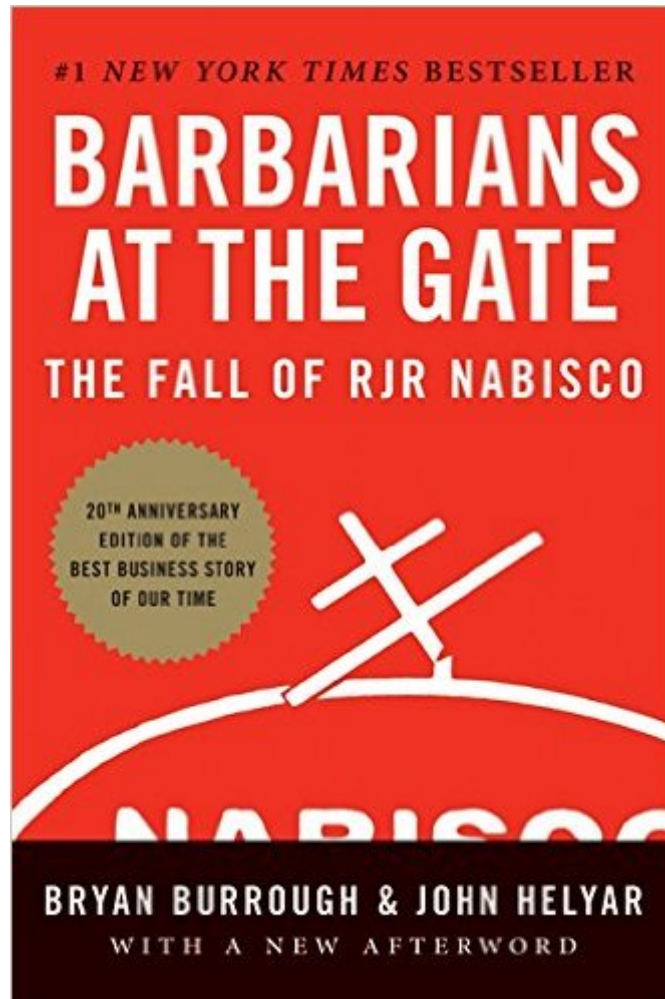


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# Barbarians At The Gate: The Fall Of RJR Nabisco



## Synopsis

One of the finest, most compelling accounts of what happened to corporate America and Wall Street in the 1980s. "New York Times Book Review" #1 New York Times bestseller and arguably the best business narrative ever written, *Barbarians at the Gate* is the classic account of the fall of RJR Nabisco. An enduring masterpiece of investigative journalism by Bryan Burrough and John Helyar, it includes a new afterword by the authors that brings this remarkable story of greed and double-dealings up to date twenty years after the famed deal. The Los Angeles Times calls *Barbarians at the Gate*, "Superlative." The Chicago Tribune raves, "It's hard to imagine a better story...and it's hard to imagine a better account." And in an era of spectacular business crashes and federal bailouts, it still stands as a valuable cautionary tale that must be heeded.

## Book Information

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## Customer Reviews

Burrough and Helyar are two former Wall Street Journal reporters who present a comprehensive telling of the battle for control of RJR Nabisco, ultimately won by KKR, led by Henry Kravis in 1988. The book was written in 1990 and provided the final chapter on the LBO excesses of the 1980's. By 1990, the stock market rally had made LBO's less attractive and some of the earlier deals were already starting to unravel and collapse under the weight of the debt payments, as predicted by long-time junk bond critic and rival RJR Nabisco bidder Ted Forstmann. There are some criticisms of this book. The authors, despite their financial backgrounds, seem to prefer story-telling to financial details. Hence, they have written a tale of personalities, with an especial interest in Ross Johnson

and Henry Kravis, to the detriment of really explaining the financial and business details. The reader can learn intricate details about Johnson and the Wall Streeters preferences in cars, apartments, drinks, wives, schools, etc. The authors seem to think we need a biographic account of all minor players, starting with their grade-school years, and the end result is 528 pages and still minimal financial explanation. The other main criticism here, reading this now, is how dated the material has become. The authors would do well to provide some new material on how the deal has worked out. From other sources, I learned that KKR renegotiated the deal in the early 1990's (the resets were nearly toxic after all) and sold out their position entirely in 1995, more or less breaking even, depending on whose numbers you use. The story of the final bids and the final final bids is truly riveting and meticulously researched here.

I am a management consultant who works with companies that are interested in improving stock price, and I know many of the more humble people portrayed in BARBARIANS AT THE GATE. I would like to put this book into perspective for you. 20 years ago our firm did a survey of CEOs and found that 99 percent felt that trying to improve stock price was unethical and immoral, and involved doing manipulative things. After the takeover wars of the 1980s, most CEOs believed that improving stock price was an important task and could be done in an ethical way. There is nothing more disruptive to a company than to go through a hostile takeover, whether the bid succeeds or not. Raw greed and lust for power hold sway at such times, and many people will pay the price for having attracted the sharks into their swimming pool. Prior to the RJR Nabisco purchase by KKR, many large companies felt safe because of their size. They were suffering from "stalled" thinking, because it was widely believed that a deal of this sort could not be financed with debt at the time the takeover occurred. That was wrong: For a price, the money is always there. For those who have not been in these bruising ego battles, what you will not realize is that these contests are a lot like those you will remember from grade school on the playground when the teachers were not around. Bullying, threats, and naked power carry the day in a lot of situations. But because this is about ego, a lot of mistakes are made. RJR Nabisco continued to strain under mountains of debt for years, even after lots of refinancings because of the LBO. KKR's track record looks a lot different now than it did before buying RJR Nabisco. A lot of the fever behind the LBO's is gone, for now.

"Barbarians at the Gate" is a very easy, fun read. It is purposefully written a lot like a novel. For one thing, the book shifts frequently between different times and places. For instance, the prologue details the board meeting where CEO Ross Johnson proposes a Leveraged Buy Out (LBO) for the

first time. The start of chapter 7, page 184, then picks up from there chronologically, "Johnson rose early the next morning, the memory of Wednesday night's board meeting still fresh in his mind" (pg 184). Also like a novel, the authors give a tremendous amount of background and personal history on the people and companies involved in the deal. There is history about Ross Johnson's personal history, about his time at Standard Brands and Nabisco before the merger with RJR, and then about RJR the company, dating back to the 1800s. There is also a chapter that goes into some detail about KKR and Henry Kravis. All of the information was interesting and well written, though I felt at times like I just wanted to get back to the main plot and away from some of these tangential details. It was a choice the authors made between making the book more journalistic and concise or more like a novel, and I guess I ended up liking their choice. The heart of the book is the bidding battle for RJR between KKR and the Shearson Lehman Group (which had Johnson on their side); First Boston also makes a bid but I don't think their bid was ever seriously, seriously considered. The authors describe an LBO as follows, "A firm such as Kohlberg Kravis, working with a company's management, buys the company using money raised from BANKS and the PUBLIC SALE OF SECURITIES; the DEBT IS PAID DOWN WITH CASH FROM THE COMPANY'S OPERATIONS and, often, by SELLING PIECES OF THE BUSINESS" (pg 101).

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