India Invests In Germany's Family Firms

By Christopher Alessi

FRANKFURT—On his first visit to Germany as India's prime minister, Narendra Modi is slated to be the guest of honor at the Hannover Messe—the world's largest industrial trade fair—as he seeks to woo German investors to India.

But joining with German Chancellor Angela Merkel at the event on Monday, Mr. Modi will also be able to tout a spate of Indian mergers and acquisitions in Germany, particularly in the automotive, manufacturing, pharmaceuticals and information technology sectors.

Indian companies have mostly targeted Germany's small and midsize firms—collectively known as the Mittelstand—often in the role of unexpected rescuer for the financially strapped.

Like many smaller German companies, railroad-tie maker Rail.One GmbH has a family history dating back more than a century. But when its heavily leveraged private-equity buyout went sour in 2011, the new owners sought an investor steeped in the rail business.

The best fit, executives decided, was **PCM Group of Industries**, an Indian conglomerate that had recently competed against Rail.One for contracts in Saudi Arabia. PCM in 2013 topped two other bidders for the German firm.

The deal was small by global standards—less than €100 million ($106 million), according to PCM and Rail.One executives—but part of an trend of Indian companies investing in Germany's Mittelstand.

"It's astonishing for a lot of people" in Germany that an Indian company could take over a German firm, said Rail.One Chief Executive Jochen Riepl.

One factor both countries share is the prevalence of family-owned companies. Mittelstand firms tend to be more comfortable with Indian bidders because they usually offer long-term commitments, industry officials say.

Indian companies "are not buying to flip or make a speculative profit—they tend to have a long-term vision," said Christopher Wright, a mergers-and-acquisitions attorney with German law firm GÖRG. This approach, he said, "gives German companies some reassurance when dealing with an Indian investor. It's not like [doing a deal with] a private-equity firm."

Germany's Mittelstand, encompassing companies with up to 500 workers and up to €50 million in annual revenue, employs nearly 17 million people, or roughly a third of Germany's working-age population, and generates more than half of the country's economic output, according to the Ministry of Economics.

Indian companies acquired nearly 35% of the 128 German firms bought by the so-called BRICS developing economies—Brazil, Russia, India, China and South Africa—between 2005 and 2013, just behind Russia and ahead of China, according to consultancy KPMG LLP. All of the companies acquired by Indian buyers were Mittelstand firms, said Rajnish Tiwari at the Hamburg University of Technology.

Indian companies invested €61 million into Germany in 2013, more than seven times as much as in 2009, according to the German Bundesbank, but still only a small fraction of the total €20 billion in foreign direct investment the country attracted that year.

Indian investment in Germany has eased recently, partly because the Indian government is encouraging companies to invest at home, said Gert Bruche, a managing partner at consultancy BGM Associates GmbH, who follows Indian and Chinese acquisitions of German companies.

When it took over Rail.One and its roughly 680 workers, PCM didn't change the Bavarian company's management.

"We didn't want to disturb" the business, said PCM Chairman and Managing Director Kamal Mittal. Rail.One was PCM's first acquisition in Germany but Mr. Mittal said the West Bengal-based company is now considering more purchases, particularly in the solar-panel industry.

Still, differing Indian and German work habits can spark tensions, executives say.

PCM board member Nishant Mittal said one small but recurring issue at Rail.One meetings is cellphones. Indians tend to constantly check their phones, he said, even during important business meetings.

"In Germany, this is an offense. From their side, it can be perceived that you're not serious in a meeting," he said.

Mr. Riepl, Rail.One's CEO, said meetings between his company and PCM officials are often less than conclusive. "In India, a 'no' is a kind of an invitation to start a discussion. In Germany, a 'no' is a 'no,'" he said. Indians are "more open to experimentation" than Germans, he said.

