

FORBES

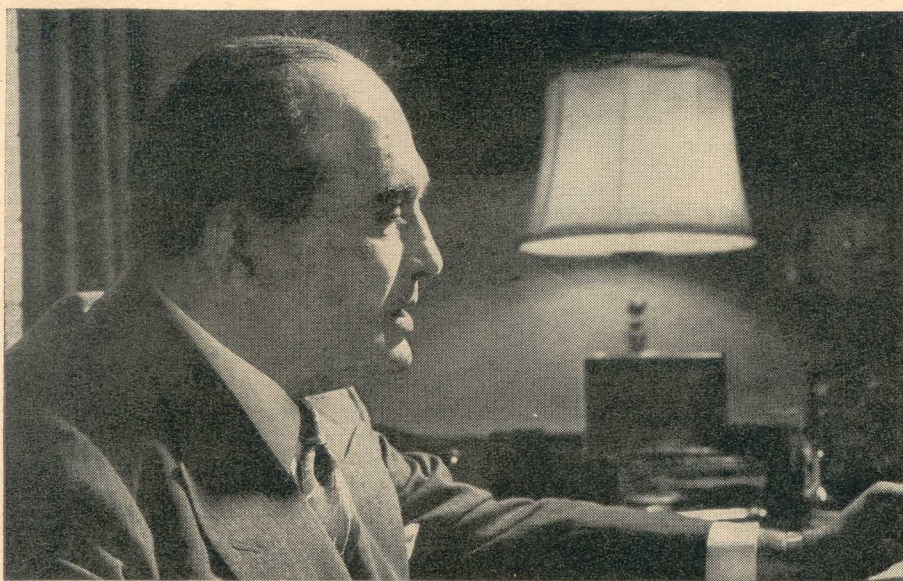
B U S I N E S S A N D F I N A N C E



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APRIL 1, 1957

AVCO's VICTOR EMANUEL
A feast after famine?



INDUSTRIALIST VICTOR EMANUEL: a year of decision

ELECTRICAL EQUIPMENT

CAN AVCO COME BACK?

After years of playing fox and hounds with fortune, Chairman Victor Emanuel candidly concedes that this year Avco Corp. "will have to put up or shut up."

ONE OF the more poignant motion pictures Britain turned out in World War II told of a kindly headmaster of an English boys' school who undertakes a perilous mission to pre-war Nazi Germany. In the course of it, he endures the kind of hardship and humiliation that would break a lesser man. The movie's title: *Mr. Emanuel*.

U.S. industry has its own Mr. Emanuel. His name: Victor Emanuel, 59, chain-smoking chairman of ambitious, hot and cold-running Avco Mfg. Corp.* Though no headmaster, Avco's Emanuel is a onetime Master of Hounds who has come thoroughly to understand the point of view of the hounded fox.

"I Was Wrong." Like his movie counterpart, Victor Emanuel† has also just returned from a perilous journey, the kind that might break a lesser man or lesser company—a misfortune-filled eleven-year charge into the valley of home appliances. Late last year Emanuel's Avco, whose Bendix home laundries and Crosley refrigerators, radio and TV sets were once powers in their field, finally

*Traded NYSE. Price range (1956-57): high, 7½; low, 5½. Dividend (1956): none. Indicated 1957 payout: 20c. Earnings per share (1956): d.\$1.84. Total assets: \$181.7 million. Ticker symbol: AV.

†No kin to Italy's ex-King Victor Emanuel, Avco's Dayton-born boss came by his name because his mother, who always wanted a son named Victor, "just happened to marry a man named Emanuel."

tossed in the towel.

Unable to compete with such appliance giants as General Electric, General Motors and Whirlpool-Seegeer, the Bendix and Crosley divisions were losing \$1 million a month in an industry that had already seen 27 top brand companies give up the ghost in just three years. Taking retreat as the better part of valor in such circumstances, Avco sold its home appliance business to Philco for \$6 million. Effect on Avco's books: a staggering \$16.4 million net loss (including \$16 million set aside to provide for losses in getting out of the appliance business). Admits Avco's Victor Emanuel mournfully: "I'm not going to sit here and say I never made a mistake. I made a basic error. I was wrong."

