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* * * * * * THE WALL STREET JOURNAL. Wednesday, September 11, 2013 | C1

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Verizon Readies a Blowout

Bond Sale of as Much as $49 Billion Leaves Apple's Previous Record in Dust

By Mike Cherney, Dana Cimilluca and Liz Rappaport

Verizon Communications Inc. will sell as much as $49 billion worth of bonds to raise funds for the planned buyout of its U.S. wireless partner, highlighting an investor stampede into highly rated debt investments amid a strengthening economy.

The sale by the New York telecommunications company is expected to dwarf the previous biggest corporate-bond sale, a $17 billion offering in April by **Apple** Inc.

Verizon is expected to sell the debt Wednesday, according to people familiar with the company's plans.

The sale signals a green light both for corporate-bond issuers, which are finding a ready market for financing as they consider expanding via investment or purchases, and for the Wall Street banks that make millions of dollars putting together mergers and acquisitions.

Verizon, which has agreed to spend $130 billion to buy **Vodafone Group** PLC out of their Verizon Wireless joint venture, is expected to pay investors more interest than they can get buying existing Verizon bonds.

The demand for the debt has surprised even the banks selling the bonds, said people familiar with the plans.

Verizon has received more than $90 billion worth of investor orders for the debt, said the people familiar with the matter. The company initially expected to sell about $20 billion of debt this week but repeatedly increased that target over the past week as orders kept flowing in.

The outsize demand for the deal underscores investor interest in bonds issued by well-known, well-financed U.S. companies at a time the economy is on the mend and interest rates remain near historic lows.

The deal's expansion shows the eagerness of some large companies to sell debt ahead of a meeting next week by the Federal Reserve.

Some investors expect the central bank to reduce its mone-

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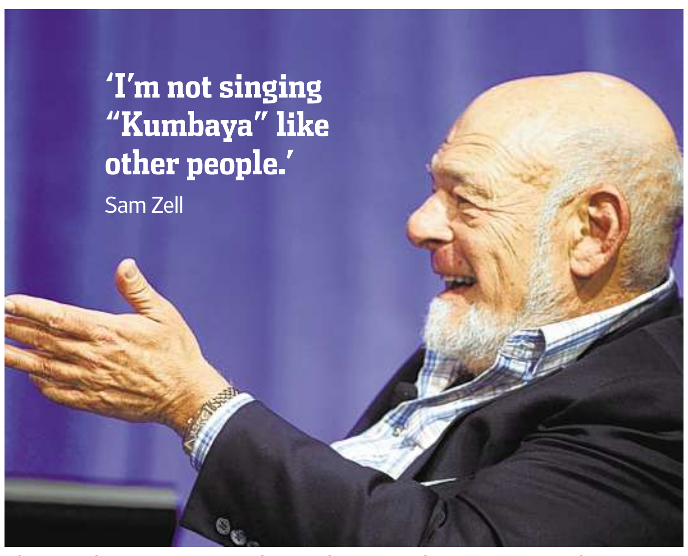
THE PROPERTY REPORT



Reuters

The man known as 'grave dancer' has turned cautious on real estate.

Once-Voracious Zell Puts Less on Plate

By Craig Karmin And Gregory Zuckerman

CHICAGO—Sam Zell gained the nickname "the grave dancer" in the early 1990s for buying beaten-down real-estate properties and riding them to huge recoveries.

During the recent downturn, he rarely has made it to the funeral.

Mr. Zell has done relatively little buying since the market crashed five years ago, viewing prices as remaining too high, even as rivals such as **Blackstone Group** and **Carlyle Group** made big acquisitions. Now that U.S. housing and property markets are rebounding, Mr. Zell is missing out on returns that some investors have enjoyed.

Mr. Zell says he has a low of just 30% of his personal investment portfolio in real-estate investments, down from 40%

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Cash Reigns | A higher price helped Dell deal defeat opposition

Jason Schneider

Dell Lurches to an Inevitable Finish

By David Benoit

When law professor Brian Quinn was teaching about leveraged buyouts earlier this year, he thought he finally had a model transaction to show his students: **Dell** Inc.

Months later, following a storm of controversy, delays to a shareholder vote and a change to voting rules in exchange for a sweetened bid, Mr. Quinn isn't so sure he can put Dell's nearly $25 billion buyout on a pedestal.