On the other hand, Indian buyers tend to be "hard negotiation partners," said Christoph Duwe, a consultant with Schmidt & Partner in Hannover, who helped facilitate the purchase in January 2014 of a division of Germany's MSA Auer GmbH by Uniphos Envirotronic Pvt. Ltd., an Indian maker of gas detection and monitoring equipment.

Contract negotiations for that deal dragged on for months, Mr. Duwe said, because every time MSA sent a contract to Uniphos, the Indians would send back a completely new draft with fresh penalty clauses.

Manu Parpia, the chief executive of Geometric Ltd. who presided over the Indian group's 2013 acquisition of German electronic-engineering company 3Cap Technologies, said compared with India, German culture is "more precise, very process oriented [and] quite blunt."

"The emphasis on process in India is lower, because if you focused on process nothing would get done," he said.

Show and Tell: New Apple, Samsung Gadgets Take the Stage

TOP: STEPHEN LAM/GETTY IMAGES; BOTTOM: EDGAR SU/REUTERS

Apple CEO Tim Cook, top, joined fans at a store in Palo Alto, Calif., on Friday, the first day his company's Apple Watch was put on display. Also Friday, rival Samsung Electronics began selling its new flagship phone, the Galaxy S6. Bottom, a Samsung fan with an S6 in Singapore.

Curtailed Trip Brings $62,000 Perk

By Theo Francis

Executive perks are getting whittled away under pressure from investors. But unusual ones still do crop up.

Case in point: **Discovery Communications** Inc.'s $62,000 bill for a scotched vacation.

The pay-television programmer's proxy filing says in a footnote that its general counsel, Bruce Campbell, was reimbursed $30,033 in travel expenses for his family when the company called him back from vacation on urgent business. Mr. Campbell is also Discovery's chief development and digital media officer, and he oversees company M&A activity.

Discovery also paid Mr. Campbell another $31,980 to cover the taxes he would have to pay on the reimbursement, plus the taxes he would have owed on the payment to cover his taxes. Mr. Campbell's total compensation last year was $7.6 million in cash and equity.

A company spokeswoman wouldn't say what the business was, but said the company felt it needed to make the reimbursement after bringing Mr. Campbell's family of six, including a toddler, abruptly back from Europe over Christmas.

"We would have done the same for any employee," the spokeswoman said.

The footnote was spotted by Rosanna Weaver, who analyzes proxies for As You Sow, a shareholder activist group focusing on environmental and social issues.

The reimbursement falls into fraught territory for companies and executives: expenses the company considers worthwhile, but which don't technically fit into the business-expense categories recognized under tax and reporting rules. When employees are called home from vacation, their tickets would likely qualify as business expenses, not compensation, but family travel may not qualify.

The matter also gets into controversial territory with the tax "gross-up." For years, companies covered the taxes on all manner of executive perks. But after concerted investor pressure, the benefit has become much less common.

Discovery also grosses up other perks listed in its proxy. For example, it also paid $50,324 to offset taxes incurred by Chief Executive David Zaslav when business associates or his spouse accompanied him on the company's jet.

Discovery makes clear those gross-ups weren't for purely personal travel, but for "travel at the request of the company that is not considered business use." Elsewhere in the proxy, the company gives an example: "e.g., when Mr. Zaslav's spouse accompanied him to a business event in which attendance by a spouse is customary and serves our business interests."

Other companies sometimes make similar gross-ups.

In all, Mr. Zaslav received nearly $300,000 worth of personal flights on company aircraft, much of which wasn't grossed up for taxes, the proxy says.

Discovery, which is based in Silver Spring, Md., was in the news a week ago for Mr. Zaslav's $156 million in total pay in 2014.

Much of that came as a bonus for signing a new employment agreement, with about $145 million coming in the form of stock and options that vest over time. The company also cited its growth during Mr. Zaslav's tenure since 2007 in explaining the pay package.

The company's shares fell 25% in 2014. Mr. Zaslav made $33.3 million in 2013 and $49.9 million the year before that.

