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Editor's Note...

Corporate Restructuring, Takeovers, and Poison Pills — Where Does the Road End?

The hospitality industry has witnessed several interesting instances of corporate restructuring, mergers and acquisitions in the recent past. All these events were significant from the financial perspective. However, the ongoing Sheraton /Hilton battle seems to have aroused unusual interest in the industry and academe, as well as in the press. No doubt, the financial strategies involved in this race have a unique pedagogical significance for all observers.

For those familiar with the financially driven management style of Hilton's new CEO, his January 27 hostile bid for ITT must have seemed like a *déjà vu*. For ITT, Mr. Araskog's quintessential conglomerate that has been undergoing significant changes of late, the timing of the offer was delicate. Barely two years ago, following a serious \$260m loss (1992) and consequent shareholder pressures, Mr. Araskog had split ITT into three more simple businesses — Hartford Financial Services (insurance), ITT Industries (defense electronics, car parts, and others), and the new ITT Corp (which held the hotel/gaming business among others). The new ITT shares did well for a short while. But they continued to decline rapidly through the latter half of 1996. Then came the \$6.5 billion wake-up call from Hilton, offering almost 29% over the market value to the ITT shareholders. Obviously, there couldn't have been a better opportunity for Hilton to swing the confidence of ITT shareholders to its favor. From an investor's perspective, the decisions of ITT's CEO have been equally prudent (The Economist, July 19, 1997). The immediate response of Mr. Araskog was an attempted partial duplication of Hilton's proposed post-takeover strategy. He announced a \$1.5 billion asset sale (including ITT stake in the Madison Square Garden, New York Rangers, New York Knicks, WBIS and other businesses), followed by a plan to buy back 26% of the ITT shares for \$2.1 billion at \$70 a share (almost 28% above Hilton's initial offer) and a plan to buy back ITT's public debt. In July, ITT announced another restructuring plan, splitting ITT further into three simpler businesses — ITT Educational Services (technical institutes), a new ITT Corp dealing with telephone directories (to be sold to Clayton, Dubilier, and Rice for \$225 million), and ITT Destinations (hotels and gaming business, Mr. Araskog as CEO). Interestingly, the hotel and gaming sector of ITT (ITT Destinations) accounted for over 80% of the total ITT revenues in 1996. ITT also created an unpleasant poison pill for Hilton — a different board, and a big tax burden if the restructuring plan were to be duplicated after the takeover. The only thing that is missing from these anti-takeover maneuvers seems to be a good white knight.

The final outcome of this financial battle is yet to be seen. However, regardless of the synergies sought by Hilton through this takeover attempt, and regardless of the final outcome, the bottom line seems to rest on shareholders' interests. Although on opposite sides, the CEOs of the two corporations seem to agree on one issue — it is the wealth maximization of the owners that matters in the end.