

RJR's N.C. operations appear safe

By PAUL NOWELL
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A bidding war of unprecedented size may be in the works for RJR Nabisco Inc., but experts say any adverse effects of a multibillion-dollar leveraged buyout of the tobacco and food giant should not be felt in North Carolina.

"Nobody's going to do anything to the goose that lays the golden egg," said University of North Carolina-Charlotte economics professor John Connaughton. "The (tobacco) division is the plum everyone wants. It's a real money-maker."

One day after the New York investment firm Kohlberg Kravis Roberts & Co. offered \$20.28 billion for RJR Nabisco, Connaughton and other observers said yesterday there was little chance the company's highly profitable tobacco division would be moved from Winston-Salem.

The stunning KKR bid came on the heels of last week's announcement by F. Ross Johnson, RJR's president and chief executive officer, and Edward Horgan, the head of the tobacco division, that they were considering a \$17 billion offer to take the company private.

Neal Kaplan, who follows RJR Nabisco for InterstateJohnson Lane Securities in Charlotte, said even if a new owner took over and sold the tobacco division, it

would likely stay put.

"Whoever buys it, it will make no sense to move Tobaccoville," he said. "They (tobacco operations) weren't all that affected when they (RJR Nabisco) moved the headquarters to Atlanta."

Analysts also said they didn't expect the change of ownership to have an impact on the company's plans to build a large bakery in Garner.

When the two top RJR Nabisco managers announced last week that they were considering launching the \$17 billion, or \$75 a share, offer to buy the company, some analysts said they might have to sell off the tobacco division to finance the deal.

Since then, some analysts have come to believe that they may have intended to keep the company intact.

Now with KKR increasing the ante to about \$90 a share, Kaplan believes it would be difficult for new owners to turn a profit without selling off some of its assets to pay off the debt service for the leveraged buyout.

"I think it's pretty certain now that there's going to be a breakup of the company," he said. "I suspect they'll sell off the food components because that's where the money is."

That situation could be beneficial to North Carolina, he said. "Separating it could restore the tobacco division's status," he said.

Connaughton agreed.

"Whoever emerges as head of the cigarette operations will be back in North Carolina," he said. "So we're no worse off than we are right now."

The big blow happened last year, he said, when the corporate headquarters moved to Atlanta.

"The tobacco operations have to be based here, so there's no downside potential here in North Carolina," he said.

Campbell Harvey, an assistant professor of finance at Duke University's Fuqua School of Business, described the tobacco division as "the real cash cow."

"Tobacco is a recession-proof industry," he said. "While it's obvious that use is down in the U.S. markets, the international market is huge. It's a real money-maker, so no one would want to dump that part of the business."

Fred Nordenholz, president of the Greater Winston-Salem Chamber of Commerce, said RJR Nabisco has invested too much money in the area to let it go to waste.

"They have invested literally billions of dollars over the last several years in modern, state-of-the-art equipment," he said.