

INDUSTRIALS

Table with columns: Last, Move, Buy, Sell, 12 month High, Low, Sales, Div, P/E. Lists various industrial stocks and their performance metrics.

THE SHORT CUT with Roger Montgomery

They say in sport that a "team of champions" doesn't necessarily make a "champion team". While each talented individual may be playing their respective position to the best of their ability, this may be of little consequence if they cannot perform together.

And this analogy is as relevant in business as it is in describing the Australian men's 4x100m freestyle team. A "roll-up" is the term used to describe a broad-based acquisition process of many smaller and similar businesses by a company.

At Montgomery Investment Management, we've maintained a very cautious stance towards roll-ups. The pitfalls are many and varied — companies can simply pay too much, rush deals with insufficient due diligence, suffer from culture clashes or have difficulties extracting synergies.

The most important consideration for roll-ups should be the stability of the industry. The funeral industry is suitable for roll-ups, but rushing to build a "one-stop-shop" for mining services does not help when the bottom falls out of the iron-ore price and you have yet to establish a reputation with which to compete.

After five years of cash outflows and disappointing earnings, Allmine Group generated its first profit in 2012. However, earnings fell again in the first half of 2013 on the back of weakness in the iron-ore price and the deferral of critical projects.

Roll-ups are attractive in theory, but it takes considerable time and effort, as well as a little luck, to ensure the businesses in a roll-up work together.

Roger Montgomery is founder of Montgomery Investment Management.

Large table of stock market data with columns for stock names, prices, and other metrics. Includes sections for various industries and company names like A1 Invest, AGC Ltd, etc.

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