"It seemed to be the perfect process," said Mr. Quinn, of Boston College Law School. "Then when the stockholders were going to say no, they changed the rules. I think anybody who looks at that should feel unsettled."

A Dell spokesman said the special board committee that ran the process "went to great lengths to protect the interests of Dell shareholders."

Dell's deal with its founder, chairman and chief executive Michael Dell and his private-equity partner Silver Lake faced a maelstrom of criticism that highlights the skepticism a management-led buyout can encounter. With Dell, investor Carl Icahn and others argued that Mr. Dell was buying the company on the cheap and cutting shareholders out of any upside, while the board accommodated the founder.

Yet, despite all the barbs and delays, the deal is expected to pass Thursday when it finally goes to a vote, say people familiar with the deal. It also will be done at a higher price for holders, helping to earn the process some plaudits in the end.

Its passage would reinforce economic truism in deals: Companies and advisers rarely let a deal fail at the finish line. Since 2008, 99.5% of all mergers that went to a vote passed, according to FactSet SharkWatch.

"A lot of people...have huge economic incentives to get a deal done," said Chris Cernich of Institutional Shareholder Services, the proxy-advisory firm, which recommended the original and revised deals. "Maybe it's more of a Kabuki dance, but you

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Reshuffle of DJIA Adds Nike, Visa and Goldman

By Matt Jarzemsky And Colin Barr

Alcoa Inc., **Hewlett-Packard** Co. and **Bank of America** Corp. will be dropped from the Dow Jones Industrial Average next week, in the biggest shake-up of the 30-stock index in almost a decade.

Alcoa, a Dow component for 54 years, will be replaced by athletic-gear maker **Nike** Inc. Payments company **Visa** Inc. will replace H-P, which joined the index in 1997, and securities firm **Goldman Sachs Group** Inc. will supplant Bank of America, which spent five years in the blue-chip benchmark.

For the new entrants, "it would be very hard to argue that these are three companies not worthy of inclusion," said Dan Greenhaus, chief global strategist at New York brokerage **BTIG** LLC. "It's a positive development in the sense that you're trying to make the index better with each passing day."

The changes, which will take effect with the close of trading on Sept. 20, "were prompted by the low stock price of the three companies slated for removal and the Index Committee's desire to diversify the sector and industry group representation of the index," S&P Dow Jones Indices LLC, the company that oversees the Dow, said in a statement.

S&P Dow Jones Indices is a unit of **McGraw Hill Financial** Inc. CME Group Inc. and Dow Jones & Co., a unit of **News Corp** that publishes The Wall Street Journal, own stakes in S&P Dow Jones Indices.

While their performance has been mixed this year—H-P is up more than 50%, while Alcoa is down about 7%—all three departing stocks have underperformed the broader stock market in recent years. Shares of New

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Markets Pulse»

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AHEAD OF THE TAPE | By Spencer Jakab

Seams Like Old Times at Men's Wearhouse

Are investors going to like the way earnings look?

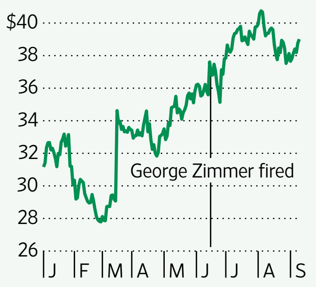
While management can't guarantee it, the bar has been lowered at **Men's Wearhouse** Inc. since the firing of founder and Executive Chairman George Zimmer in June. Analysts now expect earnings per share of $1.14 for the fiscal second quarter through July. That is a cent lower than a year earlier and nine cents less than the late-May consensus, according to FactSet.

It is unlikely Main Street's affection for Men's Wearhouse changed drastically during the quarter's 41 Zimmer-less days. Wall Street is in wait-and-see mode, too.

The stock didn't tumble following his ouster; it has risen 4.7% since then. Of course, it had a total return of a little over 20% in the preceding 5½ months. And it was up a whopping 1,200% over the 19 years from when the company went public until Mr. Zimmer stepped down as chief executive in mid-2011.

Off the Rack

Share price of Men's Wearhouse



Source: WSJ Market Data Group

Though management may not want to admit it, one explanation for the recent share-price appreciation may be speculation Mr. Zimmer is exploring a hostile takeover.

With $155 million in cash and no debt when Mr. Zimmer was ousted, the prospect of a leveraged buyout seemed realistic. Such a deal, done at a 30% premium to its market value and with a fifth of the consideration financed with equity, would have required borrowings around six times this year's projected earnings before interest, taxes, depreciation and amortization. That is a typical multiple.