Actually, Emanuel's "basic error" is one that at the time was shared by many another top-flight U.S. businessman. In essence it was a conviction that after World War II the U.S. would not soon again see another war. Says one associate, summing up Avco's appliance plunge: "Victor is a gentle soul who could never have borne the thought that there would be anything like Korea."

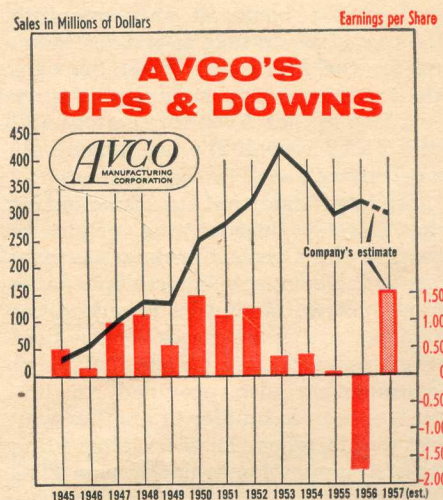
Thus at war's end, having stocked the U.S. arsenal with \$4 billion worth of war material—more than any other company except GM, GE and Curtiss-Wright—Avco lightened ship to take on consumer cargo, even changed its

name from Aviation Corp. to Avco as better befitting its peacetime pursuits. Overboard went Consolidated Vultee, which had turned out 33,000 military aircraft, 13% of the nation's entire wartime output. Out, too, went New York Shipbuilding Corp., which had sent more heavy ships (10,000 tons and up) down the ways than any other single yard. Also out went American Propeller Corp., which had produced 84,000 blades for bombers and fighters. Sold along with the rest were Republic and Northern Aircraft Products, which between them had turned out \$40 million worth of precision parts for aircraft engines.

Top Of The Boom. Into Avco's corporate orbit to replace them came such outfits as Canada's Moffats, Ltd. (ranges), New Idea, Inc. (manure spreaders), Powel Crosley's versatile Crosley Corp. (purchase price: \$19.7 million), including the promising Crosley Broadcasting stations, and later Bendix Home Appliances (purchase price: \$16 million). Avco was back in civvies with a vengeance.

For awhile, it all paid off handsomely. By 1950 Avco was riding the crest of the home appliance boom. Almost universally Victor Emanuel was hailed as something akin to genius. No wonder. In five short years, Avco's sales had skyrocketed from \$32 million to \$257 million, its net income from \$2.8 million to \$12.6 million. By then no one in the automatic washer business could even come close to matching Bendix's 20% of the market. Meanwhile Crosley's Shelvador refrigerator, once an obscure brand, had grabbed 10% of the refrigerator market, was fighting Philco for third place after GM's Frigidaire and GE.

Then the roof began first to leak, and finally to cave in on Avco's appliance venture. The Korean war brought material shortages to consumer goods industries. A weak distribution set-up, compounded by



soaring costs and management shuffles in Cincinnati, begot dealer discontent. Worse still, Avco appliances began developing bugs: e.g., a spring in the Bendix Power Surge Washer developed a disposition for breaking; the pilot light in the Bendix gas dryer kept blowing out; one line of 21-inch Crosley TV receivers was so underpowered that 10,000 sets had to be sent back for major overhaul. So bad did things become that one Texas dealer fired off a wire to Cincinnati charging sabotage. Surely, he implied, no company could accidentally make so many mistakes.

Even such drastic measures as combining Crosley and Bendix into one appliance line failed to save the ship. By the middle of last year, Bendix's share of the washer market had plummeted from 20% to 5%. Meanwhile Crosley's portion of U.S. refrigerator sales thudded down from 10% to 4%. In place of the combined \$20 million the Crosley-Bendix divisions had earned before taxes in 1950, two years later they were earning only \$5 million.

But the worst was yet to come: 1952 turned out to be the last year Avco's appliance business was to show black ink. In the next three years, appliance losses averaged \$7 million a year, and by the end of 1956's first nine months, the losses were running wild at \$11 million. Emanuel felt that he had no choice but to get Avco out of appliances at all costs.

Silver Lining. Last month Avco's Victor Emanuel was speaking and acting like a man who had perhaps lost a battle, but not the war. "The appliance business," he pointed out, "is worse now than when we got out." And, he added, while the \$16 million loss looks bad on Avco's books, there is also much that the books do not show. Not only did Avco earn \$35 million before taxes on its appliance properties before the bubble burst, but the plants themselves are carried on the books at only one fifth the cost it would take to replace them. As for the loss itself, it can be carried over as a tax saving on future earnings so that Avco fortunately will be able to keep 1957's net income almost intact.

