

BUSINESS

Navistar navigating tough financial time

By Neil Versel

Just two months ago, it looked as if the days were numbered for Chicago-based Navistar International Corp.

The company's stock price lost a third of its value so far this year, and some market analysts believe the stock, which closed Friday at \$29.94, is undervalued by more than 65 percent.

Institutional investors, who control at least 71 percent of Navistar, were agitating for a sale of assets, dismembering of the company or merger with a larger competitor.

Today, however, the company is headed for suburban Chicago headquarters, and investors have toned down earlier calls for an asset sale and sound content to let Navistar management work through these trying times.

"This management gets a solid 'A' for operating the company," said David Pedowitz, director of research for David J. Greene & Co., a New York investment house. "We believe that they are committed to intelligently getting the stock price up."

Greene & Co. is Navistar's fourth-largest institutional shareholder, with more than 2.1 million shares as of June 30.

Pedowitz said a consensus of Wall Street analysts estimated Navistar's intrinsic value at more than \$87 per share. Navistar officials would not confirm the accuracy of the estimate, though spokesman Roy Wiley said, "Management believes the company is undervalued."

Navistar shunned a \$3 billion takeover bid by Sweden's AB Volvo last year. Since then, the firm's market capitalization has plummeted to about \$1.8 billion.

As recently as two months ago, a group of 45 Navistar institutional shareholders, including Greene, had urged the compa-

ny to consider selling off some of its operations or merging with a rival as part of ongoing truck industry consolidation.

"Navistar's participation in this consolidation is vital," a spokesman for the group said following a high-profile meeting July 26 in New York.

The pronouncement came just a week after industry leader Freightliner LLC, a unit of DaimlerChrysler AG, agreed to purchase Western Star Trucks Holdings Ltd., a low-volume Canadian truck and bus maker, for about \$453.8 million. Earlier this year, Volvo gobbled up Mack Trucks Inc. as part of its takeover of the commercial vehicles unit of Mack's parent firm, Renault S.A. of France.

Also in the wake of the Freightliner-Western Star deal, Navistar created International Engine Co. as a wholly owned subsidiary of the corporation's International Truck and Engine Co. operating company, purportedly to highlight the firm's engine-making interests.

Pedowitz said, "The engine business alone is certainly worth more than the corporate stock price."

Navistar does not itemize its revenues in its quarterly financial reports but said in its most recent earnings statement that a strong performance by the engine division made up for declines in the firm's truck operations during the three months ended July 31.

The U.S. commercial truck industry is

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NAVISTAR'S HISTORY

The long and storied history of what is now Navistar International Corp. mirrors that of Chicago itself.



McCormick

1831—Cyrus Hall McCormick builds the first mechanical reaper in a 1847. McCormick moves to Chicago, and builds Chicago's first reaper factory on the site of what is now the Equitable

Life Assurance Building at 401 N. Michigan Ave.

1871—McCormick factory burns in the Chicago Fire.

1873—New factory is built south of the Chicago River, and six years later it incorporates McCormick Harvesting Machine Co.

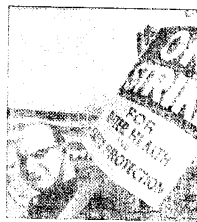
1902—McCormick Harvesting merges with several competitors

to form International Harvester Co., a name that endures for most of the 20th century.

1906—International Harvester continues the McCormick legacy of innovation by introducing the Famous line of internal combustion engines to power large farm machinery and the company's first trucks.

1924—IH develops the legendary Farnall tricycle-style row-crop tractor and produces its first construction machinery a decade later, coinciding with Chicago's "Century of Progress" celebration.

1979-80—Weakened by poor management for many years, IH slides to the brink of insolvency following a crippling six-month labor strike.



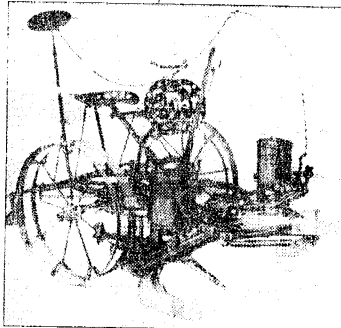
An extended strike in 1979-80 brought the company to its knees.

1982—IH sells its construction machinery operations to J.I. Case Co., and exits the farm machinery business with another sale to Case in 1985.

1986—Absent the IH brand name, the firm renames itself Navistar.

2000—Headquartered in the gleaming NBC Tower, a symbol of Chicago's urban renaissance, Navistar leans on its heritage by renaming its operating company International Truck & Engine Co.

—Compiled by Neil Versel



Moves don't signal flight to suburbs

By David Roeder
BUSINESS REPORTER

The news last week seemed as if it came from another decade—two old-line companies were pulling out of downtown Chicago, taking hundreds of jobs to the suburbs.

One was Unilever NV, which will close its headquarters at 325 N. Wells and move its 200 workers to Rolling Meadows. The other was Navistar International Corp., which is sending 380 workers from 455 N. Cityfront Plaza to Warrenville.

