

CORPORATE NEWS

Wesfarmers' Coles to sell smaller grocery stores

Supermarket chain to concentrate effort on improving layout

BY LYNDAL MCFARLAND AND IAIN McDONALD

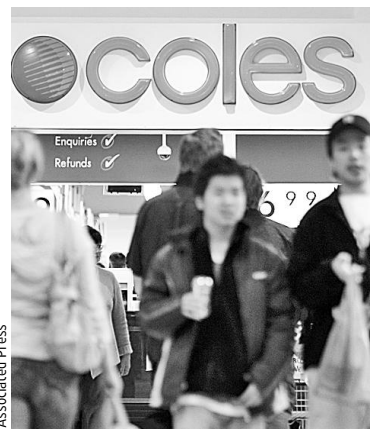
MELBOURNE—Wesfarmers Ltd.'s Coles unit said it will sell some of its smaller supermarkets, which analysts said will allow the grocer to focus spending on its rollout of a new store format at key sites.

The sale of 45 smaller stores to independent operator FoodWorks, along with eight associated Liquorland stores, comes as Coles finalizes plans for the new format, which the group hopes will help lure customers from market leader Woolworths Ltd.

Coles said the sale of the 45 supermarkets for about 35 million Australian dollars (US\$28.2 million) will reduce overlap and free funds for investment in its network of 718 remaining supermarkets and 623 Liquorland outlets.

"They're selling stores that were subscale, so when they're talking about this new format, [those stores] were never going to meet the quality standards they plan to offer in this new format," E.L. & C. Bailieu analyst Ivor Ries said.

"The problem that Coles has faced for almost two decades is chronic underinvestment in the



Shoppers at a Coles in Sydney. The grocer will sell some of its smaller stores.

stores, and Woolworths has outspent them two or three to one in terms of store refurbishment and keeping the format looking fresh and bright."

Coles said the sale will reduce its cost of doing business.

FoodWorks Chief Executive Peter Noble said FoodWorks plans to offer more branded goods and fewer private-label products in the stores it has bought from Coles and will alter the mix of products to match the demographics of the store locations.

He said overall business across FoodWorks stores is strong as the economic downturn encourages people to eat at home. Sales on a year-to-year basis are up about 6% to 7% so far in June, Noble said.

Diabetes drug spurs rating cuts on Sanofi's stock

BY MIMOSA SPENCER

PARIS—Sanofi-Aventis SA's future growth could be hit by questions about the safety of its key diabetes drug Lantus, analysts said Monday as many issued downgrades of the French drug maker's stock.

Rating cuts followed the publication Friday of studies by the European Association for the Study of Diabetes journal, Diabetologia. The group called for further research into the possible link between Lantus and an increased risk of cancer.

Although the data were inconclusive, analysts said the negative publicity generated could weigh on sales of a treatment that Sanofi is relying on to offset falling sales of other products, such as anticlotting drugs Plavix and Lovenox, which could soon face generic competition.

"Investors will likely remain cautious until more data are published," Exane BNP Paribas analysts said, after downgrading the shares to "neutral" from "outperform."

Société Générale lowered forecasts for Lantus sales to reflect no growth in the second half of 2009, and mid-single-digit percentage growth from 2010.

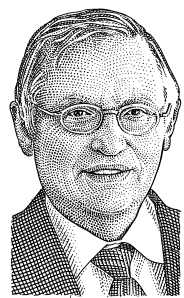
Annual sales of the drug in 2012 could total €3.4 billion (\$4.78 billion), Société Générale estimated, down from the company's forecast of €5 billion for that year, issued in February. Société Générale rates Sanofi shares a "buy."

EU, handset makers agree to adopt universal charger

A WSJ NEWS ROUNDUP

BRUSSELS—European Union officials reached a deal with 10 of the world's leading mobile-phone makers to introduce a universal charger for smart phones as of next year.

Monday's agreement with Nokia Corp., Sony Ericsson, Apple Inc., Motorola Inc., Research in Motion Ltd., Samsung Electronics Co. and other major manufacturers means phones compatible with standard charging devices will be available in Europe from next year, said the European Commission, the EU's executive branch, which had pushed for such a deal. Sony Ericsson is a joint venture of Sweden's Telefon AB L.M. Ericsson and Japan's Sony Corp.



Günter Verheugen

EU Industry Commissioner Günter Verheugen said selling a single, standard charger will cut costs for manufacturers and reduce the number of chargers thrown away when consumers buy new phones.

"I am very pleased that industry has found an agreement, which will make life much simpler for consumers," Mr. Verheugen told reporters.

The commission said the deal would involve the creation of an EU norm, and that the new generation of mobile smart phones—or phones with capabilities far beyond making standard calls and SMS texts—would use a standard micro-USB socket to ensure compatibility. Mr. Verheugen said the deal will cover 90% of Europe's handset market, but that he wants to see the common charger expanded to other phones, cameras and laptops. There are an estimated 400 million mobile phones in Europe.

Bridget Cosgrove, director general of DigitalEurope, which represents the digital-technology industry, said her group is "optimistic" other countries will adopt the same universal charger soon.

