



Barbarians at the Gate: The Fall of RJR Nabisco

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“One of the finest, most compelling accounts of what happened to corporate America and Wall Street in the 1980’s.”

—*New York Times Book Review*

A #1 *New York Times* bestseller and arguably the best business narrative ever written, *Barbarians at the Gate* is the classic account of the fall of RJR Nabisco. An enduring masterpiece of investigative journalism by Bryan Burrough and John Helyar, it includes a new afterword by the authors that brings this remarkable story of greed and double-dealings up to date twenty years after the famed deal. The *Los Angeles Times* calls *Barbarians at the Gate*, “Superlative.” The *Chicago Tribune* raves, “It’s hard to imagine a better story...and it’s hard to imagine a better account.” And in an era of spectacular business crashes and federal bailouts, it still stands as a valuable cautionary tale that must be heeded.

Barbarians at the Gate: The Fall of RJR Nabisco Details

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From Reader Review Barbarians at the Gate: The Fall of RJR Nabisco for online ebook

Simon Lau says

This book was recommended to me by a business school professor who referred to it as "the best business book on private equity." As someone who studied finance at NYU and a lifelong student of history, I was intrigued.

The book turned out to be a wonderful read. I learned a tremendous deal about private equity, the mid-to-late century evolution of finance on Wall Street, and the important role of corporate governance in business. Some of these points were not discussed on an academic level (e.g. evolution of finance and corporate governance), but this book provided great case examples of topics I had learned in school. I would definitely recommend to others interested in business history and finance!

Michael Hutchings says

Any who has an interest in mergers and acquisitions will love this book. Or anyone who has an interest in an absolutely amazing story. And it's all true, which is even more amazing.

Tammy says

11-07-08

This tsunami of details in this story of the leveraged buy-out of RJR Nabisco would be mind-numbing if it were not for the sharp anger at the incessant and insatiable greed it highlights.

One feels an eerie sense of *déjà vu* reading this book. The RJR Nabisco takeover battle was fought in 1988, but the unmitigated (and unregulated) greed on the part of Wall Street seems to only have changed in form, not in magnitude. It borders (then and now) on the obscene.

This book is not for the faint of heart – the reader is led step-by-step, moment-by-moment through the byzantine world of leveraged buy outs. Keeping track of names, financial institutions, and esoteric details regarding the “Alice in Wonderland” nature of the financial world requires constant vigilance. This book is for the dedicated, persistent, or patient reader. Nevertheless, the basic characters in this drama are interesting, maddening, and full of hubris. Those with an economics/business background will likely find this a telling and important read.

Arminius says

Barbarians at the Gates is a fascinating tale about the rise and fall of food giant Nabisco. Ross Johnson was head of Nabisco's rival Standard Brands. They show how he used his affable personality and his ability to

befriend coworkers, bosses and over-seeing boards to propel himself to Standard's CEO while winning a battle against his superior and getting his superior ousted. Nabisco had gained competition from Frito Lay and Proctor Gamble so it looked to expand, buy merging with Standard Brands. Johnson negotiated the merger as head of Standard Brands with Nabisco. He agreed to let Nabisco CEO Bob Schaeberle head the combined companies while he remained second in command. He charmed Schaeberle and Nabisco board members and he moved Standard Brand employees into key positions. He had all night parties with his coworkers drinking to excess yet still able to plan out business strategies. He palled around with sports celebrities like Frank Gifford and insisted on the use of corporate jets to do so.

Nabisco did well, under a never- sit-still ran business, under his guidance. He made business acquisitions and sold others. He then succeeded Schaeberle when Schaeberle retired.

Then the book looked at RJ Reynolds Tobacco. It is a little confusing that the book made a sudden shift to detailing the history of Reynolds but you figure out that this company was to be the next venture Mr. Johnson got involved with. Reynolds was huge company during the 1970's when cigarettes were so popular. Their big winner was the brand Camel. But to Reynolds consternation, the Surgeon General announced that cigarette smoke caused cancer. So Reynolds anticipated a decline in sales and looked to diversify into other areas. Nabisco and Johnson were ready to accept their vision.