The city hasn't had to deal with news like that lately. Many companies, including suburban stalwarts such as Zurich Kemper and CDW Computers, are finding a downtown location best suits worker recruitment.

State figures give the city credit for about 1.3 million jobs, its highest total since the early 1980s.

Paul O'Connor, executive director of World Business Chicago, regrets the Unilever and Navistar moves, but he insists they don't reflect the city's economic reality.

Chicago is outpacing New York and Los Angeles in the creation of white-collar jobs, O'Connor says. Using data his group drew from Labor Department reports, he said that since 1994, some 158,900 new white-collar jobs were created in Chicago, representing 28 percent growth.

O'Connor said that over the same period, the growth in New York was 122,500 jobs, or 16 percent, and 88,300 jobs, 18 percent, in Los Angeles.

Unilever's announcement last week also raised concern about blue-collar jobs. The consumer products company said it will close its shampoo and skin lotion factory at 4401 W. North by 2003, laying off 600 workers.

O'Connor said demand for skilled labor ensures that most of those workers will be snapped up by other employers. He also said it's a myth that Chicago is suffering from an exodus of factories.

A study by O'Connor's group showed 78 percent of Chicago factories that closed relocated elsewhere inside city limits. "Generally, it's the companies with flat or declining sales that leave the city for cost reasons," he said.

Navistar

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in a free fall this year, brought on by high fuel costs, rising interest rates and a glut of late-model used vehicles on the market. Conservative forecasts call for a 30 percent industrywide decline in sales of heavy-duty trucks from record 1999 levels.

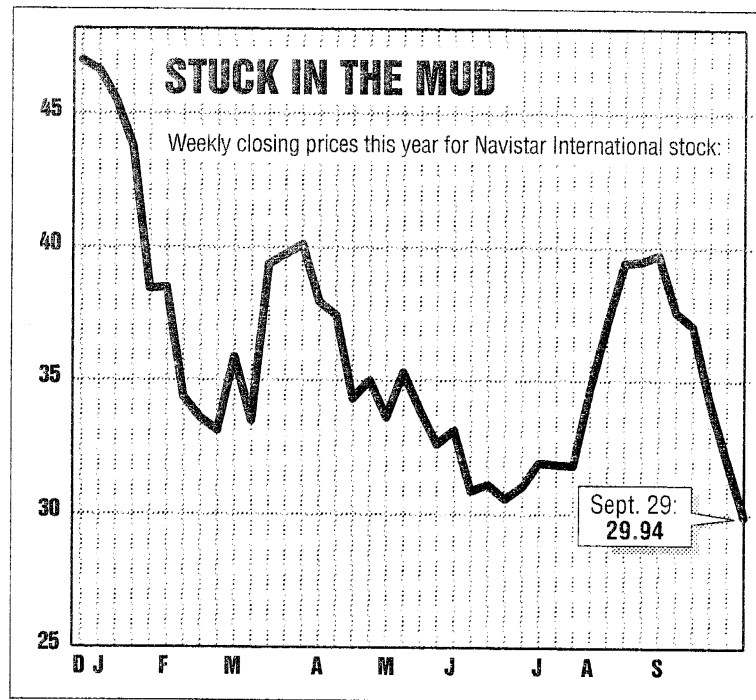
Indeed, Navistar remains the top seller of medium-duty trucks and claims a 60 percent share of the steady North American market for school buses.

But the firm also derives a good deal of its revenue from supplying diesel engines for Ford Motor Co.'s popular F-250 and F-350 pickup trucks and full-size Econoline vans.

Navistar Chairman, President and Chief Executive John R. Horne has said the engine business is a key component of his plan of "winning in a downturn" in the highly cyclical commercial truck industry. Horne warned of the recently announced layoff of 1,100 salaried and contract employees—about 15 percent of Navistar's white-collar work force—in a July memorandum calling for research and development cuts.

However, the company will not slow development of its most anticipated product, a line of "camless" engines designed to meet stringent federal truck emissions standards that take effect in 2007. The advanced powertrains are on track for a 2003 production launch.

The attention focused on Inter-



SOURCE: Bloomberg News Service

SUN-TIMES

national Engine to date has not elevated Navistar stock, but it has fueled rampant speculation that the firm may sell off its truck operations or seek an outright merger with a larger competitor. Seattle-based industry giant PACCAR Inc emerged as the likeliest suitor following the Volvo and Freightliner deals, but sources at several Navistar plants indicated this week that PACCAR has not begun any form of due diligence.

At this point, "We believe that the company is participating in the consolidation," Pedowitz said.

Regardless, the group of 45 shareholders represents less than 30 percent of outstanding Navistar shares and only three of the firm's 15 directors are up for re-election next year, so a management shake-up seems out of the question.

Pedowitz said, "There are so many valuable assets that the alternatives are sort of endless. We are entrusting management to take the right steps."

Neil Versel is a Chicago-based business writer specializing in transportation issues.