Equally important to Emanuel is that Crosley Broadcasting, originally part of the Crosley package, is now one of the company's most dependable profitmakers. Today its annual gross and net are three times larger than when Avco bought Crosley. Crosley Broadcasting also provided an important morale builder in another way last month when, 11 years after filing its first application, it finally won FCC permission to transmit over Indian-



PRESIDENT RICH:

he underscored a promise

apolis TV Channel 13. The new station (WLW-I) brings to five the number of VHF outlets operated by Crosley, the maximum allowed by one company under FCC regulations.

Up & Down. "Never marry a business," Emanuel's father, a midwest interurban railway entrepreneur, used to tell him. "Conditions change. What is great today won't be great tomorrow." Victor Emanuel has since had ample reason to respect his father's wisdom. As a young man he

left Dayton's St. Mary's College in World War I to join the fledgling U.S. Naval Flying Corps, rose to chief quartermaster of aviation. At war's end he joined his father's firm, the Albert Emanuel Co., took over the presidency when his father retired in 1924. That year he organized the National Electric Co., a public utility holding company, five years later arrived on Wall Street with the founding of the investment house of Emanuel & Co. (now Emanuel, Deeten & Co.).

By the time he was 30, Victor Emanuel had piled up a personal fortune in public utilities reckoned at some \$40 million. "If anybody had told me that the public utility holding company business would bust up," says Emanuel today, "I would have called him crazy." But when the market crashed in 1929, Emanuel's holdings and his fortune crashed with it.

Old Avco. In 1937 Emanuel climbed aboard Avco's predecessor, Aviation Corp., as president. Nothing like the old Avco ever was. An immense holding company, it was a complicated corporate hodgepodge that at one time had 66 directors ("The greatest board," Emanuel insists, "that this country ever had.") and 47 subsidiaries. Included in Aviation Corp.'s crowded portfolio: 29.6% of the common of Consolidated Vultee (which in turn controlled 48% of ACF-Brill Motors), 20.7% of New York Shipbuilding Corp., such remnants of the E.L. Cord auto empire as 61.3% of American Central Mfg.; 20.3% of American Airlines, 6% of Pan American Airways and 20% of Roosevelt Field. So involved were Avco's wheelings & dealings that a catch phrase became a company cliché: "Now this is going to sound complicated, but it really isn't."

Under Emanuel's ministrations, Avco transformed itself from a holding company into a manufacturing company with some sizable outside investments. Though the Government forced Avco to part with all but 4% of its American Airlines holdings (in 1945), Avco sold the rest voluntarily (in 1951). Selling at 70 (prior to American's 5-for-1 stock split), Emanuel crows, "We got out ahead of the game—and the same was true for Pan-Am." But as for the rest of Avco's postwar dumpings, Emanuel readily admits that "The decisions were mine" (though his board went along).

He junked ACF-Brill because he saw no future for Avco in a bus company, jettisoned American Propeller because he saw the jet age coming on. Emanuel defends his ac-

AVCO'S INS & OUTS

1945: BOUGHT Crosley Corp. and New Idea, Inc.

SOLD bulk of American Airlines shares

1947: SOLD Consolidated Vultee

RECEIVED Nashville Corp. and ACF-Brill Motors Co.

1950: BOUGHT Bendix Home Appliances, Inc.

LIQUIDATED Pan American Airways stock

1951: SOLD rest of American Airlines shares and ACF-Brill

1953: SOLD 25% interest in New York Shipbuilding Corp.

BOUGHT Ezee Flow and Moffats, Ltd.

1956: SOLD Crosley-Bendix Home Appliances

tions on grounds that he chucked only those properties in which Avco did not have a controlling interest. Being a minority holder, says Emanuel, Avco never did realize sufficient earnings to justify holding the properties, nor did it have the power to better them.

