

Financial

Reed puts American publishing business up for sale

Harcourt to be sold only six years after purchase

Problem division could still fetch up to £2.5bn

Richard Wray

Reed Elsevier boss Sir Crispin Davis performed a strategic U-turn yesterday as the media group hoisted the “for sale” sign above its US educational publishing business six years after it was bought.

Analysts reckon Harcourt Education, based in Orlando, could be worth as much as £2.5bn, and it is likely to be attractive to private equity bidders. Offloading it allows Reed Elsevier to focus on its core scientific, medical and legal publishing operations. It would also, Sir Crispin admitted, reduce vulnerability to a potential takeover.

“Most FTSE 100 companies are probably being looked at by private equity,” he said. “Our focus is on strengthening the business, growing the business more strongly and maximising shareholder returns. I think the decision [to sell] will strengthen that – it makes Reed Elsevier a stronger, more focused, more cohesive business. It makes it a business with stronger growth prospects and it will enhance shareholder value. In that sense it will lessen Reed Elsevier’s vulnerability to private equity.”

Shares in the Anglo-Dutch company jumped to their highest for five years as Reed said it would return the bulk of the sale proceeds to shareholders, though it may retain some cash for acquisitions.

Harcourt Education is part of Harcourt General, which Reed bought in 2000 for \$4.5bn. The unit is valued within Reed’s books at \$2.5bn (£1.28bn).

Though Reed has been able to integrate Harcourt’s medical and scientific publishing into its burgeoning online publishing,

the educational publishing industry has been slow to digitise and the unit’s performance has been erratic.

“By focusing on our core businesses, where there is more cohesiveness, more synergy and faster growth opportunities in digital, this will benefit the strength and growth prospects of Reed Elsevier going forward,” said Sir Crispin.

Harcourt produces textbooks for US schools and grades exam papers. Profit dropped by a fifth last year – the only part of Reed to go backwards – with problems in its testing division. But Sir Crispin, announcing a 5% increase in annual profits to just over £1bn, said the company will be attractive to buyers and could form the basis for consolidation. It competes in the US with McGraw-Hill, Houghton Mifflin and the market leader, Pearson.

Wolters Kluwer, of the Netherlands, and Thomson, in Canada, have both put their education businesses up for sale. Thomson’s, which analysts reckon could be worth more than \$5bn, is focused on

Backstory

Harcourt General can trace its lineage back to a New York publisher that brought **TS Eliot**, **Virginia Woolf** and **George Orwell** to America. Harcourt Brace & Company was founded in 1919 and the following year it had its first bestseller, *The Economic Consequence of the Peace* by John Maynard Keynes. The company then moved into **textbooks**. By 1960, when the business went public, it led the market in US high schools. The business was snapped up in 1991 by a company that had started life in the 1920s as a cinema operator, **Smith Theatrical Enterprises**. Founded by Philip Smith, the company moved into multiplexes. In 1993, the merged firm changed its name to Harcourt General. The Smith family owned 28% when **Reed Elsevier** bought it in 2000.

higher education in the US. Wolters Kluwer’s business, which the City thinks could be worth €700m (£470m), concentrates on textbooks for schools on the Continent.

“It’s possible that there may be a synergy play here,” said Sir Crispin. “It [Harcourt] is a good quality business, it’s an attractive asset, it has two or three years of good market environment in front of it and I think now is actually quite a good time for us to be selling.”

Analysts welcomed the decision. Collins Stewart analyst Simon Wallis said: “The education division has caused Reed Elsevier shareholders the most heartache over the last couple of years.”

“Other media businesses have recently announced business units up for sale, only to embarrassingly come back to the market to say they’d received no high enough bids. However we have greater confidence in Reed Elsevier to successfully dispose of education at a good price.”

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Vodafone in spotlight from Kenya corruption inquiry

Xan Rice Nairobi

Vodafone, the world’s leading mobile phone operator, is under investigation in Kenya over its relationship with a Guernsey-registered company that acted as an advisor in east African telecoms.

