

INDUSTRIALS

Table of industrial stocks with columns for Last Sale, Move, Buy, Sell, 12 month High/Low, Sales, Div, P/E, and various stock tickers like 21stCnFox, A1 Invest, AAC Ltd, etc.

THE SHORT CUT with Roger Montgomery



THE wipeout in the Billabong share price is nearly complete. Down from its peak of \$14 a share in mid-2007 to the current 15c, it has fallen 99 per cent in six years.

Significant shareholders Franklin Resources, JP Morgan Chase and Perennial all seem to be heading for the exit door, while major lenders Commonwealth Bank and HSBC are selling their debt at 80c-85c in the dollar.

The buyer is understood to be the New York-based Centerbridge Partners, which specialises in leveraged buy-outs and distressed securities.

Billabong (ASX: BBG) has 479 million shares on issue, and at 15c per share, its market capitalisation is \$72 million.

Turning back the clock to April 2012, TPG bid \$842 million, or \$3.30 per share, for Billabong, but this was rejected.

A few months later, in July 2012, and post another earnings downgrade, TPG offered \$695 million, or \$1.45, a share.

While the \$1.45 is less than half the \$3.30 a share TPG offered previously, there had been a \$225 million rights issue for debt reduction purposes in between, so the number of shares on issue had grown from 258 million to the current 479 million.

After TPG exited a left-hander in October 2012, president of the America's Division since 1998, Paul Naude, together with a consortium of financiers, including Sycamore Partners, "dropped in" a \$1.10-a-share bid in December 2012, valuing the company at \$527 million. This was a slight premium to the \$1.02 per share, the price of the 6/7 rights issue, which took place six months earlier.

A fourth bid was made in January 2013, also at \$1.10 per share, by VF Corp, the owner of Timberland and the North Face Brands, in conjunction with Altamont Capital Partners.

On February 22, Billabong reported its results for the six months to December 2012. The \$537 million loss saw Shareholders' Funds cut from \$1027 million to \$573 million. Net debt, inclusive of tax liabilities and deferred payments, was \$253 million at 31 December 2012, down \$22 million from six months earlier.

Of significant concern was the

implosion in revenue from "continuing operations" — down 15 per cent to \$701 million from \$828 million in the previous corresponding half-year.

Naude and Sycamore Partners, and VF Corp and Altamont Capital, appeared to have joined forces at this point and responded with a conditional bid, in April 2013, at \$0.60 per share, valuing the company at \$287 million.

Since this bid was withdrawn, Billabong is now fighting for its corporate life and is separately in discussion with none other than Sycamore Partners and Altamont capital "for alternative refinancing and asset sale transactions".

Launa Inman was appointed CEO of Billabong in May 2012 after a very successful career at Target. Ted Kunkel resigned as chairman at the November 2012 annual general meeting after joining the board of directors in February 2001. Peter Myers, after a combined 18-year career at APN News and Media and Network Ten, joined as CFO in January 2013. Talk about timing!

One thing we say at Montgomery — it doesn't matter if you are an Olympic rower; if the boat has a bad leak, you are in trouble.

At Billabong, Inman has been frustrated by her inability to fully implement a transformation strategy while potential bidders were going through the books.

But the biggest problem is probably the fact that Billabong lacked focus. It was a 10-brand business operating in 100 countries with a wholesale, retail, e-commerce, skate, surf and snow strategy.

Surf wear isn't a fashion statement anymore, especially when dad starts wearing a Billabong shirt. Big international retailers with economies of scale and slick e-commerce offerings are cutting into Billabong's traditional market.

One year into Inman's "the four-year turnaround strategy", and Billabong's 15c share price and \$72 million valuation is telling us time may be running out.

Roger Montgomery is the founder of Montgomery Investment Management

Table of stock tickers and their corresponding values, including Boral, BPH, Bradken, Brambles, BrandNew, Bravura, Breckville, Brickwork, Brierty, Bryson, Bunnings, BWS, BWS, BWS, etc.

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