Hamish Maxwell

Questions and Answers

Miller Management Club

Thursday, January 17, 1985

Q: First question..."What's going to happen to Philip Morris Industrial and Seven-Up? We've heard they're up for sale."

A: That's half true. As far as Philip Morris Industrial is concerned, we have taken a very serious look. Let me tell you a little bit about why we have Philip Morris Industrial. Originally Philip Morris got into the businesses which are now Philip Morris Industrial as a kind of vertical integration. In other words, we were very big users of paper and packaging and felt it might pay to get into manufacturing those products ourselves, for our own use. However, that purpose has more or less disappeared and Philip Morris Industrial, as it now is, is in the paper business -- mainly in the tissue business and secondarily in some specialty papers. So what we felt last year was that we should look at it again and say to ourselves "Do we want to be in the paper business in a big way?... Do we want to be in it the way it is now and just keep going the way we've been going for the last 20 years? Or should we really decide it's not our business?"

We looked, first of all, at going into the paper business more seriously and more comprehensively and came to the conclusion that it really wasn't our business. The paper industry generally underperforms American industry by almost any standards. It's very cyclical and it's very competitive. And second, we decided that where we were in it was really nowhere in particular. It's very difficult for a company of our size to continue to be seriously dedicated to a business which has a small percentage of a small segment of a business like the paper business. So we decided that, frankly, it didn't fit our long term objectives and that the best thing to do, considering the fact that it had had a good year in '84, will probably have a good year in '85, and is in a cyclical industry so the good years don't come every year, would be to see if anybody would make us a good offer for it. I should have said that we'd already received a lot of inquiries from companies that want to buy it. So we weren't going out peddling something that nobody might want.

If we don't get a good offer -- and by that I don't just mean money, I mean conditions for the management and employees of the companies -- we're not compelled to sell it. It's not been embarrassing to us. As I say, it had a good year last year, but I do have to say that, strategically, it really doesn't look like our business.

Seven-Up is different: we got into something that really was perhaps not fully understood by us. Looking back, with the benefit of hindsight, it's a tough business. That's why it hasn't made much money for the last six years. However, we think it's been very adventurously managed. A lot of you know Ed Frantel, and you know what he's like. He's done a great job. So have some other people who came from over here. They have turned the brand around. The 7Up brand was going down. Now it's going up. They really have learned the business in the last six or seven years -- and it's our kind of business.

It's a consumer packaged good, if you like. It's an enjoyable product. It's fast moving. By and large, it's in a profitable industry. The big people make very good profits. So we feel that we have really come to understand the business much better than we did and that we have the tenacity to stick it out -- and that's what we intend to do. We don't expect it to make an enormous profit in the coming years. We're not even thinking about what sort of a return it should make on our original investment, because that's history. But we think it's going to be OK and we intend to stick with it.

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Q: "You mentioned investment and acquisition in your speech. What are PM's plans for future acquisitions?"

A: You want to go out and buy some stock tomorrow or something? (LAUGHTER) I'll try to say a little bit about it. The corporation has very strong financial resources right now. Until the last two or three years we were heavily indebted, by most American corporate standards. We had a lot of leverage. Now, we are reducing our debt, and our debt-equity ratio is now much stronger than it's been in living memory. So we are generating cash and financial resources which we probably cannot use to our best advantage in our present business. We've already done a lot of the capital expenditures that we need to do to keep ahead of competition. So we have those resources and one way to use them is to go out and broaden our business base. I believe that would be good for all of us. I think every acquisition we've made has excited our people. It's given quite a lot of our people more opportunities and it's kept our management on their toes, dedicated, ambitious, and feeling that this is a good place to work. I'm talking about Philip Morris as a whole. I think if we stopped that kind of feeling, we'd lose a lot. I think we'd find that people no longer would find it quite as exciting and a good place to work.

So we've got the resources, including the people and their attitude, and it seems to me we've got other good reasons --

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basically, our own confidence, which is really everywhere in Philip Morris, that we can do a good job. We've got every reason to go out and see if we can expand our business base.

As to what we could buy, our intention right now would be to buy something large enough to make a difference. There's not much point in putting all the effort into something that you can barely see in the income statement, and of course we have a very large income statement. It's not going to be particularly easy, but we've got a team of people working on it and we're taking it very deliberately. We recognize that some of the things we might like don't want to be bought (LAUGHTER), ... and we're not the only people with money either, who might want to buy them. But it's our intention, frankly, to try to seek to make an acquisition in ... well, let's say before I retire or am fired or anything. (LAUGHTER).

One other thing -- I think the way we feel right now is that whatever we try to do should be in the sort of businesses that we're in. I don't think we want to go and buy a bank or a coal mine. I think that we have been successful in businesses like cigarettes, beer, and soft drinks. So it's this sort of general area we're looking in.

Q: "We've heard there were layoffs in New York and, as you know, we had some here. Will there be any more here or elsewhere?

A: I think your president, Mr. Howell, said something to you about that. When everybody was waiting for, as they say, the shoe to drop, he said there <u>was</u> no other shoe to drop -- and he was right. There isn't. I've got to say that what we were really trying to do generally, throughout the corporation, was to take a period when our growth was not as fast as it had been for a few years and, really tighten up our practices and try to improve our management productivity. It was not really a cost cutting exercise. It was trying to make the place run and be managed better -- and we've done it. We finished and we have no intention of doing any more.

Q: "What do you attribute your successful career to? And what piece of advice do you have to us here?" (LAUGHTER)

A: Well, luck's got a lot to do with it. (LAUGHTER - APPLAUSE.)

The advice is to try to be in the right place at the right time. I mean, I could give you all the usual nostrums on this but you know them. I <u>will</u> repeat what I said earlier. I think that it's probably helped a lot of us to have a variety of experience. However, one of the guys in Philip Morris who I admire the most and who now is retired is Clifford Goldsmith. And basically his career was in operations. He never was in marketing, he never was in Philip Morris International, he was never in Miller, he was never in public relations, he was never in accounting or anything like that and he bacame one of our very best executives. So you don't have to have a variety of experiences but I think, on the whole, I'd have to say that if you ask for my advice, don't pay any attention to the old Army thing about never volunteering. And certainly don't say "no" if you're given an offer to do something different, as long as it sounds as though it's worth doing.

Q: This will have to be the last question. "Is Philip Morris going to buy Pepsico?" (LAUGHTER).

A: I suppose the first answer is, not if they can help it! (Laughter.) No. You know, you can't say never about anything, but I've got to say it's not high on our list, really. One of the things about making an acquisition, and I don't have to tell you, is -- and I've already touched on it -- there are two sides to it. We might want to do something and somebody else might not want us to do it. And there's no doubt that in some respects the best acquisitions are the ones which are essentially friendly: Where somebody has reached a point where they would like somebody else to come in, help them, or expand their business base or something like that. Or, alternatively, somebody who's got a division that for some reason... I mean somebody's going to make a great acquisition out of Philip Morris Industrial. If it works out, it's going to be friendly, they're not going to have to pay through the nose for it probably, although we'd like to get... Like to make them (laughter). But they probably won't pay as much as they would if it was sort of a bidding match with somebody else. And we were willing to do it.

Now, obviously, if we can find the other thing coming the other way, if Pepsi, for instance, suddenly decided they wanted to sell the soft drink business, we might like to buy it. But I don't think that's all that likely. I'm sorry. I really can't say we'll never buy Pepsico but I've got to say we have no such intention right now. OK?

Q: I would like to thank Mr. Maxwell very much for coming out here. He came out here especially for this very occasion and we're very grateful and very honored to have him.