Kenya’s investment watchdog is trying to ascertain who is behind Mobitelea Ventures Ltd, a shell company that in 2003 was allowed by Vodafone to acquire a 5% stake in Safaricom, the country’s biggest mobile operator. The shares are now worth at least \$100m (£51m).

Local MPs, who only learned of Mobitelea in November, want to establish whether its owners include politicians from the former government who may have used their influence to facilitate Vodafone’s original \$20m investment in Safaricom in 2000. At that stage, Kenya’s regime had become a byword for corruption, with politicians amassing vast wealth.

Justin Muturi, chairman of the parliamentary Public Investigations Committee (PIC), which is investigating the Mobitelea deal, told the Guardian he was concerned about Vodafone’s lack of transparency over its dealings in shares of Safaricom, one of the Kenyan government’s most valued assets.

Vodafone has refused a formal request from the PIC to reveal who owns Mobitelea. Mr Muturi said he would be asking the Serious Fraud Office for assistance.

Mobitelea’s shareholding in Safaricom was revealed in a local newspaper in November 2006. Until then it had been assumed – even by the Kenyan government – that Safaricom remained a 60:40 joint venture between government-owned Telkom and Vodafone.

With Safaricom due to be listed shortly, the PIC launched an inquiry, and asked Vodafone to attend a meeting in the Kenyan capital on January 30.



A farmer enquires about maize prices, part of a huge boom in the use of mobiles in Kenya Photograph: Antony Njugana/Reuters

The invitation was declined but, in a letter to the committee that has been seen by the Guardian, Gavin Darby, Vodafone Group’s chief executive for the Americas, Africa, China and India, stated that Mobitelea was Vodafone’s chosen partner in Kenya.

“When Vodafone makes investments in new territories it is not uncommon that it works alongside a partner who typically gives advice on local business practices and protocol and the various challenges associated with investing in a new market. Vodafone would prefer to be in a position to make a comprehensive disclosure but, having taken legal advice, could be in breach of a duty of confidentiality were it to discuss Mobitelea further.”

Documents obtained by the Guardian show Mobitelea was registered in Guern-

sey on June 18, 1999 – several months after Vodafone had struck a preliminary deal with the Kenyan government.

Mobitelea’s real owners are hidden behind two nominee firms, Guernsey-registered Mercator Nominees Ltd and Mercator Trustees Ltd. The directors are named as Anson Ltd and Cabot Ltd, based in Anguilla and Antigua.

In his letter, Mr Darby said that Mobitelea was allowed to invest in Safaricom “in return for its valued advice”. An investigation by the Guardian shows just how lucrative the opportunity was. In return for its services, Mobitelea was given \$5m in cash and a 5% stake in a company that analysts value at \$2bn.

Besides untangling Mobitelea’s ownership structure, Mr Muturi is investigating why the government changed its own

rules of telecoms privatisation to allow Vodafone to acquire 40% of Safaricom, instead of the 30% limit that had been in place. Without the concession, the Kenyan government’s current share of Safaricom would be worth an additional \$200m.

“This is all very murky. By refusing to cooperate, Vodafone is treating us like children and hindering our pursuit of knowledge,” Mr Muturi said.

Mwalimu Mati, a former head of the local chapter of Transparency International, the non-governmental organisation combating corruption, also believes the British authorities should investigate the Mobitelea deal. “At best Mobitelea has been given a bite at the Safaricom cherry ahead of ordinary Kenyans...”

guardian.co.uk/mobilephones »

US regulator raids offices of copycat drug firm

Andrew Clark New York

America’s healthcare regulator has raided the premises of Ranbaxy, the Indian specialist in “copycat” drugs which has been snapping at the heels of global pharmaceutical companies by challenging their right to exclusive patents. Officials from the Food and Drug Administration searched Ranbaxy’s US headquarters in Princeton, New Jersey, and the company’s manufacturing site at nearby New Brunswick.

The visits, which took place on Tuesday, were revealed by Ranbaxy in a statement yesterday which said: “This action has come as a surprise. The company is not aware of any wrongdoing. It is cooperating fully with the officials.”

A week ago, Ranbaxy won legal permission to launch a generic competitor to Pfizer’s antidepressant Zoloft. It also makes a version of Prozac and aims to make the first competitor to the world’s best selling drug, the anti-cholesterol product Lipitor, which goes off patent in 2010.