So they combine. Ross Johnson, as head of Nabisco, agreed to let RJ Reynolds chief Tylee Wilson head the combined company and be his second in command. Ross Johnson is so coy though. He charmed Wilson and RJR Nabisco's newly created board of directors to get almost everything he wanted including RJR Nabisco's fleet of airplanes.

Wilson fell out of favor with the board for not informing the board of his secret project to create a smokeless cigarette. As a result the board dumped him and replaced him with Ross Johnson.

Ross Johnson as head of RJR Nabisco continued his shake up ways. He enjoyed his lavish lifestyle as RJR N stock price dropped from the mid \$70 per share to the 50's.

This kind of action did not bother other CEO's as long as they were making a profit. RJR were certainly making huge profits but it was a good reason, in Johnson's eyes, to shake things up again.

He left hints that he was looking at another merger to boost stock prices. Leveraged buy out (LBO) companies became interested. Johnson, enticed by the riches he can obtain through an LBO encourages a friend at American Express owned Shearson Lehman to buy out RJR Nabisco.

Wall Street vultures found out and pursued Johnson with LBO buyout offers. What I got from the book is that it wasn't Shearson Lehman who was going to get to enrich Johnson and themselves with an LBO but it was going to be between LBO orchestrator giants Kravis/ Roberts and Forstmann Little. Adding to the drama was Ted Forstmann's extreme dislike of Kravis's chief Henry Kravis.

To my surprise, Forstmann Little drops out. Then out of nowhere a down trotting company named First Boston comes up with a soon expiring tax loophole to orchestrate an LBO takeover which amounted to over 3 million dollars in additional profit.

It became a game of Shearson, Kravis and First Boston all in for the play. After weeks of haggling First Boston's plan did not sit well with the RJR Nabisco board but managed to drive up the cost of the buy-out to \$109 per stock share. Kravis had the most reliable financing plan so they won the bid despite Shearson's \$112 bid.

Ross Johnson got the axe when Kravis took over but he left with his stated goal of raising the stock price. In fact, it doubled. However, he left a great company in shambles and received a \$53 million dollar separation package for his work.

Suzanne says

Read this in 1991 just after it first came out. I couldn't put it down. If you don't understand the financial pages of newspapers and the terms they use, this is an easy way to learn about acquisitions, hostile takeovers, liquidity, assets, etc. Perhaps a bit dated now, but the author (a financial journalist) describes what happened here in the States in the 80's, a time when small businesses (and huge ones like RJR Reynolds) were bought out, sometimes just for the land they were built upon. The businesses were cannibalized and then closed after the maximum in profit was obtained. There was no reinvestment in the future. Job losses were viewed as part of business. Profit was their "religion".

Strangely it reminds me of my birdfeeders. I fill them daily with solid nutritious feed and enjoy the families of birds who rely on my stewardship in keeping that feeder fed, especially in winter. Then the grackles (crow-like birds) arrive in mass and devour the food in the feeders. Bird-lovers will understand this analogy. One will see a dozen of these ugly birds gorging themselves, spitting out seeds they don't like and often knocking the feeder from its perch. Corporate raiders are like grackles. How does one prevent it? I guess the secret is filling the feeders with a mixture of seed they don't like...

Moral of the story...if you build a company up from nothing and allow it to be publicly traded on the stock market, you are at risk for a grackle attack. Make sure you watch your feeders.

Kurtbg says

Corporations back in the day were established to create products and provide services and have certain laws and rights applied to the organization and its employees. Not so starting in the late eighties.

This book chronicles a selling-off of a major corporation in the late nineties: RJR Nabisco.

As the role of CEO has become more prominent the greed and ego of those in positions have risen. At some point a CEO wanted a bigger fiefdom so they thought it would be smart to combine a food company with a tobacco company. Then that guy was forced out by his number 2 guy, Ross Johnson, who came from Nabisco. He increased contracts with his director companies, and showered them with perks previously denied executives due to the conservative and folksy run RJ Reynolds (RJR.) The directors loved it.

Who didn't love it was wall st. No matter the value of the combined company and the profits of tobacco, the residue of a tobacco company left a bad taste in investors mouths. Johnson couldn't do anything to move the stock price up. He did have options: issue separate stock for each division (food/tobacco), split the company, swallow another company.