But two decisions since Mr. Zimmer's ouster make the odds of that happening longer. The company will spend $97.5 million to acquire **JA Apparel** Corp., maker of Joseph Abboud suits, and it announced a $100 million accelerated share-repurchase plan.

That will lead to a lower cash balance. As well, shareholders may not see a need to fix what isn't broken.

By contrast, Best Buy Co. founder Richard Schulze's failed attempt to take over his former company came amid widespread dismay with its trajectory. And Mr. Schulze owned more than a fifth of its stock; Mr. Zimmer controls just 3.5% of Men's Wearhouse.

Current managers seem secure but have a tough act to follow. The jury is still out on whether they are worthy successors to Mr. Zimmer or a bunch of empty suits.

Email: **tape@wsj.com**

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Dell Buyout Lurches Toward an Inevitable Finish

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get there."

Some of the biggest banks in the world, including Bank of America Merrill Lynch, **Barclays** PLC, **Citigroup** Inc., **Credit Suisse Group** AG, **Evercore Partners** Inc., **Goldman Sachs Group** Inc., **J.P. Morgan Chase** & Co. and **Royal Bank of Canada**, stand to share in fees that together could top hundreds of millions of dollars for advising and financing the Dell buyout, people familiar with the negotiations have said.

Deal makers say Dell is an unusual transaction. Still, it offers lessons for boards and their advisers. Management buyouts, even ones thought to have the right protections, can be painful for employees and shareholders, especially given that investors are growing more powerful in deals.

At the same time, if you can take the heat, and negotiate, the deal can get done.

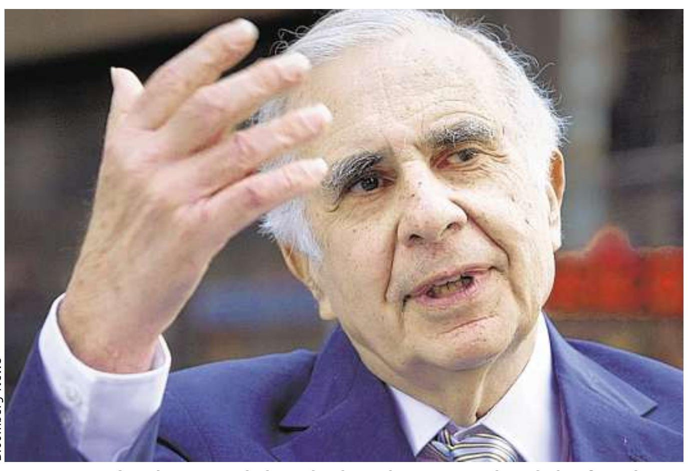
Peter Tennyson, a partner at Paul Hastings LLP who advised David Murdock on his agreed-upon $1.2 billion management buyout of Dole Food Co.—struck in the wake of Dell—said his team was closely watching the Dell deal in regard to Dole, which also agreed to a sweetened bid.

The key roadblock for Dell was a 77-year-old billionaire who the buyout group and company didn't see coming.

The emergence of Mr. Icahn, whose stake ballooned to nearly 9%, threw off the math of the investor vote and made its shareholder protections an obstacle to the deal when the board decided it had a duty to get it done.

Along with his ally Southeastern Asset Management Inc. and other shareholders, including some long-term holders traditionally expected to vote with management, Mr. Icahn had an influential position. With the original agreement counting abstaining votes as no votes, the deal was on the verge of losing a shareholder vote.

That led the board to cancel the vote three times and then agree to a rules change that would count only votes cast, in exchange for a $13.75-per-share offer and a special dividend.



Bloomberg News

Investor Carl Icahn argued that the board accommodated the founder.

Anthony Armstrong, co-head of M&A in Americas for Credit Suisse, which advised Silver Lake in the deal, said the take-away is boards have to look at deals through an activist lens, and be wary of going beyond what is legally required for a shareholder vote to get a deal done.

"Invoking a voting standard that is higher than Delaware requires is something boards are going to be very careful about in the future," he said.

Brad Allen, founder of Branav Shareholder Advisory Services Inc., said it would be hard to blame Dell's board for not predicting Mr. Icahn's arrival, but it should have had a better read on its shareholders. "They didn't do a good enough job with all their advisers targeting that key point: who is holding our shares and more importantly what are they thinking about this deal," Mr. Allen said.

