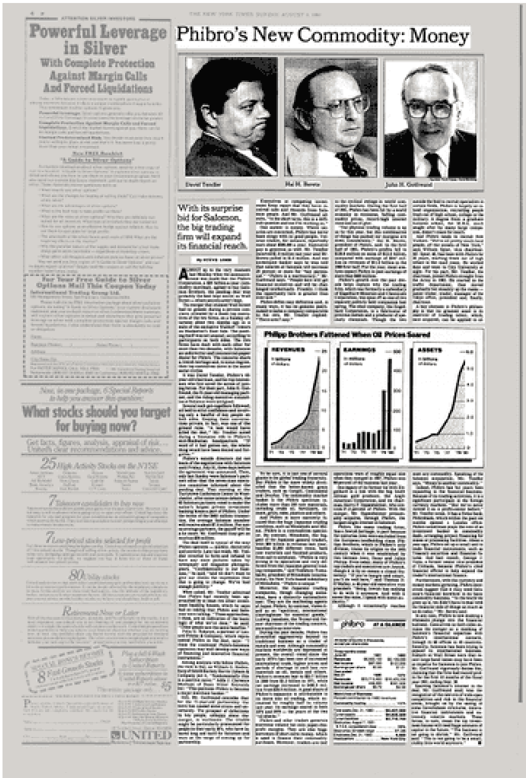
PHIBRO'S NEW COMMODITY: MONEY

By Steve Lohr

Aug. 9, 1981


Powerful Leverage in Silver

With Complete Protection Against Margin Calls And Forced Liquidations

What stocks should you target for buying now?

Phibro's New Commodity: Money

With its surprise bid for Salomon, the big trading firm will expand its financial reach.

Philipp Brothers Fattened When Oil Prices Soared

See the article in its original context from
August 9, 1981, Section 3, Page 4 Buy Reprints

About the Archive

This is a digitized version of an article from The Times's print archive, before the start of online publication in 1996. To preserve these articles as they originally appeared, The Times does not alter, edit or update them.

A LMOST up to the very moment last Monday when the announcement was made that the Phibro Corporation, a $26-billion-a-year commodity merchant, agreed to buy Salomon Brothers, the pending deal was probably the best kept secret on Wall Street - where secrets aren't kept.

The merger that stunned Wall Street had its genesis during a private conclave, attended by a dozen top executives of the two firms, on a Sunday afternoon about two months ago in a suite of the exclusive Waldorf Towers on Manhattan's East Side. The meeting itself was not unusual, according to participants on both sides. The two firms have dealt with each other for more than two decades, with Salomon an underwriter and commercial-paper dealer for Phibro. The concerns share a Jewish heritage and, to some degree, their top executives move in the same social circles.

It was David Tendler, Phibro's 43-year-old chairman, and his top lieutenants who first aired the notion of joining forces. For their part, John H. Gutfreund, the 51-year-old managing partner, and the ruling executive committee at Salomon were intrigued.

Several such get-togethers followed, all held in strict confidence and involving only a handful of key people on both sides. Keeping these conversations private, in fact, was one of the ground rules. ''A leak would have killed the deal,'' Mr. Tendler noted during a limousine ride to Phibro's mid-Manhattan headquarters. ''If word of it had gotten out, the whole thing would have been denied and forgotten.''

Phibro's outside directors did not learn of the negotiations with Salomon until Friday, July 31, three days before the agreement was announced. Then, only last Sunday were Salomon's partners other than the seven-man executive committee informed about the pending deal. That morning at the Tarrytown Conference Center in Westchester, after some intense debate, the 62 Salomon partners voted to make the nation's largest private investment banking house a part of Phibro. Under the terms of the $483-million transaction, the average Salomon member will receive about $7.8 million. For not-so-average partners, the payoff will be a lot more. Mr. Gutfreund may get as much as $35 million.

The deal itself is typical of the way Phibro operates - quickly, decisively and secretly. Late last week, Mr. Tendler reverted to form and refused to have any more pictures taken by newspaper and magazine photographers. ''Confidentiality is our business,'' he said, ''and we don't want to give our clients the impression that that is going to change. We've had enough publicity.''

