice president and a director.

GAF said Fleming's sudden departure was the result of his decision "to pursue other interests."

Olson said he could give no further explanation, but when asked if Fleming's departure had anything to do with the restructuring program, he replied, "Absolutely not."

Olson had helped frame the program in his previous post as executive vice president of GAF, and he said Fleming "was in on the analysis . . . was very much a fan of the program, and as a member of the board he voted in favor of it."

Olson said that both the roofing and chemical businesses offer above-average returns on investment.

Expects Improvement

"We think that restructuring the company around those two crown jewels, with the cash (from sale of other business lines) used to de-leverage (pay off and restructure outstanding debt) . . . (will generate) far better results than in the past."

One key objective of the plan is to boost GAF's credit rating one notch "to a strong single-A" rating, Olson said.

Kavanagh of Merril Lynch praised the restructuring as "a move in the proper direction" because if it is successful "it will rid the company of numerous product lines that have been providing, in the aggregate, no net earnings, despite accounting for nearly half the company's total sales."

The consolidation plan now under way is the final stage in GAF's withdrawal from businesses connected with photography. The company got out of camera and consumer film production in 1977, and stopped making X-ray film and chemicals last March.

GAF ranked third in consumer photo sales behind Eastman Kodak Co. and Polaroid Corp., and lost $2.8 million on that business in 1976. GAF filed an antitrust lawsuit against Kodak in 1973. Olson said that despite GAF's withdrawal from the photographic business, GAF intends to go ahead with the suit and that it may go to trial this summer.

medical supplies to the extent they exceed 1% of adjusted gross income; eyeglasses, hearing aids, etc.

Also, food (special); hospital, doctor and dentist bills; medical insurance premiums (one-half of total, up to $150, may be deducted in full; remainder is deductible subject to 3% limitation); nursing care; operations and related treatments; psychiatrist and psychologist fees; special schooling for a physically or mentally handicapped child; support or corrective devices; transportation expenses relative to illness, including fare to doctor's office (actual expenses or a standard rate of 9 cents per mile for car expenses); X-rays.

Deductible Items

State and local taxes that are deductible include automobile license fees (in some states, only if considered a personal property tax), income taxes, personal property taxes, real property taxes (pro-rated for year of sale) and sales taxes.

Uniforms and protective clothing and union dues also are deductible.

Here are some items which cannot be deducted regardless of the method used in computing the tax. These, among others, are considered by the Internal Revenue Service as personal and family expenses:

Adoption fees (pre-adoption medical expenses are deductible under certain conditions); attorney's fees for breach of promise suit, obtaining divorce, or preparation of will; automobile upkeep expense (personal use).

Also, baby sitter, unless qualified as child-care credit; child-support payments; clothing, personal, including maternity clothing; commuter's expenses; depreciation on property held for personal use.

And, diaper service; domestic servant's wages, except as child or dependent care credit; dues, social club for personal use; employees' insurance (other than hospitalization), amount deducted from salary; fines for violation of law or police regulations.

Business in Brief

National

Faster decontrol was urged to prevent natural gas shortages.

A study commissioned by the Natural Gas Supply Assn. warned that shortages are likely in the next few years unless the government accelerates the timetable for lifting price controls on natural gas. Decontrol is scheduled to be completed in 1985 under a 1978 law. But immediate

A House panel heard charges of gasohol loan guarantee abuse.

operations were sold to Paramount Energy Inc., a company to be headed by William M. McCule, Zapata's executive vice president, who will resign from Zapata. Zapata, which is primarily in energy-related industries, said it sold its Texas building operators to Western Constructors Inc., Houston.

159 in 1979—was led by a sharp increase in projects in Canada, according to the Conference Board, a nonprofit business research group. The share of investments in Canada rose to 20% from 9% in 1979, but projects in Western Europe fell to 44% from 53%. Of the foreign projects last year, slightly more than half represented new construction and 22% were acquisitions of foreign companies. About 25%

production dropped 7%, to 871,006 acres from the previous year, when 936,048 was cultivated. Of the nation's 22 principal fresh market vegetables, 45.2% were grown in California.

Canadian officials have agreed to bail out Massey-Ferguson.

The Canadian federal and Ontario provincial governments have agreed to $167 million in equity

by San Francisco-based Pacific Gas & Electric Co. said the surge, which it described as moderate, depends on the level of mortgage rates. The report added that the depressed sectors of California's economy should benefit from an expected modest increase in consumer spending. The state's aerospace, electronics, agriculture and international trade industries are expected to continue their strong performance, according to PG&E's

U.S. Senate, plans were announced to introduce legislation limiting Japanese imports to 1.6 million units a year for the next three years. In 1980, Japanese firms sold 1.9 million units in the U.S., capturing 22% of the market.

Carter Hawley Hale Stores expects its net for the year ended Jan. 31 to be more than 10% below the previous year's $2.67 a share, President Philip M. Hawley told analysts