

Forbes

MARCH 14, 2005 | WWW.FORBES.COM

COMPANIES

Brenda the Liquidator?

The only way to rescue Sara Lee is to sell it off.
All of it | By Mark Tatge

Brenda Barnes just might be able to save Sara Lee—if she liquidates the entire company. The new chief executive probably can't fix the \$20 billion (sales) conglomerated mess. Not when she started out by announcing the estimated \$7.6 billion sale of its best divisions, while keeping its worst.



Challenged: Brenda Barnes.

Among the castoffs, the \$4.5 billion-a-year apparel unit—Hanes, Playtex and Champion sportswear—is a clear winner, with operating income (earnings before interest, taxes, depreciation and amortization) equal to 12% of sales. So is the European meat operation. It's almost twice as profitable as the sausages and cold cuts division of the company. Consider the new "slimmer" Sara Lee; it's a walking cadaver.

There's the \$2.8 billion (sales) beverage unit, led by Douwe Egberts; \$2.3 billion in household goods (Ambi

Pur air fresheners and Kiwi shoe polish); and the \$3.3 billion-a-year bakery division (Sara Lee desserts, Earth Grains breads).

Top-line growth for all is a paltry 2% to 4% per annum over the next five years. Jimmy Dean sausages, Hillshire Farm meats, Ball Park franks, maybe 5% to 6% a year.

So, why keep the dogs and get rid of the stars? Perhaps because of the inevitable impairment charges—epic, scary numbers far exceeding the \$1 billion Barnes says she will take—that would result from the sale of what's left. A weak balance sheet and poor earnings scream out for a major restructuring, says Rate Financial analyst David Hughes.

When fiscal year 2004 skidded to an end July 3, tangible shareholders' equity was a negative \$1.1 billion after subtracting goodwill and an off-balance-sheet \$1 billion pension deficit. Return on equity declined steeply (except for 2001) from 95.5% in 2000 to 50.5% in 2004, as declining operating margins, asset utilization and leverage (\$4.1 billion) offset a declining tax and interest burden. No wonder Sara Lee's largest shareholder—Capital Research & Management, adviser to the \$600 billion American Funds—unloaded 14.7 million shares between September and December last year.

Dumping what's left of Sara Lee may be its only salvation.

Why the Parts Are Greater Than the Whole

Here's what Sara Lee's remaining divisions might fetch on a good day from a Procter & Gamble or a Kraft Foods.



Division	Estimated Value
Beverage	\$6 bil
Bakery	\$2.57 bil
Household products	\$5.9 bil
Meat	\$2.1 bil