When asked, Mr. Tendler admitted that Phibro had recently been approached by at least two other investment banking houses, which he says had no inkling that Phibro and Salomon were talking. ''Those approaches, I think, are an indication of the basic logic of what we've done,'' he said. ''Other people saw the same benefits.''

Felix G. Rohatyn, a partner of Lazard Freres & Company, which represented Phibro in the deal, says: ''I think the combined Phibro-Salomon operation may well develop new ways of financing and innovative financial instruments.''

Among analysts who follow Phibro, the view is that, as William G. Siedenburg of Smith Barney Harris Upham & Company put it, ''fundamentally this is a positive move.'' Adds J. Clarence Morrison of Dean Witter Reynolds Inc: ''This positions Phibro to become a major merchant banker.''

Still, Mr. Gutfreund concedes that for the 71-year-old partnership the move has caused some strain and uncertainty. The prospect of defections by key people, unhappy about the merger, is worrisome. The trouble might be particularly pronounced for people in their early 30's, who have labored long and hard for Salomon and were on the verge of coming up for partnership.

Executives at competing investment firms report that they have received calls and resumes from Salomon people. And Mr. Gutfreund admits, ''In the short term, this is a difficult question and one I'm working on.''

One answer is money. Where salaries are concerned, Phibro has never been stingy with its good people. Veteran traders, for instance, reportedly earn about $500,000 a year. Executive pay is generous as well. Mr. Tendler received $1.8 million last year and Mr. Beretz pulled in $1.6 million. And one investment banker says he was told that salaries at Salomon will increase 25 percent or more for ''key personnel.'' ''Phibro is a meritocracy,'' Mr. Gutfreund says. ''People here will get financial incentives and will be challenged intellectually. Frankly, I think the opportunity here is greater than ever now.''

Phibro defies easy definition and, in many ways, it has no genuine peers. Asked to name a company comparable to his own, Mr. Tendler replied: ''There aren't any.''

To be sure, it is just one of several giants in the global trading fraternity. But Phibro is far more widely diversifed than the betterknown grain traders, such as Cargill, Continental and Dreyfus. The commodity market basket in the Phibro spectrum includes more than 150 raw materials, including crude oil, fertilizers, cement, grain, coke, plastics and others.

And Phibro is more narrowly focused than the huge Japanese trading combines, such as Mitsubishi and Mitsui. Phibro is a commodities specialist. By contrast, Mitsubishi, the biggest of the Japanese general traders, with $60 billion in revenue last year, handles 25,000 different items, both raw materials and finished products, from salt to airplanes. ''Phibro is very strong in its specialties and very different from the Japanese general trading companies,'' said Toshihiro Tomabechi, president of Mitsubishi International, the New York-based subsidiary of Mitsubishi. ''Phibro is unique.''

Moreover, the Japanese trading companies, though changing somewhat, have a distinctly nationalistic cast: They are the marketing agents of Japan. Phibro, by contrast, views itself as an ''apolitical, international clearinghouse for essential goods,'' Ludwig Jesselson, the 70-year-old former chairman of the trading concern, said in an earlier interview.

During the past decade, Phibro has diversified aggressively beyond its traditional business as a trader of metals and ores. Though commodity markets worldwide are depressed at present, the overall trend since the early 1970's has been one of increased international trade, higher prices and periods of shortage in such key raw materials as oil, metals and others. From 1971 to 1980, Phibro's revenues lept from $1.2 billion to $23.7 billion, while net earnings increased from $26.8 million to $466.8 million. A good share of Phibro's expansion is attributable to its move into oil trading, which accounted for roughly half its volume last year. Its earnings soared in both 1974 and 1979 - the years of the two ''oil shocks.''

Phibro and other traders generate enormous volume but only paperthin profit margins. They are also huge borrowers of short-term money, which is used to finance their commodity purchases. Moreover, traders are tied to the cyclical swings in world commodity markets. During the first half of 1981, Phibro has been hit by a world economy in recession, falling commodity prices, record-high interest rates and an oil glut.

''Our physical trading volume is up so far this year, but this combination of things has pushed our margins are down considerably,'' Hal H. Beretz, president of Phibro, said. In the first half of 1981, Phibro's profits fell to $128.8 million on sales of $12.6 billion, compared with earnings of $247 million on revenues of $11.2 billion in the 1980 first half. For the year, most analysts expect Phibro to post earnings of more than $400 million.