Consumer-rights groups, however, called for more-ambitious plans. "You could have extended this to different small appliances, such as MP3 players," said Gabriele Fleischer from the Consumers' Council in Berlin. She said it was also important that all mobile-phone producers join the agreement.

GLOBAL BUSINESS BRIEFS

Roche Holding AG

Denmark patient develops resistance to Tamiflu

Switzerland's Roche Holding AG said a patient in Denmark developed resistance to Tamiflu but that the drug still works against the H1N1 swine-flu virus. "Such a development...is no surprise from a scientific point of view," David Reddy, Roche's Pandemic Taskforce leader, said in a conference call. Mr. Reddy said the patient, who has since recovered, was taking the drug as a preventative measure. He said cases of drug-induced resistance are rare. Around 0.4% of adults and around 4% of children developed resistance to Tamiflu in clinical studies, Mr. Reddy said.

Adam Opel GmbH

The advisory-board chairman of the trust overseeing General Motors Corp.'s Adam Opel GmbH unit said Monday it might take longer than initially planned to finalize the German auto maker's sale. "This shouldn't be viewed as a fire sale," Fred Irwin said. "All serious bidders should get access to the same information," he said at a briefing in Frankfurt. Mr. Irwin said he hopes the deal can be completed within his six-month tenure, but it could take longer. GM signed a memorandum of understanding for a sale of a stake in Opel to Magna International Inc. but it isn't a legally binding pact.

—Compiled from staff and wire service reports.

INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

For more people in the news, visit CareerJournal.com/WhosNews

Table listing names of businesspeople and government regulators with their corresponding page numbers in the journal.

NEWS IN DEPTH

directly pump taxpayer money into banks.

Scott Romanoff, a Goldman Sachs Group Inc. managing director, has referred to the current effort, PPIP, as "the greatest program that never occurred," because it "created confidence in the markets so banks can raise equity capital."

In recent weeks, markets have lost some vigor amid renewed concerns about the economy. That could make it more difficult for big banks to raise additional capital. Banks also could face further losses as bad assets decline more in value.

On March 23, when Mr. Geithner unveiled PPIP, the Dow Jones Industrial Average surged nearly 500 points, or 7%, its biggest gain since October, on hopes that the program would nurse the banking industry back to health.

Many bank executives were skeptical about whether the program could succeed. Even before it was announced, some had grumbled that federal officials weren't consulting them, and instead were crafting the initiative with input from would-be investors. Some banking executives say they warned that they would be loath to sell at the kind of prices investors were likely to demand.

Executives at Citigroup Inc. shared those concerns, according to people familiar with the matter. While the New York bank was sitting on at least \$300 billion of risky loans and securities, selling them at discounted prices would require painful hits to its already thin capital ratios, these people say.

Some Citigroup executives had a different idea: Maybe they could turn a profit by bidding on their own toxic assets at discounted prices, using government financing, according to the people familiar with the talks. Other big banks also talked about setting up distressed-asset units to snap up troubled loans and securities, including from their parent companies, with taxpayer financing.

FDIC Chairman Sheila Bair later publicly shot down the idea. Citigroup declined to comment.

Meanwhile, many small-town bankers hoped the program would help them unload the bad assets—generally loans to finance commercial real-estate projects—that were hurting their balance sheets. Some potential buyers had surfaced before PPIP was announced, but they were offering such low prices that few banks could afford to sell the loans without severely denting their capital cushions.

The hope was that PPIP would help narrow the gap between buyers and sellers. Investors

would be able to bid more because the government would offer buyers little-money-down financing, along with some downside protection.

"We have illiquid assets," says Patrick Patrick, chief executive of Towne Bancorp of Mesa, Ariz. "It would be helpful to have a vehicle where you could sell them at market and be able to restructure our balance sheet."

Like many small banks, Towne Bancorp has been hurt by a handful of loans to finance real-estate projects that went belly up. In the first quarter, the bank said two souring commercial real-estate loans caused its portfolio of loans at least 90 days past due to swell by 52%. Such loans represent more than 22% of Towne Bancorp's \$143 million in assets. The company has been trying for months to sell 19 pieces of real estate—including undeveloped land and a warehouse—that it seized when loans went into default.

When PPIP was announced, big-name investors were intent on figuring out how to profit from it. Raymond Dalio of giant hedge-fund firm Bridgewater Associates, which oversees \$72 billion in assets, initially expressed interest in participating. But within days, he was blasting it, saying buyers and sellers would have difficulty agreeing on pricing and fund managers that profited would be exposed to criticism from politicians. The way PPIP is set up "makes us not want to participate and it makes us question the breadth of interest that we will see in the program," he wrote to clients.

Lawyers for hedge funds and private-equity investors warned clients about the risks of doing business with the government. The industry was unnerved by the restrictions placed on banks participating in another federal bailout program, the Troubled Asset Relief Program. Fund managers were also bothered by President Barack Obama's criticism of the hedge funds holding Chrysler LLC debt who had refused the government's buyout offers.

