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Napoleon advances on Moscow

Campeau intends to retain control of the preeminent department store divisions of Allied and Federated, together with . . . the Ann Taylor specialty retail stores.

—Campeau Corp. 1987 annual report.

Campeau Plans to Sell Allied's Ann Taylor Unit

—*The Wall Street Journal*, June 16.

Although opulent, the 1987 Campeau Corp. annual report is dated. On April 1, two months after the close of the Campeau fiscal year, Federated Department Stores entered the corporate fold. The $6.7 billion merger was treated on page 56 of the annual, in the "subsequent event" department, but the Campeau consolidated financials are Federated-less. That is the way of Campeau: Nothing is the same for very long. Last month, the brand-new annual report promised that Ann Taylor, the hundred-store specialty chain, would not be sold. (You may recall that Campeau bought Allied Stores, Ann Taylor included, in 1986.) On June 15, the annual moved deeper into obsolescence when Campeau reversed itself, disclosing plans to sell the division after all. The news rattled the Allied debt holders, sending the 11½s of 1997 to the mid 80s, to yield 14.3% or so, from the high 80s, and serving notice to the watchers of Campeau Corp. that they know less than they think (which was little enough anyway).

Campeau, the Toronto-based real-estate and retailing giant, is as inconspicuous as a great debtor can be. In the words of the Canadian analysts who try to keep up with it, the company "is a moving target." When Robert Campeau, the unpredictable chieftain, says he won't sell this or that division, he may or may not sell it; when he says he won't sell junk bonds to the public, he may sell them anyway—about $1 billion in Campeau paper is expected around Labor Day. By that time, perhaps, the major debt-rating agencies will have formed an opinion of the issuer. As of last week, Campeau was (from the agencies' point of view and most of Wall Street's) *terra incognita*.

So for now, pending receipt of new financials, the Campeau annual will have to do. Creditors will worry about its lavishly thick paper, oddball statistical contents (e.g., a drop in cash to $19 million on Jan. 31, 1988, from $302 million on Dec. 31, 1986) and pseudo-Churchillian prose. "In retailing and real estate," it says on page four, "industries that have become predictably conservative over the years, Campeau is a company that is prepared to take calculated risks. Campeau Corp. has the visionary qualities to see what others do not, to act while others hesitate, and to create value in innovative ways."

Although $1.7 billion of secured debt was paid down last year, it can't be said that Campeau's creditors have had a value-laden time of it. When Campeau bought Federated Department Stores this spring, Federated's debt rating (covering about $980 million's worth) plunged to B2, which is junk, from Aa2, which is not. The magazine *Corporate Finance* has revealed "How Campeau pulled off an equity-free acquisition: His $6.6 billion takeover of Federated tested the outer limits of leverage." The monthly found that the only true equity involved in the purchase was $195 million (less than 3% of the price) raised by Campeau through the sale of another Allied division, Brooks Brothers—"and it isn't even enough to cover the front-end fees on the bank debt." On Tuesday, following release of lackluster retailing results by Allied and Federated, Allied's $3.3125 cumulative exchangeable preferred was quoted at 16¾-17¾, evidently a post-crash low. It was issued in March 1987 at 25.

What is so striking is the vast asymmetry between the creditors' up side and Campeau's. If his dream (whatever it may be) is realized, Campeau will take his rightful place among the world's moguls. In that happy event, the creditors will get their money back, which, by the way, they had before Campeau borrowed it. ". . . Campeau is a company that is prepared to take calculated risks" is an understatement that ought to focus the bondholders' attention on the topic of risk and reward. It is late in the business cycle, arguably, for a debtor to be acting out his self-image as a cross between Frank W. Woolworth and Napoleon. It is a stunning personal ambition, and we envy Campeau's future biographer. However, nothing is forcing the investors of hard-earned capital to finance the equivalent of the emperor's invasion of Russia.

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