

September 6, 1956

Mr. George S. Messersmith
1285 Sierra Paracaima
Lomas-Barrilaco
Mexico 10, D.F.
Mexico

Dear Mr. Messersmith:

It was very good of you to send me such a long and detailed letter on I.E.M. which, let me say, is most enlightening and helpful. The material which I have been able to gather locally deals mostly with the financial reorganization and hopes for the future, but in no way covers what you sent me. The background, administrative and other information which you have given me is not only useful per se, but also as a basis to evaluate more clearly the many facets of the whole picture. Many thanks, indeed.

I have studied last year's financial reorganization which was most drastic as it did away with the debt and, as far as the equity is concerned, only left one class of common in the amount of 1,300,000 at 100 pesos each. This should help clear the decks for further borrowing or financing if needed. To my mind the most important change is that henceforth four of the sixteen directors, and three of the five-man New York operating committee are to be appointed by Westinghouse. Since all major operational, financial and policy decisions have to be approved by the New York committee it will be Westinghouse's and, secondly, Kuhn, Loeb's responsibility that the right decisions are taken. This will not entirely prevent, but should reduce ill-advised or nasty actions in Mexico. Of course, it will still be up to the local directors and officers in Mexico to deal with the day-to-day problems with the Government. Westinghouse's getting ostensibly in the saddle should, however, be a great help.

Once a healthy situation exists, and I.E.M. gets on a sound and continuous dividend-paying basis, I can see all kinds of problems arising between the New York committee and the board, and between Westinghouse on the one hand and the Banco Nacional and Nacional Financiera on the other. In other words, once Westinghouse's immediate usefulness is over, objections might be raised about the tail swinging the dog. There are other problems that I can anticipate; unfortunately I can't say with the same assurance that they will be dealt with realistically. There is no question, however,

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that if the Mexican economy continues strong, and if the Government does the right thing with the private power companies (the two are closely linked) I.E.M. should prosper.

As you know, the shares are quoted on the New York Stock Exchange but there is practically no turnover at all. I wonder how long they can remain on this exchange if the sales do not increase very appreciably. At present the price is somewhere between 9 and 10 per share. Assuming that in time I.E.M. will show a good yield, I have the feeling that there are other Mexican equities which could show still more attractive yields, and which would not be quite as dependant on the economic condition of the country and the whims of some of the Government's officers.

I hope to see Mr. Vallance in a few days and find out from him on what basis he believes that I.E.M. will now go forward steadily and how it plans to avoid the pitfalls of the past. When I have spoken to him, this should more or less complete the picture and then I will draw my final conclusions. All the information I was able to gather here in New York, particularly from Kuhn, Loeb was very encouraging and glowing, and I think that your comments help greatly in bringing the problems back to their coordinates.

I hear that Gene Buchanan is in Washington, but we have not been in touch with each other yet. I also heard that Black, Garner and Fred are visiting you in Mexico. I hope that something positive will come of this as far as the company is concerned.

Let me thank you again for having taken so much time and trouble to write me so much at length on I.E.M.; I am really most grateful to you.

Please give my love to Mrs. Messersmith.

Very cordially yours,

James H. Heineman

JHH:eck I do hope you are feeling better,
and that you won't have to undertake
the trip to Boston.