But if some on the Street are quick to criticize Avco's Emanuel for lopping off some mighty choice properties, others are just as ready to hold his coat. "Emanuel was right," says one analyst. "Just look what happened to the aircrafts between World War II and Korea." Yet it is also argued: "Look what happened to the aircrafts after Korea." Moreover, in dealing Avco a new hand postwar, Emanuel shrewdly kept one ace in the hole. He held on to money-losing Lycoming Engine. "It cost us a fortune to keep it going," he says ruefully, "but today it is one of Avco's two most profitable divisions."

Idea Man. Avco's Mr. Emanuel has been called "a corporate assembler, a buyer and seller of businesses on the grand scale, a sophisticated financier . . . a backer of big ideas, big goals—to the limit." Says an old and close associate: "Victor is basically a financial man, a promoter, a politician. His ideas are often very good. He has courage. If he manages, it's horrible. But if he guides, then it's splendid."

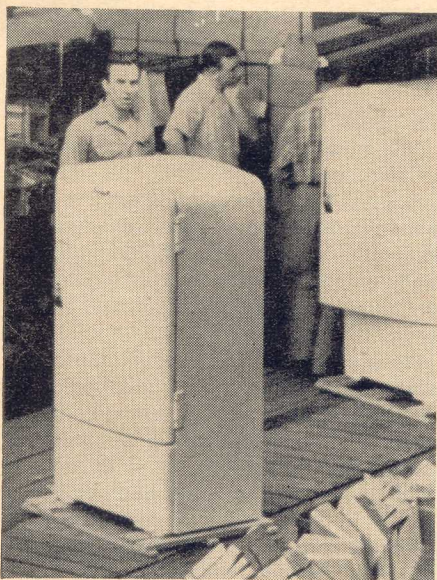
Though Avco Vice President—Finance Kendrick Wilson Jr. insists that "Victor's a lot more of an operator than he's willing to admit," Emanuel himself denies that he is any kind of bigtime wheeler-dealer. "I'm not a manufacturer, but an appreciator," he smiles. "I could never run a sales office, but I admire people who do." Comments one longtime associate: "Talking to Victor is like talking to an IBM machine with emotions."

Last month Avco's human calculator was clicking along like RAMAC. At Emanuel's direction, Avco immediately earmarked \$2 million to build a modern station for Crosley Broadcasting's new WLW-I, get it on the air by September. In Wilmington, Mass., ground was broken for a \$16.5-million super science center that will house Avco's ambitious Research and Advanced Development Division; be in operation by mid-1958. And recently Avco got word that a Lycoming engine has been selected to power Bell's 47J helicopter, the whirlybird that will serve as Dwight Eisenhower's air taxi. Says Emanuel: "The organization is much better. This company never had the opportunity to get on the kind of keel it is today."

Shadow & Substance. But for all of Emanuel's conviction, Wall Street's

attitude was still "Let's wait and see." And with some reason. Shorn of its Crosley-Bendix divisions, once mighty Avco is today a mere shadow of its former self. Still something of a corporate hodgepodge, it not only broadcasts (Crosley Broadcasting) and does scientific research (Research & Advanced Development), but manufactures everything from aircraft engines (Lycoming) and ranges (Mofats) up to and including manure spreaders (New Idea) and the kitchen sink (American Kitchens).

At \$320.5 million last year, Avco's sales are a long way from 1953's high of \$428 million. As for earnings, Avco managed to salvage only a token 5c a share in 1955, actually dropped 8c a share into the red last year (not counting the \$1.76 per share that it cost to get out of the appliance busi-



CROSLY REFRIGERATORS:
in went the towel

ness). Avco has not paid a dividend since 1955.

Thus when ebullient Victor Emanuel agreed to appear before the New York Security Analysts two months ago, it was little wonder that lower Manhattan's Schwartz's Restaurant was packed to the coat racks. Said one observer: "I've never seen anything like it. That company actually bared its soul." Emanuel's basic theme: "I have never been so confident of the future of this organization."

But while the analysts came to see Emanuel, they stayed to hear and cheer the young (44) man he introduced as "my valued colleague," and who pointedly carried the ball for the rest of Avco's presentation: Raymond A. (for Arthur) Rich, Avco's president since December.

If Emanuel claims to be "the world's worst speaker," Ray Rich comes close

to being the world's best. Smooth as a WLW announcer, he is a good looking ex-Navy man (Pacific), ex-management consultant (Van Doren, Nowland and Schladermundt) and former Philco vice president (appliances), who, Emanuel has already proclaimed, "will succeed me as chief executive officer." In three months on the job, heir-apparent Rich has made 33 different trips to Avco installations, in one four-day grind logged 5,000 miles in Avco's Lockheed Learstar. The Schwartz appearance was the first hard look that Wall Street had had of him, and it was visibly impressed.

