Corporate raid on Australian airline collapses

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An $11.1 billion takeover bid for the Australian airline Qantas collapsed last weekend after the Macquarie Bank-led syndicate, Airline Partners Australia (APA), failed to meet the deadline for acquiring 50 percent of shares—a legal requirement for the offer to continue. If it had succeeded, the takeover would have been one of the largest in Australian corporate history.

Reaching the 50 percent target would have given the consortium a further two weeks to acquire the 70 percent of shares needed to complete the takeover. A final appeal by APA to the Takeovers Panel to allow a late share purchase was rejected this week.

The APA operation—a blatant attempt to plunder the profitable airline—came unstuck when a 4.9 percent parcel owned by Samuel Heyman's New York-based hedge fund HIA failed to arrive by the deadline of 7 p.m. on May 4. HIA owns 10 percent of Qantas shares valued at $1.1 billion.

Heyman, a billionaire, made his fortune by cooperating with junk-bond king Michael Milken in mounting corporate raids on undervalued companies. In the case of Qantas, he wrongly calculated that APA already had the 50 percent needed, but was withholding the news to maximise its share purchases at the existing price.

Upset by the debacle, sections of the financial press lashed out at Heyman. An editorial in the *Australian Financial Review* was headed "Greed outwitted itself". But Heyman only epitomised the voracious appetite for easy profits of all the major players involved in the APA grab—Macquarie Bank, TPG, Allco, Canada's Onex Partners, various hedge fund operators and members of the Qantas board itself.

Heyman held off selling the share parcel in the expectation of higher prices during the final two weeks of grace, as APA scrambled to reach the 70 percent mark.

BBY aviation analyst Fabian Babich pointed out that other hedge fund players had also attempted to structure their acceptances to get APA over the 50 percent line, "but only just". "The reason for that is the closer you take APA to 70 percent the less and less uncertainty there is about the deal being concluded and therefore the less incentive there is for anybody to be selling on market price," he explained.

The whole APA operation is a particularly graphic example of the rapacious character of such takeovers by cashed-up corporate raiders. One market analyst aptly described APA's bid for Qantas as "predators circling a sea of cash".

The takeover would have added nothing of value to Qantas financially or in the way of expertise. Qantas is expected to make $1.2 billion before tax in the financial year to June 2008. At $5.45 per share, APA was offering to buy the airline for less than 13 times the expected net profit of $800 million in 2007-08.

Having paid $11.1 billion to gain control of Qantas, APA was looking to quickly recoup its money and more. It planned to use its controlling stake to rip back $4 billion in dividends at the end of the first 12 months. Its own borrowings were to be offloaded onto Qantas, saddling the airline with $7.5 billion in debt. Another $3.5 billion was being raised in equity.

APA expected a further bonanza by savagely restructuring the airline. Once in control, Macquarie Bank had planned to sell off Qantas's catering business, to sell and lease back aircraft and to sell off spare engines and the airline's frequent flyer program. According to JPMorgan's banking analyst Brian Johnson, these deals would have been worth around $600 million.

"Selling all those bits and pieces... it all adds up. Whether it be through leasing or refinancing, Macquarie Bank would have geared up the business and made its fees along the way, not from one deal, but from a plethora of smaller ones," Johnson said. Macquarie was already looking to rake in around $130 million in advisory fees had the consortium's bid been successful.

The syndicate's aggressive asset stripping would have continued to undermine safety standards, already compromised by past cost-cutting. Even before the APA bid, maintenance workers warned that the closure of long-established engine repair centres and the break-up of areas of technical expertise would inevitably affect air safety.

However, passengers and staff were the last thing on the minds of senior Qantas managers who stood to gain salary rises and performance payments worth as much as $200 million if the takeover were successful. The airline's chairperson Margaret Jackson and CEO Geoff Dixon both aggressively recommended the offer to shareholders when it was launched last December.

While everyone at the top was set to line their pockets, Qantas workers would have borne the brunt. APA's restructuring of the airline would undoubtedly have included another round of aggressive cost-cutting and job shedding to pay for the increased debt and to rake in higher profits. Qantas was considered a prime takeover target precisely because of the profits produced by years of savage cuts to jobs, wages and conditions by Dixon and the board.

Between 2001 and 2003, Qantas slashed its 35,000-strong workforce by 5,200. Workers had already accepted an 18-month pay freeze in 2001 after being told this might avert job cuts. Last year, Qantas closed its Sydney-based heavy engineering maintenance workshop, destroying around 470 jobs, and also relocated some pilot and cabin staff jobs offshore to cut wages. At every step, management has been able to rely on the trade unions to suppress industrial action and impose its demands.

As a reward for the slashing of costs, Dixon renegotiated a three-year contract in 2004 giving him a fixed annual remuneration (FAR) of $2 million and a potential cash bonus equal to 60 percent of FAR. Jackson's base remuneration in 2004 was $484,000. She also raked in annual directors fees for serving on other corporate boards including $127,400 from ANZ, $84,822 from Billabong, $125,000 from Southcorp and $71,760 from Fairfax.

It is tipped that Jackson's head could be the first to roll following the takeover debacle. A spokesman for the Australian Shareholders Association, representing small investors, said this week that Jackson had "neglected the interests of shareholders" and "promoted and pushed and coerced shareholders to sell". Even if she goes, however, Jackson will undoubtedly receive a payout far more generous than the many workers whom she helped to sack.

The Transport Workers Union complacently greeted the collapse of the APA bid as "a win for families and a win for all Australians". In fact, the fall in the airline's shares to $4.30 following the takeover's failure will undoubtedly lead to demands for further cost-cutting measures. And there are already signs that new corporate predators have begun circling Qantas's "sea of cash". In either case, management knows it can count on the airline unions to suppress any campaign to defend jobs, conditions and services.