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## CASE STUDIES

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“Case Studies” presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

*Jack L. Treynor, Senior Editor*



### CEREAL MERGERS

In a few days, Rex Mooring would be visiting the new CEO of Amalgamated Cereals. The purpose of his visit is to gather information that might help him appraise Amalgamated’s latest acquisition. The CEO, who had been hired a few months before the acquisition was announced, was enthusiastic. But Mooring was skeptical: Would it prove to be merely the most recent in a long series of acquisitions that had followed the same depressing pattern:

1. A new CEO, hired with fanfare
2. An acquisition announcement
3. An enthusiastic CEO
4. Ultimate disappointment
5. Sudden departure of the CEOs, some fired outright, some “leaving to spend more time with their family”

In every case, the financial media had blamed the CEO for botching a promising acquisition.

To be sure, Almagamated’s acquisitions had posed special challenges:

Rice Crunchies had defied all attempts to control manufacturing costs.  
The marketing synergies promised for Oat Mealies had never materialized.  
Corn Plasters had encountered unanticipated image problems with the consumers.

But now the latest CEO, Farley Boscombe, was touting the exciting possibilities of Wheat Crispies: Would he achieve the success that had eluded his predecessors or, like them, would he end up taking personal responsibility for a failed acquisition?

Mooring was discouraged by Amalgamated’s record. On the other hand, in every case the departing CEO had taken full responsibility for the failure. Its highly touted new CEO had compiled an impressive record in agricultural pesticides. Would he put Amalgamated’s pattern of failed

acquisitions behind it? Mooring's clients needed a tough-minded appraisal from him. He felt that, if he asked the right questions, his interview with the new CEO could be helpful.

## QUESTIONS

What is the new CEO's take on the breakfast food business?

Was the acquisition the new CEO's idea? If not, was the new CEO nevertheless hired to manage an as yet unspecified acquisition?

What sort of compensation will he receive if he is fired? Is the compensation subject to any special conditions?

How long does he expect to be with Amalgamated?

How does he feel about the relevance of his previous work experience?

Are there influential investment bankers on the board?

Were they involved in finding and hiring him?

Has he talked to any of his predecessors?

Does he have any comments on Amalgamated's record?