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The Hallwood Group

Dealmakers enjoy challenge of rescuing ailing firms

By Mltchell Schnurman OF THE TIMES HERALD STAFF

The Hallwood Group has garnered some national attention Lately. but when it stepped in to salvage BancTexas last month. The Wall Street Journal described it as a little-known merchant banker"

The firm has a wider following in Dallas, where it gained some attention for saving two local companies from bankruptcy. Both Brock Hotel Corp. and Saxon Oil avoided liquidation, or Chapter 11, because of Hallwood restructurings.

Still, Hallwood is hardly a household name. And the company's eccentric leaders —its globe-trotting chairman resides in Monte Carlo, its president in the Scottish Highlands — have little interest in publicity.

But over the next several years. analysts believe Hallwood's reputation and influence will grow considerably. And they say much of the gain will come courtesy of Texas businesses.

There isn't a troubled bank in Texas they haven't talked to," says a New York analyst who requested his name not be mentioned. "If it's struggling and it has more than $500 million in assets, they've heard'from Hallwood."

Hallwood looks for trouble, so its eyes have been on Texas for a few years. The firm's mission is to step in and salvage financially ailing public companies, offering cash infusions and restructuring deals to keep the companies alive.

It doesn't simply lend money and reshape balance sheets; it invests heavily in the troubled companies, acquiring its interests at substantial discounts and through fee payments. And except for BancTexas, whose regulatory rules prohibit it, Hallwood has insisted on controlling the companies' boards and overseeing their management.

Most of Hallwood's targets—selected by Englishman Anthony Gumbiner and Scotsman Brian Troup — have considerable assets. And they have little bargaining power.

Nobody could believe the deal at first, says Tom Corcoran ,top executive at Brock Hotel. but in my opinion, we had no alternative. Except bankruptcy.

Brock, which lost an estimated $70 million in 1985 and had a negative net worth of about $27 million in September 1985, had long-term debts exceeding $180 million. Hallwood proposed a plan to deal with the creditors, but it would be painful for them and for shareholders.

In the end, Hallwood would gain control of the company through a special public offering, in which it would sell discounted Brock stock to its own collection of investors. Hallwood, which would receive fees equal to 14 percent of Brock's stock just for executing the restructuring plan, would infuse the company with nearly ~40 million. That would be used to pay off Brock's 9,300 creditors.

The payoff demanded some strong arm-twisting, but Gumbiner—called a master negotiator—prevailed. Creditors walked away with an average o 28 cents on the dollar, according to Corcoran.

Creditors don't like having to take a haircut,~ Corcoran says. -But at least they got something in return, and they got it a few months later.

The highest class of creditors received 55 cents on the dollar, along with stock options in the company. The lower end received 9 cents on the dollar and some equity instruments.

Gumbiner, who was in Europe last week and could not be reached for comment, has said that Hallwood's strategy succeeds because creditors want to avoid litigation costs and eliminate the uncertainty surrounding troubled companies.

"Creditors mainly don't want to be in the dark says Allan Moms, a corporate spokesman for Hallwood. they may not be happy about how much they're getting, but they're happy to know it's being

To raise the nearly $40 million to pay off Brock's debt, Hallwood offered Brock shareholders special options that would let them buy newly issued shares at deeply discounted rates. Only about half of the shareholders acted on the rights. most selling them, Corcoran says. The rest were picked up by Hallwood, which made the shares available to its investors, and effectively acquired the company at a great discount.

In a practical sense, analysts say most shareholders in companies taken over by Hallwood end up accepting even lower percentages than the companies' creditors. Holders with 100 shares, for instance, often are left with two- or three shares because they decline to invest further by exercising their newly issued rights.

They get the shaft, but at least they get something, says Jeff Kessler, an analyst and vice president at Cowetl & Co. in New York. That's more than they'd get in Chapter 11. But it's still Draconian.

Hallwood has made some enemies and not just creditors who agree to accept a fraction of their payments due. But the company no longer pursues troubled firms that resist its overtures.

It doesn't have to.They've gotten an enormous number of leads, especially in Texas, Kessler says.

Hallwood has grown quickly, both through improved performance by its companies and through acquisitions. It has acquired, in the past three years, Saxon Oil, Brock Hotel, GCA Corp. (a semiconductor machinery company based in Massachusetts), BancTexas (pending approval) and other investment trusts.

Revenues have grown steadily, from $7.2 million in 1984 to $22.2 million in 1985 and $27.2 million in 1986. Net income has risen faster, from $1.6 million in 1984 to $6.2 million in 1985 and $9.7 mllion in 1986.

Analysts are estimating HaUwood's revenues will grow to $33 million this year, along with a slight rise in earnings. And they're expecting a push to acquire more companies.

Hallwood doesn t name names, bu Kessler says ailing banks are at the top of the List. Last September Hallwood added James Cairns to its management team to help find valuable banking properties. Cairns, former president ol the American Bankers Association anc until September, president and chief executive officer of First Interstate Bank of Oklahoma City, is considered an expert on banks, especially those in the Southwest.

He helps shore up a company tha essentially is gulded bv two people Gumbiner and Troup. The Hallwood Group has about 60 employees. with its headquarters in New York City and offices in Cleveland. London, Amsterdam and Irving, where Brock Hotels is located.

Troup is the numbers man. From his farmhouse in Scotland, he uses a computer and several data bases to track 400 to 500 companies at a time. Gumbiner is the negotiator. Flamboyant, he races speedboats and works out of Monaco.

They started together in the early 1970s in England, locating companies that were asset rich but going out of business. They bought the firms' stocks at estate sales. and then stripped them of their assets.

Today their business is both complicated and time-consuming, Kessler says. He calls it a combination of high tech, finance and nitty, gritty. seat-of the-pants negotiations. Hundreds of hours are spent with numbers, lawyers and creditors.

Their biggest problem is having enough bright people to expand the operation, Kessler says. "They need to clone Gumbiner and Troup. If either of them wants out, the company is vulnerable."

Gumbiner and Troup receive no executive salaries, at least according to documents filed with the Securities and Exchange Commission. Kessler says they receive a lump sum portion of Hallwood's restructuring fees; his guess is they get 3 percent each from the 14 percent of assets Hallwood receives for its deals.

They have a right to make a lot of money,' he says. "They're doing deals nobody else is even thinking about."

Hallwood doesn't handle the day to-day management of its various companies but keeps a close watch. Gumbiner, who designated five of the seven board members who oversee Brock Hotels, has a reputation for grilling his managers.

It's a humbling experience," Corcoran says about the seven-hour meetings he has regularly with the board. 'But it's the most healthy environment I ever saw. They want to know everything. And we know if we don't perform, it's goodbye."