Instead he chose to sell RJR Nabisco - to himself.

What? You're thinking? how can this be done? Well, the management group gets some investors together and banks to provide money via cash and bonds and make an offer to the company. How can this be legal? Isn't the CEO getting paid to do what's for the best interest of the company and shareholders? Ha ha! You

just don't understand the world of business if you think that.

Ross Johnson knew it. This book describes Johnson providing zero value to the company as CEO. He had no trouble spending and giving himself perks. Winston-Salem was the corporate HQ, but too boring for Johnson. He moved it to Atlanta. Before, limos were seen as an extravagance to the company. Johnson buys jets and has a hangar built. He sponsors celebrity events and name drops. In short, he's living high off of other people's money. He's just one of many executives who turn corporations into feeding troughs of greed and ego.

He does do one thing. He initiates product development on a smokeless cigarette named Premier... oh, he keeps it a secret from the board who only find out about it once 68 million had been pumped into it. It ultimately fails.

So Ross wants more, because just being head of a corporation others built isn't enough. He goes the leveraged buy out route. What's that?

It's where you buy a company with, you guessed it, other people's money. You get financial backing, make a bid, and if you win, you create three things: debt, fees, ownership. Wall street loves the fees. You get them no matter what. Gotta love it. The debt? Well, you tackle the debt by selling off portions of the company you bought. Yup, that's right. It's like the real estate trick of buying property, and then immediately selling it to someone else for more money. You never have to pay, but you get a lovely cash infusion. So, once the debt is paid down, the remainder is restructured, profits from the company pay it down, and you tap into the benefits of owning a multi-million company.

let's no forget the fees: 400 million in billable fees for the transaction. Cha-ching.

Imagine someone buying Disney. They just need initial financial backing to cover the 85 billion, or so, bid. Then sell off pieces to pay it down and off. Plenty of pieces there. Crazy, huh?

The rest of the book covers the different bidding parties and what went on up to and during the bid process (more ego and greed.)

What does this have to do with improving a company, product, or services? Ha ha! actually nothing. It's just business. Imagine something tangible, like a company creating a good. It has value based on market (need/desire) and the economy. Now, imagine another layer around that which has nothing whatsoever to do with company or really cares about it. That layer is wall street which is looking to extract money from the valued center companies. Business for the sake of business.

RJR Nabisco did not need to be sold. It wasn't in trouble. It was profitable. Johnson just wanted more.

How does it provide a benefit of the overall economy to allow this to happen? I couldn't say. LBO's died down after that, but something else always takes its place and does damage before it's prevented. During that time you also had junk bond abuse and savings and loan scandal (kinda a precursor to Enron.) After that it was Enron shaking down California by getting energy to be treated like a market and then limited demand to jack up price, then it was the real estate swindle which created an economic time bomb with predatory lending and ballooning mortgages.

What's next? I think it might center around this thought:

If it's too big to fail, it's too big.

(yeah, I know we already had this a few times, but I don't think we've seen the last of it)

Sanjay Vyas says

Knowing something of corporate finance, I loved this. The book presumes some familiarity with that topic.

Amazing picture of greed and venality. Very eye-opening.

Anita says

Detailed - and downright shocking - display of the egos and attitudes of hundreds of real people involved in the biggest private equity buyout of its day (and until relatively recent days). Describes far too many people to follow and too much detail, but the sheer magnitude of greed, excess and penis envy is amazing.

The DVD of the same title gives the abridged version of the story. It's quite hard to follow the story without knowing the background from the book. DVD also emphasizes Linda Robinson's character and her role compared to the book.

Nick Black says

went up to the parents' house over christmas, and found this in the garage, and was like "what? the parents don't read books" and, worried it might be mistaken for a delicious meal, grabbed it. there's some purple fucking prose in this book! Here's how not to write compelling narrative, kids:

The atmosphere at Tuesday morning's breakfast between Cohen and Kravis was no worse than that inside any commercial meat locker.

