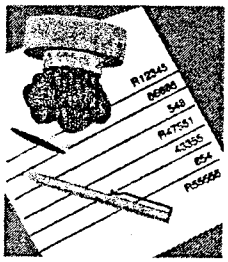
JEFF LIEBESMAN

Questions after the divorce

The gearing specialist deserves to be called to account



It was hot in Cape Town last week: bright days and azure skies. But it was hotter in the boardroom of Trencor. This blue-chip transport and engineering company now looks dishevelled after its affair with W&A, the JSE-listed conglomerate which Trencor rescued from bankers last year.

It is 10 am on Monday February 21: in Trencor's 13th floor boardroom with its unparalleled view of Table Mountain, directors a. ible to consider this thorn in the Jowell family's side.

And no-one will have been more outspoken than attorney Arnold Galombik. His association with the Jowells goes back to the establishment of Jowells Transport by Joseph Jowell in Springbok in the Thirties.

My guess is that Galombik — abrasive, unrelenting, unsentimental and mindful of the old association — says the investment in W&A is disastrous and can't be permitted to continue unchecked, that the latest information presented by W&A joint chairman Ray Hasson is the final straw.

Hasson, who along with brothers Neil and Cecil is one of the keys to the astonishing Trencor success story, returns to Johannesburg with an uncompromising, unequivocal, brief: he must tell W&A joint chairman Jeff Liebesman, a whiz-kid and self-made tycoon, that the parting of the ways has come. Barely a year since the marriage, Trencor is fili for an instant divorce.

For Hasson, considered by colleagues as one of life's few gentlemen, the task must have been painful. Only three months ago, Hasson told *Business Times*: "Jeff and I are working well together and we will continue to work well together to bring our group to prosperity."

I don't know what Hasson said to Liebesman. He won't tell me; neither will Liebesman (who refuses to speak at all). But it must have been a savage conversation. Liebesman signs a letter of resignation, packs his briefcase and leaves W&A's elegant offices in Doornfontein.

Next, Hasson turns to financial director Neville Cohen. Whatever he knew, whatever his role may have been, he is not wanted. Cohen tenders his resignation.

Already the market is beginning to sense the possibility of a major shake-up. That was evident when W&A told shareholders on February 8 that it had failed to deliver the promised return to profitability and was delaying its preliminary results until mid-March.

Wednesday, February 23, Johannesburg: directors of W&A meet to consider a single, simple resolution. The meeting is mercilessly brief — in a scant five minutes the board unanimously accepts the resignations of Liebesman and Cohen. As the news hits the wires, W&A's share price lifts 10c immediately to 150c, a market verdict that is as cynical as it is harsh. Subsequently, as more questions were asked than answered, the share price fell to 100c.

What happened here? What caused the ignominious fall of a congenial man, well liked, admired even, some say clever?

At 41, Liebesman is still young. What his age highlights is how astonishingly well he did and at what speed. In 1981 he was a junior audit partner at Kessel Feinstein; that was the year he persuaded the owners of Form-Scaff Industries — Kaminer, Edwards and Bress — to make him MD and shortly thereafter to enable him to buy the company. Always a specialist in gearing, Liebesman borrows a few hundred thousand and presses on.

Liebesman's first move is to change the mathematics of scaffolding: he rents rather than sells, so the same scaffolding is paid for several times over. He introduces design experts; they help in erection. Then he goes national and buys out two of his biggest competitors, GKN and SGB. Soon, the only name in scaffolding is Form-Scaff.

The profit turnaround Liebesman achieves also gives him an asset base. This is what he uses as his first building block. He acquires International Fasteners and Anglovaal's National Bolts and stops a mutually destructive price war between the two. Form-Scaff is listed in 1984 through a reverse takeover of IFM.

While all this is in process, Liebesman sets his hand to acquiring brain power. He buys Universal Clips, a company he previously audited, and collects owner Terry Rolfe, now W&A deputy chairman. Neville Cohen, his former boss at Kessel Feinstein, joins up. So do a number of other Kessel partners and employees, among them Johnny Brett, Alan Chonowitz and Barry Fleiser.

This unusual and heavy concentration of former Kessel colleagues in a single enterprise gives it the appearance of a Kessel Feinstein Old Boys' club. Kessel's remain the group's auditors (a relationship on which shareholders might have pondered).

But 1987 is Liebesman's great year. Ironically, it is probably also the year in which are sown the seeds which lead to his downfall.

