

# Barbarians at the gate

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Barbarians at the Gate are a look back at the events that has lead to the largest leveraged buyout to have ever occurred in history. This involves the buyout of RJR Nabisco, and how its CEO F. Ross Johnson schemes to buy his very own company. However, Johnson stumbles upon another person who intends to take over RJR Nabisco, in the form of Henry Kravis, an investment banker from Wall Street. It is a power struggle between two rich people, with angles including greed, ethics, power or leveraged buy out. But the focus has been the leveraged buy out, as it was history's biggest company takeover by a financial sponsor (Burrough & Helyar, 2005).

The idea of the leveraged buy out of RJR Nabisco sparked when the company is facing the possibility of market failure due to their release of the smokeless tobacco, Premier. As the company's CEO, F. Ross Johnson felt that he has to take financial control of his own company because the stockholders of the company are unhappy with what's happening. There is no growth in their stocks, with their only hope anchored on the release of their smokeless tobacco product. With this effort to revolutionize the smoke industry, the company wished to dominate and monopolize the smokers market.

But the result of the initial market tests showed otherwise. Most smokers who responded to the tests said that the cigarette has the smell of fart and the taste of shit. In order to take the situation to a better turn, Johnson as the company's CEO, sets his eye on the leveraged buy out of his own company in order to keep the stockholders happy. He takes total control over RJR Nabisco, while putting more money in the hands of its stockholders. There is however, a big risk with this action. It's because when a company opens up to for a leveraged buy out, it's a free for all fight.

Anyone can make a bid for the ownership of the company. But in Johnson's mind, everything will turn out right, and no one would find out. A leveraged buyout is a good technique to acquire another company by means of large amounts of borrowed money in the form of bonds or loans, in order to reach the cost of acquisition. In here, the asset of the company being acquired is added up to the collateral for the loans being made. This is in order for the company to make large acquisitions without having to put out a lot of capital for the buy.

This is clearly what happened to RJR Nabisco, where the company's assets were used as collateral in order to amass a great sum of money for the buy out. Everything was going well until they stumbled upon a formidable adversary in the form of the Wall Street Investment Banker, Henry Kravis. Kravis entered the scene along with other bidders who are interested in buying the company. Kravis was a part of a group known to be the kings of leveraged buy outs, the Kohlberg Kravis Roberts (KRR). KRR successfully buys out the RJR Nabisco from its previous owners at a price of \$25Bn. All the efforts coming from F.

Ross Johnson have been put to waste. Barbarians at the Gate are a good exploration of one monolithic event in the history of leveraged buy outs. It clearly shows that anything could happen in the free market. In business, money has always been equated to power, and those who possess both of these usually get their way with things. But that's not all; you also need to strategically think of every action you will take, because the business world is not a safe place: there would always be barbarians waiting outside the

gates. Reference: Burrough, B. , & Helyar, J. (2005). Barbarians at the Gate:  
The Fall of RJR Nabisco: Collin Publishing.