It's about as bad as All the President's Men, but the material kinda saves the effort. What personalities! What bling! What social-climbing wives! Fair Atlanta, described as the glamorous Empire City of the South that she is! Cigarettes! South-vs-North struggle! I swear solemnly that people will one day reminisce of me also:

....gracious in defeat. Arriving at Nine West, the first thing he did was open the bar.

I'd never considered "open the bar" as a verbal phrase, but I love it. But yeah, this effort was basically two frat guys jabbering over a typewriter, cigars ashing freely, shirts flying open to reveal great Scotch-built bellies, good old-fashioned white male fun. An absolutely untrustworthy book, unreference and

unknowable details aren't so much papered-over as gleefully thrust upon the reader. Pillow talk between married couples is quoted at dialogue's length. Inner thoughts of unnamed looker-ons are detailed, and presented as fact. Are we to gulp down this tissue of horse shit? Are we to take these glib lies like a greased and nameless asshole? What wondrous Fairiaes provided these unfacts? Who facilitates these crude and stumbling thrusts of explicative derring-do?

In fact, this book was terrible. The story is crazy, though, and well worth reading. More than anything, it has made clear something I've long suspected: to make the real money, you've long had to be a lawyer or banker, not because these require any particular skill but because they're closest to the money, and to the rules regarding that money (through the economic era, anyway. You used to need serfs. Serfs are no longer allowed; like the first Internet Boom, I was born a few years too late to cash in. Though, really, a King is surely just the Archlawyer of the Realm?). Thankfully, through the dual magics of high-speed trading and venture capital, computer scientists are finally getting in on this gravy train as well.

<http://www.youtube.com/watch?v=56u6g0...>

I hope the authors are penniless and being flayed by some Kafkan Commandant, but somehow doubt it. I don't want to live on this planet anymore.

Preston Kutney says

This book paints a grim picture of high finance and corporate excess. Although I'm fairly certain most of this wouldn't fly today because of how hard it is to keep secrets, and the media's scrutiny of corporate missteps. (a la Volkswagen, Exxon, to name a few recent cases)

Essentially, Ross Johnson rises to CEO of RJR Nabisco through playing politics, scheming with his band of merry men, and schmoozing board members. He constantly shakes up the company because he gets bored easily, and goes sniffing out a possible deal where a private equity firm would buy the company (with borrowed and seemingly imaginary money) at a markup to the public stock price, netting the shareholders and himself a hefty profit. A bidding war ensues, and unleashes the theatrics of a first-rate Wall Street drama. This book enraged me at times - it's what you might call a "sausage maker" - the more you know about what goes into high finance, the more unpalatable it becomes.

"Mergers and Acquisitions - M&A - were the ultimate creature of Wall Street because win, lose, or draw, they produced fees: fees for advising, fees for divesting unwanted businesses, fees for lending money. All that mattered now was keeping up a steady flow of transactions that produced an even steadier flow of fees – management fees for the buyout firms, advisory fees for the banks, junk-bond fees for the bone specialist. The entire Leveraged Buyout industry had become the province of quick buck artists."

"Here it was, the biggest bit of history, and what did they really know about RJR Nabisco? They hadn't visited the factories, hadn't talked with more than a handful of executives. All they had was a pile of annual reports, government filings, and stacks of what computer runs - little more financial guidance than that available to an RJR Nabisco retiree."

Rebecca says

I try to rate books based on how well they achieve their own objectives, and I think this one nails its goals perfectly. Corporate finance is labyrinthian by nature--to understand what actually happened in any given deal requires being able to track the money, the legal manuverings, and the easily ignored but incredibly critical personal relationships. (When I was a child, I thought that business deals were made based off of what was most profitable for the company. It turns out in real life, far more important factors are who plays golf with who and who is still pissed about not getting onto the board of some third company two years ago.) *Barbarians at the Gate* involves hundreds of people, with literally dozens of main characters (helpfully listed out by firm in the front of the book, a list you will return to again and again). They interviewed almost all of them personally, and include critical backstory for everyone involved, along with corporate histories, notes on legal ramifications, explanations of obscure financial procedures, and an overview of the history of the financial industry in general. Every bit of it is important.

That's not to say I enjoyed all of it, but my discomfort was never boredom. More just that I've been in enough meetings and contract negotiations to watch quite a lot of similar decisions being made, and some of this was close enough to home to raise my blood pressure by proxy.