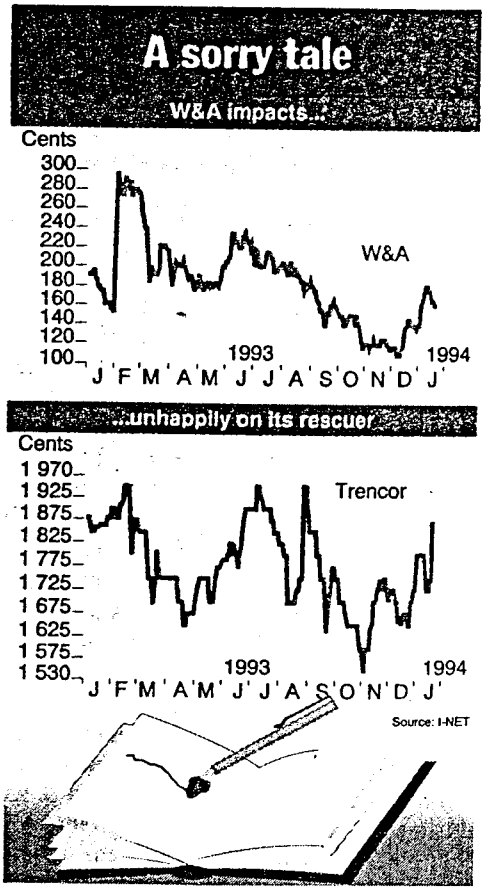
The strategic move Liebesman made into nuts and bolts followed logically from scaffolding (which uses these in large quantity). Now, a further extension beckons, this time into industrial distribution. That means hardware and tools, and that means E W Tarry, part of the empire of another SA business legend, Mannie Simchowitz and his W&A Investment Corp.

Talks are desultory. Suddenly, they solidify — much to everyone's surprise, Liebesman included. He offers R112m for a half share of Waicor, W&A's pyramid. In a gesture Liebesman believes is a formality, he makes an offer to minorities which he believes won't be accepted.

He and Simchowitz have reckoned, however, without the invisible hand of the market. It creeps up on unsuspecting investors with stealth and, on October 19 1987, bursts into another savage stock market crash. Licking their wounds, Simchowitz and minorities see Liebesman's offer as manna.

The acquisition cost soars to more than R200m. Liebesman is forced to raise debt and there, in one ratio, is expressed the cause of his ruin: a mountain of debt that ultimately defies reduction.

Included with W&A, Liebesman acquires Gentyre, now the group's remaining jewel. And, with extraordinary panache — because he certainly knows how burdened W&A is — Liebesman steps up to accept from *Sun-*



day Times editor Ken Owen the award for the top-ranked company on consistency of earnings among the country's Top 100.

But not even Liebesman can keep this party rolling. Institutional investors, already irritated by his complex financial engineering, show signs of impatience. And his bankers are nervous. Principal among them is Absa's Piet Badenhorst, never shy to call a spade a shovel. Grudgingly, he says he will wait for the arrival of a strong backer — but not for long.

Liebesman canvasses desperately. His best bets turn out to be the acquisitive Christo Wiese and — surprisingly — Trencor's conservative Neil Jowell, whose eyes are set on London-listed AAF Industries because it will provide an ideal home for his overseas container leasing operations. Liebesman demurs, then sets an impossible price.

But instead of just AAF, Liebesman offers J l the whole conglomerate at a price he finds hard to reject. Jowell is fascinated by the prospect of securing a parcel of good assets at a low price. Hasson is deputed to investigate in detail; he calls in Arthur Andersen, Trencor's auditors, a firm with a reputation for stiff-necked conservatism.

Andersen's due diligence reveals areas of concern; the debt mountain is alarming but not beyond containment. After some hesitation, Jowell signs up.

The deal is announced to an astonished market in February last year. And it involves — much as the market suspects — a rights issue to inject R653m into W&A, of which about R350m will come from Trencor. In return, Trencor gets the mixed blessing of joint control. Ray Hasson is appointed as a joint chairman.

Hasson

The effect of the rights issue, and Trencor's entry, is to relieve W 's immediate problem of cre ility among its lenders. Debt at the centre of the group shrinks to around R650m, still huge but a lot better than R1,3bn. As the year proceeds so things change: first, W&A's accounting procedures are brought, partially at least, within the Trencor ambit. This involves writing off a substantial sum; the market relaxes.

Then the group's UK subsidiary AAF reveals long-standing problems which translate into losses of £11,4m, large enough to raise institutional eyebrows.