The FDA’s interest is likely to send shockwaves through the generic drugs industry, although it was unclear whether the agency was investigating copyright, pricing, quality or other issues. A Ranbaxy

The amount of sales in the US that Ranbaxy aims to generate by 2012. It already sells \$426m worth of drugs in America

\$5bn

spokesman said the company’s general counsel was seeking more information about the reason for the raids. “We’re trying to get to the bottom of it. There was a request for information, but it was a very broad request.” The FDA did not respond to requests for comment yesterday.

Ranbaxy generates sales of some \$426m in the US, but has said it wants to raise this to \$5bn by 2012. It has 47 products on the market in America, 40% of them made in New Brunswick.

It leads the world in making generic drugs which undercut established pharmaceutical companies as soon as the patents on popular products lapse. It has developed an expertise in challenging patent extensions to drugs. It has been widely praised in developing countries for making medicines more affordable. But it has often infuriated the pharmaceutical establishment. Earlier this month, Glaxo sought an injunction to stop Ranbaxy selling a generic version of Valtrex, a treatment for shingles and herpes, in the US.

Ranbaxy has grown rapidly to become a sprawling multinational; it manufactures in nine countries and sells products to customers in 125 states. In Britain, it was charged last year with price fixing by the Serious Fraud Office, which is investigating an alleged cartel controlling the supply of penicillin-based antibiotics.

Until recently, Ranbaxy was run by a Lancashire-born scientist, Brian Tempest. He stood back to become vice-president last year, making way for Malvinder Singh, the grandson of its founder, to become managing director.

Chief executive Sarin woos Indian partner with ‘roses and sweets’

Richard Wray

Vodafone’s chief executive Arun Sarin yesterday offered an olive branch to Essar Group, saying it looks forward to working with the Indian conglomerate as a partner in the country’s fourth largest mobile phone operator. Hutchison-Essar (Hutch).

Despite Mr Sarin’s overtures, Essar said it was still considering whether to sell its 33% stake in Hutch or remain as Vodafone’s partner. Vodafone made an \$11.1bn (£5.68bn) offer to buy out the 67% owned by Hutchison Telecom International over the weekend, as it looks to expand into developing economies to offset slowing growth in more mature markets.

Mr Sarin held a two-hour meeting with

Essar bosses Shashi and Ravi Ruia yesterday, after which he said “We look forward to a wonderful partnership. We have a great respect for what the Ruia family has done. Yesterday, it was Valentine’s Day, so we sent roses. Today is the day for sweets,” he added, rather cryptically.

Essar later released a statement saying it was still undecided whether to back Vodafone or accept the company’s offer to buy out its stake.



Essar is still considering whether to sell its 33% stake in Hutch or remain as Vodafone’s partner

“Essar is a founding shareholder of Hutchison Essar and the group sees telecoms as a core part of its business portfolio in the long term,” it said. “It is Hutchison that is selling its shares and Essar has no intent to exit the company.”

“Vodafone has approached Essar to discuss a possible partnership with them as regards the company,” it added. “We will make a decision with regards to our future course of action in due course and in the best interests of the Essar Group.”

The company also suggested it would continue to pursue its claim that it had first refusal over Hutchison’s stake in the business: “We will ensure that all of our shareholder rights, including those under our shareholder’s agreement with Hutchison, are adhered to.”

Vodafone and Hutchison itself main-

tain that this right of first refusal would only have been relevant if an Indian firm was successful in the auction of its stake in the business over the weekend. Vodafone saw off India’s second-placed operator Reliance Communications as well as the Hinduja family.

Vodafone has offered to buy out Essar at the same price as it has bought out Hutchison. Under Indian law, however, a foreign company cannot own more than 74% of a telecoms firm; Vodafone is understood to have lined up a potential partner willing to take a minority stake, should Essar not wish to remain as a partner.

There has been speculation Essar had given Vodafone an ultimatum, demanding more money for its stake than Hutchison has been offered. Vodafone insiders, however, have ruled this out as an option.