GLASS

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to other companies in the past nine months. Mr. Stroucken said such turnover tends to happen when succession plans are made.

Despite the drooping share price, Mr. Stroucken's total compensation climbed to $9 million last year from $7.8 million in 2010. Dave Johnson, the company's investor relations chief, said one reason for that is improved free cash flow, or cash from operations minus capital spending.

Owens-Illinois finally seems to be on the mend, said Alexander Roepers, president of Atlantic Investment Management Inc., New York, which owns a about 7.5% of the bottle maker. In a letter to the board, Mr. Roepers late last year publicly criticized Mr. Stroucken's management style as "reactive" and urged the board to speed succession plans. In an interview, Mr. Roepers said he has a "positive impression" of Mr. Lopez, the designated successor.

Owens-Illinois, founded in 1903 by Michael Owens, who invented an automated bottle-making machine, faces one big rival in Europe and the U.S., Ardagh Group of Ireland, which makes glass and metal packaging and had a loss of €391 million ($423.5 million) on sales of €4.73 billion in 2014.

J.D. POOLEY FOR THE WALL STREET JOURNAL

Owens-Illinois is suffering from the strong U.S. dollar and a move into China that backfired. Above, the company's Perrysburg, Ohio, facility.

Owens-Illinois and Ardagh are up against thousands of smaller local and regional rivals, which tend to hold prices down.

When bottle makers go bust, Mr. Stroucken lamented, "the asset just gets bought by somebody else, perhaps for a fraction of the value, so they are good to operate again."

The factories all use similar technology to heat sand, soda ash and limestone to around 2,850 degrees Fahrenheit and drop yellow streaks of molten glass into molds.

Owens-Illinois is betting in part on the popularity of Mexican lagers. Through a joint venture, it plans to invest about $275 million to expand a plant in Nava, Mexico, that makes bottles for Corona Extra and related beers.

Mr. Stroucken said bottles will remain the dominant package for craft beer.

The CEO, who joined Owens-Illinois nearly 10 years ago after stints at **Bayer** AG and **H.B. Fuller** Co., touts the company's 18-month-old research center in Perrysburg, where a miniature bottle plant allows engineers to test ideas without disrupting production elsewhere.

One idea already being used in new plants is to capture and reuse more heat, lowering energy costs. Another is to increase automation. At the research center, robots dance behind a black curtain designed to conceal exactly what the engineers are trying out.

Mr. Stroucken also hopes a way can be found to build small bottle plants that would be as efficient as big ones. That would allow plants to be closer to customers, reducing transport costs. His ideal is a bottle furnace that could fit on a truck; he isn't sure whether that is doable.

In any case, "we need to change the game," said Ludovic Valette, a Frenchman with a doctorate in chemistry recruited from **Dow Chemical** Co. two years ago to head R&D at Owens-Illinois. "I think we are just a very few years away. I cannot tell you if it's two or five."

SPOTIFY

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they share a large portion of revenue with music label partners.

Analysts at Manhattan Ventures Partners forecast Spotify had 2014 revenue of $1.3 billion, meaning the company is being valued at about 6.5 times its revenue. That is higher than Pandora, which is trading at about 3.9 times its 2014 revenue of $920.8 million.

Spotify is also valued at roughly the same amount that SoftBank Corp. offered to pay Vivendi SA to acquire Universal Music Group in 2013. Vivendi rejected that $8.5 billion deal. EMI Group—the smallest of the four global music companies—was split into two and sold collectively for $4.1 billion in 2012.

Spotify was valued at more than $5 billion last September, according to filings by **GSV Capital** Corp., a private investment fund that owns the shares.

Spotify courted a range of international investors to raise the new funds, reflecting the music startup's growing ambitions as a global service. Last fall, Canada became the 58th country to get access to Spotify, and the company has plans to enter Japan, executives have said. Earlier this year, it delayed plans to launch in Russia, citing laws governing Internet services and poor economic conditions in the country.