The sheer hubris of some of these people is shocking. The CEO effectively kicks over this hornet's nest because he's bored and anxious about personal problems, and likes to stir things up for the sake of change. His stated reason for starting the LBO is incredibly weak--he's concerned about the stock price and thinks they're undervalued. He says he did it for the stockholders. (The company's stable at the moment and raking in money, which can be either plowed back in to make the company stronger or handed out dividends. As far as I can tell, doing short-sighted things to raise your stock price only benefits your stockholders if they then sell your stock. At which point, they stop becoming your stockholders. Now you have new stockholders, who own artificially inflated stock whose price cannot be sustained, who you have screwed from the very beginning. Honestly, I think trying to raise stock price "for the stockholders" is an asinine policy. The only way that raising the price will continue to benefit your stockholders is if you've done so by actually making your company more valuable--inventing new products, finding new markets, and investing in long term stability. Blowing it up via financial tricks does you no good in the long run--which (spoilers!) is exactly what happens here.)

But he's not the only one. The board have their own egos (and financial investments) to protect. Each of the bidding firms *cannot* afford to lose out on the biggest deal ever, but almost no one factors in their respective desperations, which leads to a spiral of increasing hysteria as each party is surprised when someone else trumps them. There are mysterious leaks to the press, back channel betrayals, ranting Cassandras, and a mad sprint through Manhattan when a traffic jam delays a critical bid. It's completely absorbing and a little sickening at the same time.

This is a sausage-making book, as in, the more you know about what goes into high finance, the more horrified you're likely to be. As I'd mentioned, I've been exposed to some similar shenanigans, albeit on a much smaller scale, but it rings true. This is real-life high drama, featuring political manuverings that make and break fortunes as well as destroy jobs and lives across the country. The fallout still influences the behavior of CEOs and investment banks today. One might expect a detailed financial history to be boring, but that ignores the fact that the driving force behind any such deal is the relationships between the people, in all their brilliant, vain, loyal, treacherous, ambitious, flawed glory.

Pyoungsung Choi says

Biafra says

The tale of Ross Johnson, the CEO of RJR Nabisco who sets the book's plot into motion, and the frenzied time leading up to the final decision on who'll win the leveraged buy out (LBO) bid and take ownership of RJR Nabisco is fascinating. The authors do an excellent job of providing background for the many people involved in the final bids, much of which is crucial for understanding their motivations and decisions.

For example, the rise of Johnson through the ranks of Standard Brands, the late night drinking brainstorming sessions he has with those whom have risen with him, and his constant need to have change going on around him provide adequate background to explain his somewhat puzzling decision to think up and execute the idea of a LBO of RJR Nabisco: essentially the share price isn't where he wants it and he thinks RJR Nabisco is becoming staid.

The resulting frenzy of action unleashed by the (at the time) largest LBO in history, from Henry Kravis's (whom Johnson originally talked to about the LBO) wheeling and dealing to scrap together the money to enter the LBO bid to the surprise introduction of First Boston and their off-the-wall strategy to make a deal happen, kept the story going at a good pace and the authors did a nice job of flipping between different storylines to keep things from going stale.

The book also give a great idea of how much the personalities of those involved in the business deal affect the decisions made. For example, Ted Forstmann's hatred of junk bonds caused trouble as others sought to use these as collateral for the LBO while the involvement of Bruce Wasserstein, formerly of First Boston, helped spur First Boston to make a bid.

In addition, it provides an overview of different financial devices---junk bonds, securities, and others---that one hears on the news but are not commonly put into context of *how* they are normally used.

Overall, an excellent journalistic endeavor and a non-stop thrill from start to finish. The authors give a highly detailed account of the players' backgrounds and motivations along with enough detail about the events to paint a good picture of events. Even better, they refrain from passing their own judgement during the book, which help the reader draw their own conclusions and allows one to understand (to a degree) why particular decisions were made without pre-conceived biases.

Highly recommended.

MisterFweem says

Read this one again. It's worth reading more than once. Still five stars. Even better after reading Benjamin Barber's "Consumed."