Inside Avco. Division by division, Rich dissected Avco and let the analysts look inside:

- **Lycoming**—"An old-line name with a lot of new thinking." With many of its projects classified, Lycoming has been developing gas turbine engines since 1951, expects to see the T53 and its successor become widely used in both helicopter and fixed wing aircraft, military and civilian alike. This year Lycoming will be Avco's most profitable division.

- **Crosley**—Free of the Crosley-Bendix appliance millstone, it is concentrating on defense work. A major producer of B-52 fire control systems, it is also deep in development work on the Volscan air traffic control system, has a host of contracts for a mobile radar system, meteorological equipment, components for the SAGE continental defense system, as well as jet transport components. President Rich asserts flatly that Crosley will "turn around this year from a very large loss position to a large profit position." Adds he: "Crosley will probably be our second most profitable division, and it has a possibility for the greatest dollar volume and profit of any division over the next several years."

- **Crosley Broadcasting**—Showing a 15% profit gain last year, all four of the broadcaster's TV stations, plus Cincinnati's WLW radio outlet, are solid moneymakers. Avco's brass insists that the division's profits will be up again this year "over what was already a good profit showing in 1956."

- **New Idea***—A specialized farm equipment producer (Ezee Flow trademark), it is, says Rich, "coming along beautifully." In the 1956 farm slump, New Idea's sales declined only half as much as the farm equipment industry's and sales of its corn picker rose 23% for a clean sellout. From "a relatively good profit" in 1956, Avco ex-

*So named because its first product, a manure spreader, was very much of a new idea. The manure spreader, goes an old Avco joke, "is the only product the company won't stand behind."

pects New Idea to plow a 15% wider sales furrow this year, reaps a 100% increase in its net.

• **Moffats**—This Canadian producer of gas ranges, home laundry equipment, refrigerators and air conditioners constitutes Avco's last gasp in appliances. A money-loser last year, Moffats suffered from severe competition and low prices, but Avco is hanging onto it for two good reasons: 1) Moffats has a top name in Canadian gas appliances; 2) by summer, natural and bottled gas will be plentiful in once gas-hungry Canada, a fact that promises to give a lift to Canada's entire economy. With management shuffled, overhead cut and "new spirit" instilled, Moffats, Rich predicts, should be in the black by month's end. At Avco's New York headquarters, its brass now have private bets going on just how much money Moffats will make this year.

• **American Kitchens**—The weakest link in Avco's corporate chain, American Kitchens makes cabinets, sinks, ovens and dishwashers under its own label as well as for outside manufacturers, ranks second in the industry after American Radiator's Youngstown Kitchens. Struggling American will likely be Avco's only red ink division in 1957, but Emanuel and Rich insist that they see distinct black ink possibilities in it. With hush-hush secrecy, they are planning to launch the division into a new field, one that would cost some \$7 million to invade fresh, but will cost Avco, which already has the plant and capacity to tackle the new job, only some \$100,000. It expects to be in production by year's end.

• **Research & Advanced Development**—Only two years old, this division is already well in the black, may possibly prove to be Emanuel's shrewdest brainstorm. RAD's progress, says Rich, "is all the more amazing when you consider that it was done in a time of a declining profit situation." Determined to corral "not the biggest, but the best" scientific staff in the country, Emanuel personally set to work to persuade dozens of top drawer scientists to come to Avco. Among them: Division Chief and Board Member Dr. Lloyd P. Smith, onetime head of Cornell's Department of Physics, who turned down some 50 offers before taking Avco's; Dr. Arthur Kantrowitz, research lab director, board member, and gas dynamics specialist, who is deep in work on the re-entry phase of missiles. Significantly, says Rich, when RAD (now 1,500 strong) had to relocate last year from Stratford, Conn., to Lawrence, Mass., only 21 of the 800 scientists involved in the move dropped out. Having sold Avco to the scientists as the

