Case Co. Investment In French Hydraulic Excavators: A Signal for the Future?

CORPORATE AFFAIRS

J.I. Case Company, a manufacturer and distributer of farm and construction equipment, has signed a Letter of Intent to Purchase 40 per cent of Poclain S.A., a French-based manufacturer of hydraulic excavators.

Pending approval of the Boards of Directors of the two companies and the French government, Tenneco, the parent company of J.I. Case will acquire stocks and assets of the French company, totalling $65 million.

Poclain is the largest producer of hydraulic excavators in the world and is described as "one of the jewels of the French engineering industry" by the *Financial Times*. The company, however, was on the brink of financial disaster due to the collapse of the internal and export market for heavy farm and construction equipment.

The French family-dominated company has a strong tradition of capital outlay for technological development and had invested heavily in expansion of its own plant and equipment just prior to the 1974 downturn.

Without increased sales expected from the export market, the debt equity ratio of the company increased rapidly over the past years. In addition, French authorities refused to allow Poclain to cut its workforce, resulting in a serious cash flow crisis.

Tenneco is a large Texas-based conglomerate recently in the news because of a dispute with the U.S. Congress over Tenneco's attempt to build a pipeline in the Soviet Union which would facilitate U.S. imports of Siberian natural gas. The company obviously not afraid of starting a little controversy while pushing for increased trade, has created quite a stir by receiving the French firm.

Two articles covering a full-page in the Jan. 26 *Financial Times* tried to play off the deal as an insult to French national pride. However, a financial analyst with Merrill Lynch revealed that Tenneco invested in the company because it foresees an export market to the underdeveloped sector on the basis of recycled petrodollars.

A Real Prognosis For The Rail Industry

RAIL

In descriptive accounts of the performance of the railroad industry during 1976, the American Association of Railroads, the Department of Transportation and various private financial analysts agreed on such phrases as "landmark year," "an excellent recovery year," and even "the beginning of a new era for railroads." If the financial performance of this vital industry during 1976 is viewed narrowly in relation to its recent financial history and apart from its deteriorating physical condition, one can understand how honest men might derive such a distorted picture. The true prognosis for U.S. railroads, as the situation now stands, however, is contrary.

The key revenue producing operation for U.S. railroads is freight traffic. Total freight traffic carried during 1976 was 5 per cent higher than 1975 but still 8 per cent lower than the 1973 and 1974 figures. A closer look at 1976 figures, however, reveal that shipment of capital goods, coal and grain were down in 1976 from the depressed 1975 figures. Automobile shipment up 20 per cent accounted for most of the 1976 increase. This is not a healthy freight market.

Freight revenues however rose to a record in 1976 of $17.6 billion over $15.4 billion in 1975 and $15.7 billion in 1974, thus bringing income substantially above the 1975 deficit and to about half of the 1974 figure. This recovery in income was generated at the expense of an unprecedented 9 per cent reduction in the labor force and 8 per cent increase in freight rates over the two years.

The inability of railroads to remain financially solvent in a weak U.S. economy is not surprising, but that is not the extent of the problem. The post-war history of this industry shows the short circuiting of its potential and physical deterioration.

Today capital spending per ton mile has completed a steady decline to levels half what they were in 1950. In 1976 the locomotive fleet decreased in number for the first time in six years as did the number of freight cars.

Expenditures for maintenance of the Right of Way were up 17 per cent in 1976 over 1975. However, the legacy of 30 years of deferred payments to maintenance levels leaves the industry with well over 100 million crossties and 5 million tons of rail needed to be replaced.

The current amount of this deferred maintenance are estimated to be between $10 and $15 billion. Consequently the number of train accidents has doubled since 1957 and the per cent of those attributed to maintenance of way