It's probably because I don't get around much, but I've only seen one depiction of greed that I thought was funny, and that's the one from The Addams Family, in which Gomez Addams shows the impostor Fester how to get to the money vault by pulling on the book titled "Greed" on the bookshelf.

Then there's the other kind of greed, the greed that is just nasty, heartless, shameful and yet shameless, as epitomized in Barbarians at the Gate, a wonderful non-fiction book by Bryan Burrough and John Helyar. In the book they paint a picture of egos and cash chasing after RJR Nabisco, a conglomerate that makes everything from cigarettes to Oreo cookies. I found the book at a library sale over the weekend, and feel like the dollar I spent buying it was well spent (Sorry to the authors; but I rarely buy new books these days. In fact, it's been at least ten years since I last bought a new one). The story was so captivating I had to read it midstream, interrupting my reading of Max Hastings' Nemesis, which is good, but just not as compelling.

So what makes Barbarians so compelling? It's the perspective. Over the weekend, we got a little perspective ourselves. We're looking for a new vehicle, one to replace our van but one that has the towing capacity to haul our camper. So we went to the local Toyota dealership and started looking at SUVs. Bad idea. Though they have what we want, their prices are just insane -- out of our price range, to the tune of \$30,000 to \$35,000. It all made the deal my father-in-law offered us on his Honda Pilot, at a mere \$14,000, look a lot better, so we're going that route again. This ties in with Barbarians because with the amounts of money involved in competing attempts to buy RJR Nabisco, there is no perspective. Billions of dollars flying through the air, pushed there by men and companies poised to make millions in fees. And little of the money they're playing with is their own.

Soak this in a bit:

There were, Finn admitted, some unique problems to be ironed out. For one thing, deferring \$3.5 billion in taxes -- a conservative scenario -- was unprecedented. According to Finn's calculations, this single transaction would boost the annual federal budget deficit by 2 percent. If first Boston proposed it, RJR Nabisco's board would almost certainly have to take into account the political fallout. "It's clear," Finn said, "that Washington would go apeshit."

No kidding. But as Theodore Forstmann, senior partner in Forstmann Little & Co., one of the firms that vied to buy RJR Nabisco in 1988, said, "It's like Alice in Wonderland. The reason Kravis can pay these incredible sums is that his money isn't real. It's phony. It's funny money. It's wampum." Of course, Forstmann is talking here of the junk bonds of the 1980s, but in my perspective, when you're playing with billions of dollars, it is all funny money and wampum; such amounts have no basis in reality because none of us can imagine spending that much money on something, not even skee-ball.

That's the perspective I gained from the book. Anybody who plays with insane amounts of money -- whether they're corporate raiders or the federal government -- has lot perspective on what they're actually doing, or spending. It's all funny money or wampum. A billion here or three billion there is meaningless when you're dealing in hundreds of billions, or trillions. If a little leaks out along the way, it doesn't matter, because there's always more wampum where that comes from. So spend, friend, spend.

I'm sure, unfortunately, that the greed depicted in Barbarians is eclipsed by what's gone on in the past few

years, from Enron to the mortgage meltdown. I'm grateful that we have fine writers like Burrough and Helyar to chronicle these kinds of things. but it's a truism in the business world, especially in New York, that the kinds of shenanigans displayed in this book are cheered on by the business press and the business world in general, unless the deals go sour and people don't make money. Everyone wants to be their friends (even their enemies) until the accusations start.

Sean Sullivan says

If you haven't noticed, I am a connoisseur of the business bestseller. I read 'em all, and this one is among the best. This, Den of Thieves and the Informant are as good as these books get. Here we got conniving and scheming on a massive scale. Extremely unlikable rich assholes brought low by equally unsavory, but way smarter rich people.

It's the story of an attempt to take RJR Nabisco private, and then a series of take over attempts that were instigated by the original privatization plan. Johnson, the CEO of RJR comes off as a dick, and not very smart at all. He's like a frat boy who makes by glad handing people and buying rounds of drinks – i.e. the kind of rich guy I hate the most. Kravis, of legendary take over firm KKR, comes off like a financier god. Brilliant, pushy, and beyond you puny human morals. Guess who gets the company in the end.
