July 1,1932

MEMO WITH SINCLAIRE.

After a certain sparring we got down to cases on the merger. He has evidently been greatly disturbed by the changes in the businesses which affect his interest. They have been going on at high pressure in the last ten years. He gives as an illustration the attempt to form a merger in the collapsible tube industry, the tube in which tooth pastes are contained. He says that investment brokers are always searching for industries in which no mergers have been formed. One of them discovered that there was none in the C. T. industry and immediately went out to see what he could do, or perhaps there were a half dozen individually owned. He says to the owner, we'll give you $150,000 for your business, that may be at the price the man held it, $100,000. in cash, $50,000 in stock and will make a contract with you as an executive for $25,000 salary a year for three years. A man thinks it's a good thing and goes in. Suppose the entire six goes in. They have businesses now worth $900,000 at the outside. They propose to capitalize it at $2,000,000 - $500,000 of that goes to the bankers as a fee. The business now must earn dividends on $2,000,000 instead of $900,000 and it must pay several salaries far above those formerly paid. It must earn more. This can be only done by raising prices or greatly increasing sales.

Speaks of the alcohol merger. Points to an interesting looking man working a typewriter in the room, says there is one of the victims. Says there were numbers of little plants, alcohol distilleries scattered over the country owned by individuals - 75% of them closed. In last ten years two men estimate that about 30 plants have been entirely wiped out. They estimate that these plants employed probably 50 in the factory, 50 more as clerks and salesmen. About 10% of the 100 employed were taken into the merger - the 90% thrown out of employment. Sinclair claims that in this case the public has gained nothing because the economies and efficiency promised by consolidation were wiped out by the gross inefficiency of the financing.

He declares that not one merger of the last ten years has resulted in savings which have reached the public. Referrs me to an article in Printers Ink called "Ten Years After" an analysis of mergers published about two years ago.

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Tells of Salem N.J. glass factory - glass
goes to Cuba & to raw materials &
says "you must see us there" - both labels
cuts -

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