AVCO'S 1957 BLUEPRINT

Category	Estimated Sales (in millions)	Percent of Total Sales
GOVERNMENT WORK:		
Electronics	\$60	20%
Contract machine work	6	2
Aircraft engines	50	16½
Aircraft components	15	5
Research & development	51	17
Total Government Work:	\$182 million	60½%
CIVILIAN BUSINESS:		
Farm equipment	\$20	6½%
Commercial engines (including aircraft)	22	7½
Commercial and consumer products	30	10
Commercial contract mfg. for others	34	11½
Broadcasting	12	4
Total Civilian Business:	\$118 million	39½%

kind of company where scientific minds can work and grow, Rich considers Avco's now blue ribbon staff part of the company's attraction, expects to net \$3 to \$5 in profits for every \$1 invested in research.

All in all, Avco confidently expects to ring up sales of \$300 million this year, net \$15 million, and resume dividends (probably at 20c a share). To the amazement of the analysts at Schwartz's, it even went so far as to break down its great expectations (see table).

Year of Decision. Victor Emanuel asserts that this is Avco's year of decision. In its first decisive quarter, Avco will probably ring up sales of some \$83 million (vs. \$88.7 million in 1956's first quarter), net 33c per share (vs. 7c). But as one wait & see Wall Streeter put it last month: "They'll have to deliver because that's their promise. Another disappointment is going to be a helluva lot tougher to

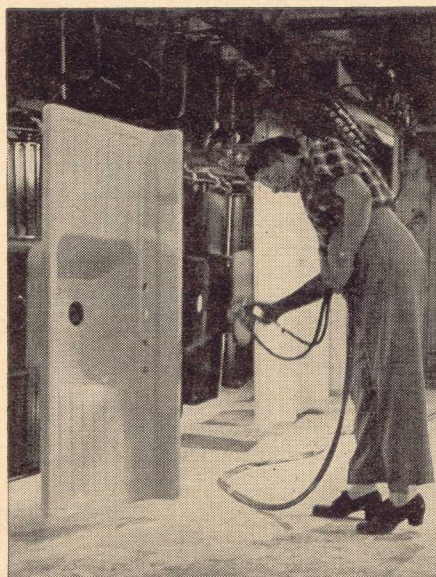
live down than that appliance fiasco." Replies Emanuel: "That's 100% correct."

But Emanuel feels in his bones that Avco will come through. "Never," says he, "have I felt such tremendous confidence in where we're going. We're in a lot better basic financial shape than most industrial companies I know." One thing that makes him feel so is Avco's working capital position, which now stands at a healthy \$68 million. Thanks to the Bendix sale, Avco's ratio of current assets to liabilities is up from 1.9:1 last year to 2:1. Moreover, while its books show total facilities valued at only \$38 million, they are actually insured for better than \$100 million. Meanwhile Avco has touched barely half a \$40 million bank loan, and by virtue of Government inventories and receivables alone, Emanuel cries gleefully, "the Government owes us more money than we owe anybody."

In this expansive mood, even Emanuel is willing to forgive Wall Street its show-me attitude. He admits quite frankly that, on its record, Avco deserves it. "There is indeed such a thing as biting off more than you can chew," he says, "and we did it." But with Avco's sales now geared to 60% Government work, 40% consumer goods and services, he is steering Avco toward the 50-50 break which he firmly believes will fully redeem the appliance disasters.

Significantly enough, while the defense backlogs of many military hardware producers have been falling off, Avco's has been rising, now stands at a hefty \$340 million, up 70% over 1955. "One thing you can count on," vows Emanuel. "This company will never get out of the defense business. If a war comes tomorrow [and Emanuel bitterly believes that World War III is now 'only too possible'] our Nashville plant can go right back to turning out whole planes, even missiles. I don't care how far that seems from manure spreaders, it's a great thing for stockholders to have that kind of diversification. And what's more, even if Ray [Rich] and I were to die tomorrow, this company has got the management depth to carry on without us. Of course, a depression or a war could upset the apple cart, but there's no use in aiming anywhere but the top."

"This is the year," one longtime Avco man put it succinctly last month, "that we've got to put up or shut up." But even if most of Wall Street has yet to see it their way, Emanuel, Rich and cohorts are convinced that in 1957 Avco will put up. If it can, then Mr. Emanuel, the old Master of Hounds, will have again proved himself a cunning old fox after all.



AMERICAN KITCHENS' SINK:
weakest remaining link