Slowly, other evidence begins to suggest that W&A's problems have not gone away — they're getting worse. As a result of having to refinance AAF, the group's debt mountain at the centre begins to grow again. Desperately, Hasson conducts his own internal examination; travelling widely throughout the group, he concludes the operations and their managements are good and sound. The problem is insufficient trading growth to overcome the critical capital inadequacy.

And the response at W&A's head office is sullen and evasive.

Exasperated and confounded, Hasson tells Jowell he needs support — preferably in the shape of auditors Arthur Andersen. Andersen managing partner Sam Abrahams is reluctant to accept a joint auditor role because he knows how aggravating it can be. After much arm-twisting he finally agrees, citing a long-standing (more than 40 years) relationship with the Jowell family. In late November, just ahead of the financial year-end, Andersen audit partner Bill Smith moves into W&A.

Jowell

Smith disagrees with previous accounting policies and rapidly develops a long list of unresolved queries. Eventually, Abrahams tells Jowell there are two major problems: first, that the W&A group is in danger of drowning (again) in debt, and urgently needs to be restructured; second, the accounting policies adopted in the past are patently unsatisfactory.

Hasson talks with institutional shareholders. Almost to a man they tell him they support his plans to reorganise W&A's management. What they are saying silently is that Liebesman must go, and that W&A must be brought to the policies and principles long associated with Trencor.

Jowell and Hasson have grasped the first nettle. Now they have to come to terms with the rest — probably more intractable, though less emotional.

The urgent issue is to attack debt. A start has already been made through the sale of the J D Group holding: that should realise a net R160m.

Second, information from London suggests substantial interest in AAF assets. The net effect may be to enable the sale of nearly all AAF's important investments, leaving it with a minor operation and a substantial cash balance. W&A will repatriate its share, perhaps as much as R120m (though one analyst is adamant W&A's share will be substantially smaller). Third is the possibility of selling Housewares Exclusive — perhaps to Melvyn Gutkin, its original founder.

In total, these asset sales may realise around R350m; with a few extras thrown in, perhaps R400m. That will reduce debt at the centre to about R450m-R500m, large but manageable, if it is spread among operating companies — which means that in some cases minority shareholders will have to shoulder some of the burden.

Next comes the matter of the balance sheet. The indications are that there will be a substantial write-down of assets, perhaps as much as R450m. This will be achieved through writing off previous revaluations and last year's "dangling debit" of R156m, which represented patents, trademarks and goodwill. The effect will be a substantial reduction in total shareholder funds, perhaps to as little as R700m from R1,2bn. Nevertheless, the overall effect will be to restore the debt:equity ratio to less than 100%.

Inevitably, an exercise of this kind will lead to a searching examination of the role of the W&A pyramids — Waicor, FSI and FS Group. Who needs them, and why? The answer can be only negative and fairly soon a comprehensive programme will be put into effect to collapse all these companies. Minorities will be bought out, debenture holders — along with the banks — will be asked to convert, ultimately into W&A ords. The terms will be rigorous.

It is actually possible, under these circumstances, to envisage that a further rights issue in W&A may be avoided. A lot will depend on the numbers, and that is one reason W&A's preliminaries will be so closely scrutinised when they appear next month.

All this leaves much unanswered. When I saw him in Cape Town on Sunday, Jowell was tight-lipped. But the questions have to be recorded, and in due course they must be answered. For example: considering a detailed due diligence was undertaken by Trencor and Arthur Andersen, why has so much gone wrong since? To what extent have matters run out of control this year? Did Liebesman and other directors give warranties to Trencor and, if so, can these be called upon? What further financial exposure faces Trencor in supporting W&A?

All Jowell will say is: "We are examining these issues, and we are locked into a due process. I really can't comment further until we're in possession of all the facts and can consider the ramifications."

Meanwhile, the architect of ephemeral success and now of such transparent failure, Jeff Liebesman, has gone silent. Some say his personal wealth is untouched; others believe he has gained little and owes much.

How he responds to this misfortune, and how he answers the many questions which now hang over him, are matters he may claim are solely his personal business. But they are not. When any businessman goes at such risk with other people's assets, he cannot avoid being called to account in the public domain.

The conclusion that has to be drawn from his rapid departure and the market's positive response to the news, is that there is more to this than Liebesman's youthful exuberance conflicting with Jowell's celebrated conservatism.

Shareholders will have to be told in greater detail and with more candour about the source of these irreconcilable differences. Neither the Jowells nor Liebesman will gain in credibility by remaining coy. *David Gleason*