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THE WALL STREET JOURNAL.

WSJ.com

BUSINESS | JANUARY 14, 2009

Citigroup Ready to Shrink Itself by a Third

Financial Giant to Shed Units, Curtail Trading to Return to Size Before Its Merger Spree; Deal to Split Off Smith Barney Sealed

By DAVID ENRICH

Citigroup Inc. will soon announce a drastic plan to shed a host of businesses and shrink itself by one-third, say people familiar with the bank, which its executives say will essentially dismantle the financial colossus built by legendary deal maker Sanford Weill.

The bank announced Tuesday, as expected, that it will split off its Smith Barney retail brokerage into a joint venture with Morgan Stanley. Citigroup will also announce steps to shed two consumer-finance units and the company's private-label credit-card business, and scale back on the trading the company does on its own behalf.

Citigroup declined to comment.

The moves, which the company intends to unveil along with its fourth-quarter earnings next week, would represent the final abandonment of the acquisition-fueled growth strategy that built Citigroup from a small consumer-finance business into one of the world's largest financial institutions, with more than 300,000 employees in more than 100 countries. The company would essentially strip itself of large pieces of the company formed in a landmark 1998 merger of Citicorp and Travelers Group by then-CEO Mr. Weill. The slimmed-down company would look much like the pre-merger Citicorp.

Citigroup now plans to narrow its focus to large corporations and rich individuals. Executives hope to dump or shrink businesses that cater to less-affluent customers.

The company has attempted to sell some of these units over the past year, even as Chief Executive Vikram Pandit has said he remains committed to providing a one-stop financial supermarket. But Mr. Pandit is now expected to say for the first time that this fundamental strategy needs an overhaul. It would be an important acknowledgment that Citigroup's push to shed unprofitable businesses has entered a more serious phase, as investors and regulators alike press it to

downsize in the face of its fifth straight quarter of losses.

As part of the new push, Citigroup's enormous balance sheet would shrink by about one-third from its current size of roughly \$2 trillion, according to a person familiar with the company's plans.

Terms of the Smith Barney deal call for Morgan Stanley to pay Citigroup \$2.7 billion in cash for its share of the joint venture in the retail brokerage. Citigroup will also reap roughly \$10 billion in pretax gains associated with the deal. That will help put Citigroup on track to profitability when the deal closes.

Sense of Urgency

In recent weeks, Mr. Pandit and his team have been gripped by a renewed sense of urgency as they brace for a fourth-quarter operating loss of at least \$10 billion, according to people familiar with the matter. Citigroup's stock has again skidded below \$6 a share as investors fret about the mounting losses. Citigroup has received U.S. government infusions totaling about \$45 billion, making the government the company's largest shareholder.

By publicly embracing the idea of splitting up the company now, Mr. Pandit could remove some of the pressure on his team. "This isn't massively different from what we said in May" when Mr. Pandit first unveiled his overall strategy for the company, said a person who's been briefed on the company's plans. "It's a little bit different and a lot faster."

But Citigroup faces an uphill battle at persuading investors and government officials that the company is on solid footing and can seal deals to sell unwanted units.

By changing course as it is hobbled by losses and a dwindling stock price, Citigroup will be negotiating with would-be buyers from a position of weakness. The company is assigning management teams to handle the gradual disposal of units and other assets, but a person familiar with the matter emphasized that Citigroup doesn't plan to engage in a "fire sale."

"The investor attitude is, 'Show me, don't tell me,'" said Jeff Harte, a banking analyst with Sandler O'Neill & Partners. "Let's see if there's another transaction announced after" the Smith Barney deal.

If successful, the new Citigroup will feature an all-purpose corporate and investment bank that provides businesses worldwide with loans, advice on mergers and acquisitions, capital-markets services, and trading and payments services, say people familiar with the bank.

Another part of the company would serve wealthy individuals through a private

bank and provide retail-banking and credit-card services in places such as the U.S., Latin America, Central Europe and Asia.

A long list of additional Citigroup businesses is likely to eventually end up on the block, according to people familiar with the plans. They include two consumer-finance units, Primerica Financial Services and CitiFinancial. The company's private-label credit-card businesses also are marked for disposal.

Citigroup also plans to substantially scale back its so-called proprietary trading, essentially the investing that Wall Street firms do on their own behalf. Such proprietary trading tends to eat up significant amounts of capital, and has fallen out of favor as financial institutions world-wide try to rein in risk-taking.

Executives also are considering creating what is known as a "good bank-bad bank" structure, these people said. Under that structure, Citigroup would create a new corporate entity to house what it regards as its core, profitable businesses. It would segregate the unwanted businesses, including the consumer-finance units, in a separate entity.

Citigroup hasn't settled on how to create such a structure, people familiar with the discussions said. Such changes would be largely cosmetic until Citigroup finds buyers for the company's unwanted parts.

'Good' Portion

People familiar with the matter say that, on its own, the "good" portion of the company will appear profitable, while the rest of the company bears responsibility for Citigroup's tens of billions of dollars in losses over the past year. Executives hope the new structure will make it easier for them to showcase the company's strengths to Wall Street, but the new structure won't necessarily make it any easier for Citigroup to absorb huge losses.

Citigroup's plans represent an about-face for Mr. Pandit, who took over the company in December 2007 and as recently as late November rejected calls to abandon its financial-supermarket approach.

That model never seemed to pan out. Mr. Weill started building what would become Citigroup with his 1986 purchase of Commercial Credit, a struggling consumer-finance company based in Baltimore. Over the next 12 years, he acquired ever-larger financial institutions. The 1998 deal that formed Citigroup, at the time one of the largest in history, was initially trumpeted as precedent-setting.

Sprawling Company

But it turned out that consumers weren't terribly interested in one-stop shopping

for financial products. A string of Citigroup executives failed to get their arms around the sprawling global company.

People familiar with the matter said Mr. Pandit has realized in the past month that the longstanding game-plan needed an overhaul. In late November, the U.S. government agreed to a rescue of the financial giant that left the government with a 7.8% stake.

Since then, officials with the Federal Reserve and Office of the Comptroller of the Currency have urged the company to take steps to drastically shrink.

In contrast, other financial giants cobbled together over the past decade have performed much better, including Bank of America Corp., J.P. Morgan Chase & Co. and Wells Fargo & Co. Many analysts say superior returns at those banks are proof that one-stop shopping can deliver on its promise.

"This is the end of an era," said Robert Lamb, a New York University finance professor who is a former adviser to Mr. Weill. "It's a testament to how a conglomerate has difficulties when the management fails to oversee all of the pieces, people and systems professionally."

Some people who know Mr. Weill say that in the wake of news that Citigroup is splitting off Smith Barney, his mood has ranged from despondent to irate. Mr. Weill didn't respond to requests for comment.

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