WALL STREET JOURNAL,
Wednesday, December 31, 1980

11/8/81

GAF Plans Sale Of 8 Units, Sees 4th Period Loss

RoS = 2.4% in 1979

Businesses Made Up 45% of Sales Last Year; Analysts Are Surprised by Action

By ANN HUGHEY
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—GAF Corp., in a move that surprised many observers, said that it wants to sell eight businesses that accounted for about 45% of its sales last year and that it will take a "major" loss in the fourth quarter.

GAF's chairman, Jesse Werner, said at a news conference yesterday that the company intends to concentrate on its largest and most profitable operations, building materials and specialty chemicals. The businesses up for sale include commercial blueprinting, commercial photography, flooring, vinyl siding, and a classical-music radio station in New York.

The company has established a $265 million reserve to cover possible losses and costs of the sell-off plan of which $50 million is designated to cover pension fund obligations. That $265 million represents the biggest loss GAF thinks it could incur from the sales. Actual losses could be somewhat less, and Mr. Werner said a tax benefit of $75 million related to the reserve will be available against future earnings.

GAF's earnings in 1979 fell 7% to $28.2 million, or $1.62 a share, from $30.4 million, or $1.97 a share, in 1978. The slide has continued this year, with third quarter earnings falling 61% to $4 million, or 23 cents a share, from $10.3 million, or 59 cents a share, a year earlier.

"In the present economic climate, the company can't achieve the cash flow necessary in the next few years to support the concurrent growth of all these businesses," said Mr. Werner. He cited high interest rates as a major factor in the decision. "Interest on all our debt will run approximately $30 million this year, consuming a large part of our operating profit and denying funds required for normal corporate purposes," he said.

Mr. Werner said that the businesses the company is keeping accounted for sales of $675 million in 1979 and about 92% of direct

First Manhattan Co. said, "They have not been bold in the past." In 1977 GAF sold its consumer photographic business, advertised by actor Henry Fonda, but, Mr. Fernandez said, "That was little more than a teaspoonful." However, at the time the sale was heralded as the move that would revive the company.

Analysts have believed for several years that the company was stretched thin, spending too little money on too many enterprises. Said one observer: "Jesse ran this thing like a fiefdom. These were his little hobbies. This baby was just sitting there waiting to happen." That observer and others suspect that someone other than Mr. Werner forced the decision. "In my own mind there is some relationship with the coming on board of the new president," said analyst Jack Kavanagh of Merrill Lynch, Pierce, Fenner & Smith Inc.

Richard Fleming, the 56-year-old president, arrived at GAF last summer from Air Products & Chemicals Inc., where he was an executive vice president and director. GAF spokesmen note that a study that led to the decision to sell the eight units began before Mr. Fleming's arrival.

Mr. Werner, who is 64 and is expected to retire next year, has been with the company since 1938. He became chief executive officer in 1962, when GAF was still in the hands of the government. In early 1942 the company was taken over by the government and administered by the Office of Alien Property. GAF became publicly held in 1965.

The move to sell off businesses as well as the expectation that a new management team will be in charge soon pleases Wall Street observers. "On balance it's a plus. I would have to think their earning power is greater than they had before," said Merrill Lynch's Mr. Kavanagh, who is heartened by Mr. Werner's assurances that the 20 cent quarterly dividend won't be cut.

The businesses they have left are good. It's very positive. They got rid of almost all the problems," said Mr. Fernandez.

Mr. Werner said potential buyers, both domestic and foreign, have expressed interest in the businesses being offered for sale. The proceeds will go to reduce debt and to expand retained operations. Mr. Werner spoke of "the wrenching decision" and was overheard after the news conference expressing particular regret over the loss of the classical music station WNCN. Earlier he said he hoped WNCN will be bought by an enterprise that "will cherish this independent, tax-paying, nonsubsidized cultural institution." GAF bought WNCN in 1975 after it had been transformed by its former owner into a hard rock station.

PLAINTIFF'S
EXHIBIT
GF-1992n