Despite the problems, Delaware Chancellor Leo Strine in a court hearing praised the board and rejected Mr. Icahn's claims, which Mr. Icahn said led him to relent. The judge said the board appeared to do its best to get another bidder and kept Mr. Dell at arm's length, even though he wasn't a "controlling" shareholder who would typically necessitate such distance.

Mr. Cernich at ISS echoed the board's approval. "We are very leery about changing the rules midstream," ISS's Mr. Cernich said. "We thought it was a fair playing ground in this situation."

FINANCIAL BRIEFING BOOK: SEPT. 11

◆ **EUROPEAN UNION**

Financial-Tax Proposal Hits Big Roadblock

A push by 11 European countries to slap a tax on financial transactions hit a major obstacle Tuesday, as European Union lawyers suggested the plan would violate the rights of member states that didn't sign up and could breach EU competition rules.

This is the latest setback for a proposal that has met with fierce resistance from the financial-services industry and been shunned by most of the EU's 28 member states. However, the European Commission, the EU's executive arm, vowed Tuesday to push ahead with the plan, saying it could be reshaped to accommodate the legal concerns.

France, Germany, Italy and Spain are among the 11 countries that agreed to proceed with the proposal.

The plan is aimed at discouraging speculative trading and ensuring the financial sector pays back part of what it received from taxpayers during the financial crisis.

Laurence Norman, Tom Fairless

Reuters

The European Commission building in Brussels. The regulator plans to push ahead with a new financial tax.

◆ **HONG KONG IPO MARKET**

Developer Plans Deal

Chinese shopping-mall developer Szitic Commercial Property Co. plans to hold an initial public offering in Hong Kong that could raise as much as $1 billion, people familiar with the matter said.

It joins a growing list of companies planning or conducting big IPOs in Hong Kong, once the world's top IPO venue.

Szitic hasn't decided when it would hold the IPO, which could come as soon as the fourth quarter, but hopes to complete it no later than the first quarter, the people said. It has appointed China International Capital Corp. and J.P. Morgan Chase & Co. to handle its listing. Founded in 2003 in Shenzhen, Szitic has developed 10 shopping malls in cities including Beijing, Hangzhou and Suzhou, according to its website.

Yvonne Lee, Prudence Ho

◆ **ONLINE LENDING**

Tribes, States Face Off

New York's top financial regulator is set to square off against two Indian tribes Wednesday in a legal battle that could help determine whether states are able to block online lenders based outside their borders.

The case before Judge Richard Sullivan in U.S. District Court for the Southern District of New York stems from an effort last month by New York Superintendent of Financial Services Benjamin Lawsky to stop online lenders from making high-rate loans to consumers in the state. The case could help determine how far Indian tribes and other online lenders can go in setting up online businesses that don't comply with state laws. Several states have begun cracking down on so-called payday loans offered over the Internet in recent months, sending a chill through the online-lending industry and prompting some lenders to close down entirely. Payday loans carry high interest rates and short repayment terms.

Alan Zibel, Andrew R., Johnson

Bloomberg News

Joseph Granville often said: 'Everyone I touch, I make rich.'

REMEMBRANCES | Joseph Granville 1923-2013

A Market Timer With Props, Flair

By Stephen Miller

Market timer Joseph Granville's urgent calls to buy and sell could move markets. "Everyone I touch, I make rich," he often said.

Mr. Granville, who died Saturday at age 90 in Kansas City, Mo., was the founder of the Granville Market Letter, which thousands of investors relied on for stock-market advice.

In early 1981, Mr. Granville sent word to "sell everything." The result was a one-day 2.4% decline in the Dow Jones Industrial Average on record volume at that time. The order came just days after he had predicted the market was headed "straight up."

Subscribers paid $250 annually for the weekly letter.

He drummed up subscribers at seminars he gave featuring props such as lasers, chimps and bikini-clad assistants. He punctuated his insights by shouting, "Boom!" He once filled Carnegie Hall and gave the audience financial advice, then played his theme song, "The Bagholder Blues," on the piano.

"I observed that when people are entertained, they will retain more information," Mr. Granville told The Wall Street Journal in 1989.

Mr. Granville's fortunes oscillated. He missed the bear market of 1973-74 when the Dow declined nearly 50%, but successfully predicted another bear market later in the decade. In 1982, after a string of prescient calls, the Journal of Portfolio Management asserted that Mr. Granville could indeed time the market through his algorithm.