Phibro's growth over the past decade helps explain why the trading firm, which was formerly a subsidiary of Engelhard Minerals and Chemicals Corporation, was spun off as one of two separate publicly held companies last spring. The other company, the Engelhard Corporation, is a fabricator of precious metals and a producer of specialty chemicals. Though the two operations were of roughly equal size when they merged in 1967, Phibro was 90 percent of the business last year.

One legacy of its former tie with Engelhard is a link with the big South African gold producer, the Anglo American Corporation, and its chairman, Harry F. Oppenheimer, who controls 27.3 percent of Phibro. With the merger, Mr. Oppenheimer presumably acquires, through Phibro, the largest single interest in Salomon.

Phibro, like many trading firms, has a Jewish heritage, in part because for centuries Jews were excluded from the European landholding class. Philipp Brothers, which is Phibro's only division, traces its origins to the 19th century when it was established by two German Jews, Oscar and Julius Philipp. Even today, many of Phibro's top traders and executives are Jewish, though it is by no means a closed fraternity. ''If you're hungry and smart, you'll do well here,'' said Thomas D. O'Malley, a 40-year-old executive vice president. ''Being Jewish has nothing to do with it anymore. And with a name like mine, I speak with some authority.''

Although it occasionally reaches outside the fold to recruit specialists in certain fields, Phibro is largely an inbred organization, recruiting people fresh out of high school, college or the military. A degree from a graduate business school, the M.B.A. much sought after by many large companies, doesn't count for much.

And Phibro tends to recruit New Yorkers. ''We're all pretty much local people, off the streets of New York,'' says William Spier, vice chairman. Mr. Spier, 46, has been with Phibro for 28 years, starting fresh out of high school in the mail room. He worked days and went to City University at night. For his part, Mr. Tendler, the chairman, joined Phibro straight from the Army in 1961. He started in the traffic department, then moved gradually but steadily up the ranks - junior trader, trader, manager of the Tokyo office, president and, finally, chairman.

A key element in Phibro's philosophy is that its greatest asset is its reservoir of trading talent, which, once acquired, can be applied to almost any commodity. Speaking of the Salomon acquisition, Mr. Tendler says, ''Money is another commodity.''

Indeed, Phibro has for years been expanding in the financial business. Because of its trading activities, it is a significant participant in the foreign currency markets. ''But we've never viewed it as a profit-center before,'' Mr. Tendler notes. It has a Swiss bank, Phibrobank, which within the past six months opened a London office. Phibro sometimes plays the role of an investment banker in commodity deals, arranging project financing for mines or processing facilities. About a year ago, Phibro set up a small unit to trade financial instruments, such as Treasury securities and financial futures. And last month, George J. Vojta, a former senior vice president of Citibank, became Phibro's chief financial officer to help expand the trader's international finance.

Furthermore, with the currency and money markets gyrating, Phibro executives suggest that it may need Salomon's financial knowhow in its basic commodity business. ''In the world we grew up in, we didn't have to deal with the financial side of things as much as we do today,'' Mr. Beretz said.

In any case, Phibro is now making a wholesale plunge into the financial business. Executives on both sides envision the merger as a meshing of Salomon's financial expertise with Phibro's international contacts, through its 60 offices in 45 countries. Recently, Salomon has been trying to expand its international business. Rumors on Wall Street were that recent large bond losses may have been an impetus for Salomon to join Phibro. Mr. Gutfreund vigorously denies this, claiming that the firm had record profits for the first 10 months of the fiscal year 1981, ending Sept. 30.

Spurring Salomon's interest in the deal, Mr. Gutfreund said, was the recognition of the new era of wide-open competition and risk in the financial arena, brought on by the easing of some Government strictures, innovative financial instruments and extremely volatile markets. These forces, in turn, mean the top investment houses will need huge amounts of capital in the future. ''The business is not going to shrink,'' Mr. Gutfreund said. ''This is not going to be a small, clubby little world anymore.''

A version of this article appears in print on , Section 3, Page 4 of the National edition with the headline: PHIBRO'S NEW COMMODITY: MONEY