In conference calls with bankers and investors, FDIC officials emphasized that PPIP was critically important to cleanse banks of their bad assets. "I think you know the stakes are very high with this," Ms. Bair, the FDIC chairman, said during a March 26 call, according to a transcript. "We need this program to work."

Ms. Bair and her deputies encountered skepticism. In an April 9 conference call with



Associated Press

Treasury Secretary Timothy Geithner said the plan to facilitate buying troubled securities from banks may be scaled back.

Too high a minimum "will virtually eliminate all community banks from being able to participate in this program," wrote Julian L. Fruhling, president of Legacy Bank in Scottsdale, Ariz., in a letter to the FDIC.

Still, some investment firms that were hoping to help manage the government's program were optimistic. Laurence Fink, chief executive of BlackRock Inc., said in mid-April during a trip to Japan that if his firm is selected as a manager, it was ready to raise \$5 billion to \$7 billion to buy securities through PPIP. He said he hoped to raise

the FDIC, Mark Wolf of TRI Investments LLC, described his Carlsbad, Calif., firm as a potential PPIP bidder. "Unless you've got a process that either forces banks to sell or does a better job of encouraging them to sell, we're just going to see banks sitting back and dribbling these things out through an eyedropper over the course of time," he said.

Some bankers were hesitant. "If these loans are bought at a discount, we create a hole in capital," Lou Akers, executive vice president of Adams National Bank in Washington, told FDIC officials on the March 26 call. He suggested that regulators consider changing the way they calculate banks' capital in order to cushion the blow. Government officials were noncommittal, a transcript of the call indicates.

FDIC officials emphasized on the conference calls that PPIP was intended to benefit all banks, not just industry giants. But smaller banks began to worry they'd be locked out.

To participate in PPIP, local lenders were told, they would have to pool their loans with other banks. The process, which the FDIC said it would facilitate, was designed to simplify the bidding process for government officials and prospective investors. The agency didn't want thousands of banks put their loan portfolios on the block separately.

But the FDIC planned to require participating banks to kick in a minimum amount of assets, and some small-town bankers worried they wouldn't have enough to qualify.

money from individual investors in Japan and the U.S., and that potential returns could be as high as 20%.

The FDIC and other regulatory agencies were planning to use their "stress tests" of the nation's top 19 banks to push them to sell assets via PPIP, according to people familiar with the matter. But in the weeks before the stress-test results were announced in May, market sentiment began to improve. A number of banks succeeded in raising capital by selling new shares to the public.

Once the stress tests were wrapped up in May, even more banks sold shares—a total of roughly \$65 billion within a month. The capital-raising removed regulators' leverage to encourage participation in PPIP, according to government officials.

Around the same time, BlackRock reduced its goal for the size of its potential PPIP investment fund to about \$1 billion, say people familiar with the matter.

Earlier this month, the FDIC formally postponed the loan-buying portion of PPIP, called the Legacy Loan Program. "Banks have been able to raise capital without having to sell bad assets through the LLL, which reflects renewed investor confidence in our banking system," Ms. Bair said.

Next month, the FDIC intends to use PPIP for a far narrower purpose: to auction loans the agency has seized from failed banks. Eventually, it hopes to resuscitate the loan-buying program so that smaller banks can benefit from it.

But that could be tricky. The U.S. initially justified PPIP by invoking its "systemic risk" powers, which enable regulators to step in when the financial system is at risk. Regulators have debated whether such a justification would remain if the program were geared toward smaller banks. FDIC officials doubt they will muster the necessary consensus among regulators to invoke the special powers and keep the loan program alive, according to a person familiar with the matter.

Many banking experts contend that the financial system won't fully stabilize until banks get rid of their bad assets.

Mr. Segal, the bank adviser, complains that federal officials have cited recent capital raising by big banks as evidence that "the system is OK." That may be true "for the top 15 or 20 banks," he says. "But for everybody else, there really needs to be more attention paid."

—Deborah Solomon and Damian Paletta contributed to this article.

Setting targets:

"Play the game of the impossible. Set targets that are seemingly impossible to achieve. They must elicit a response of: That will never happen! This is a good thing as the starting point is now one of: Permission to fail granted! Now, even if one fails, it's okay as once the fear of failure is conquered, the team can focus its energy on the task at hand."

- Data: Sri Idris Jala, CEO of Malaysia Airlines

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Diminishing expectations



1. Feb. 11 Treasury Secretary Geithner offers the public a glimpse of PPIP, but its limited details disappoint investors.

2. March 23 Geithner formally unveils PPIP, fueling investor hopes that it will help defuse the banking crisis.

3. March 31 Influential hedge-fund manager Ray Dalio pens critique of PPIP, signaling investor wariness about participating.

4. May 7 The Fed and Treasury announce better-than-expected stress-test results, relieving pressure on huge banks to shed assets.

5. June 3 FDIC head Bair says loan-buying program is on hold, citing big banks' recent successes in raising capital from private investors.

6. June 9 Geithner tells lawmakers that participation in PPIP's securities program will be muted by banks' capital-raising.

Many small-town bankers hoped the program would help them unload bad assets. Some potential buyers surfaced before PPIP was announced, but few banks could afford to sell the loans at such low prices without severely denting their capital cushions.