Also in 1982, Mr. Granville missed the start of a long bull market. He was a regular on television, widely touted as a market prodigy, but his ability to move markets with dire warnings declined as the Dow continued to rise.

According to the Hulbert Financial Digest, a Dow Jones publication, Mr. Granville's recommendations on average lost more than 20% annually over a 25-year period ended in 2005, but they occasionally, as in 1989, scored gains as high as 1,200%.

Born in Yonkers, N.Y., Mr. Granville studied music and published a book of poetry when in his teens.

Mr. Granville wrote books on stamp investing and bingo. He worked as a financial writer for E.F. Hutton & Co. before starting his own newsletter in 1963. He kept publishing up to his death.

According to Timer Digest, which ranks stock newsletters by the accuracy of their calls, the Granville Market Letter was in the top 10 for the five years ended in 2012 and No. 1 for 2011.

"He caught all the swings perfectly," said Timer Digest Associate Editor Jim Schmidt.

Email remembrances@wsj.com

Verizon Readies Blowout

Continued from the prior page
tary stimulus in a shift that would likely lead to higher interest rates.

"It's a unique rate environment, and pricing at attractive levels that you can't ignore," said Matt Duch, a portfolio manager at Calvert Investments Inc. of Bethesda, Md., which oversees more than $12 billion.

For instance, 10-year Verizon bonds are expected to yield about 2.25 percentage points more than comparable Treasurys, compared with 1.66 percentage points on an existing nine-year bond, according to MarketAxess.

A Verizon representative declined to comment.

"It's a little mind-blowing, the size, that they are able to get it done," said Mr. Duch. "I just think there's a lot of things coming together at once that allow this to happen."

The demand for bonds is coming in part from investors who have spent months keeping their investments in cash or cash equivalents while interest rates hovered at record lows. With rates on the rise this spring and summer, investors are jumping at the opportunity to buy bonds that now have much more enticing yields.

In addition to Wednesday's planned bond sale, there will be a meeting to market a $12 billion loan to prospective investors.

The demand underscores investor interest in bonds issued by well-financed companies.

That part of the overall $61 billion debt package is expected to be finalized by the end of this month.

Verizon's underwriters, led by **J.P. Morgan Chase** & Co., **Morgan Stanley**, **Bank of America** Corp. and **Barclays** PLC, had expected it would take as much as a year for the company to raise $40 billion to $50 billion in the bond market to help fund the deal, according to people familiar with the matter.

From the moment the Verizon acquisition was announced, several banks were clamoring to participate in the financing, knowing they could possibly lend to the company at relatively low rates and collect a hefty dose of fees based on the sheer size of the offering, said people involved in the deal. It isn't yet known exactly what fees banks might collect for helping to finance Verizon's deal.

The original plan was to raise the cash in chunks over time and include offerings in other currencies.

But investors wanted Verizon to sell as much debt at once in dollars as it could, said people familiar with the offering. If benchmark interest rates were to rise in the coming weeks, any new debt sold by Verizon down the road would be more attractive to investors than Wednesday's offering, because it would likely pay them more and push down the value of any debt issued this week.

The sale will make Verizon the largest nonfinancial bond issuer, with nearly $100 billion of such debt outstanding, according to a person familiar with the matter, vaulting it past **AT&T** Inc., which has roughly $76 billion outstanding. Verizon had $115.85 billion in 2012 revenue, while AT&T had $127.43 billion.

The debt sale is expected to take place Wednesday and will offer securities to investors that mature in 10 years to 30 years and at rates of between 2.25 and 2.65 percentage points above comparable Treasury-bond yields, one of the people familiar with the offering said. The person cautioned that the final terms could deviate somewhat from those targets.

Expectations of a record-setting deal from Verizon already have pushed yields up and prices down on bonds issued by other telecommunications companies. Verizon's sale will mean more telecom debt in the marketplace, reducing the scarcity value of existing bonds.

Nine-year bonds from AT&T, which analysts said might be spurred to make a purchase of its own on the heels of the Verizon deal, traded Tuesday with a 4.398% yield, compared with 3.979% at the end of August.

An AT&T spokeswoman declined to comment.

Aside from Verizon, the threat that interest rates will likely rise could spur other companies to sell debt sooner rather than later to pay for acquisitions, investors said.