

What Are All These Shorts Doing Here?

Jarden's acquisition strategy has sent its stock soaring, but plenty of bears are betting against it

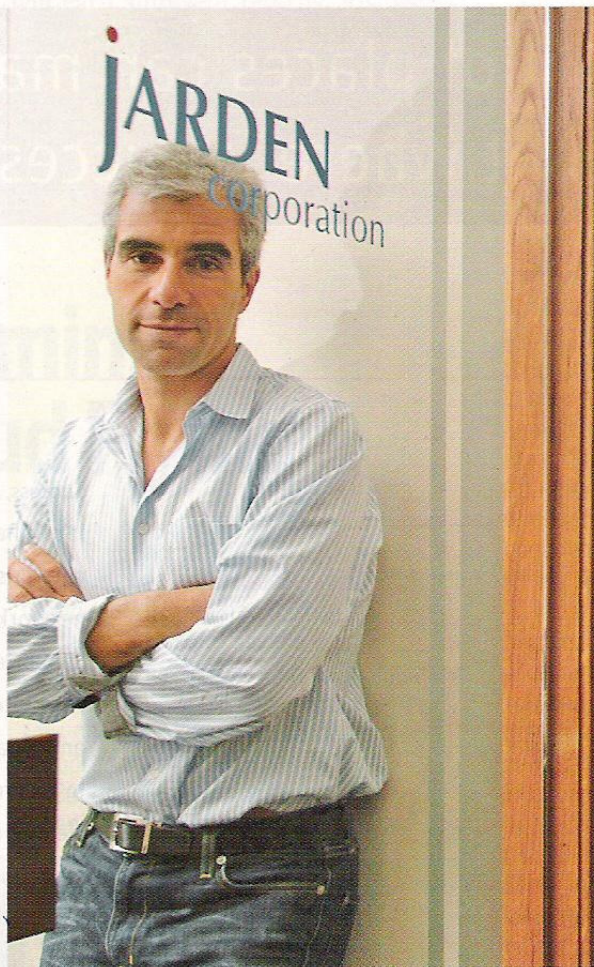
BY JUSTIN HIBBARD

CHANCES ARE YOU'VE never heard of Jarden Corp. But you've probably owned at least one of its products. Among them are the CrockPot cooker, the Mr. Coffee coffeemaker, and Coleman camping gear. The Rye (N.Y.) company has been a cult favorite of growth stock aficionados over the past five years. A \$10,000 investment in Jarden's predecessor, Alltrista Corp., in 2001 would be worth \$109,962 today, making Jarden the 10th-fastest-growing stock over the past five years among U.S. companies valued above \$1 billion.

But among Jarden's most ardent followers is a sizable faction that roots for its stock to go in the opposite direction. In the past year, while its shares rose to a record 42, an average 15.3% of the company's float, or the shares that trade freely, was sold short each month. Only 5% of public U.S. companies valued above \$1 billion have percentages that high. Investors who got in and out of short positions in Jarden from early May to late June profited as the stock sank from 35 to 28 (it's now around 31). Among those taking a keen interest recently: über-short James Chanos, managing director at New York hedge fund Kynikos Associates Ltd., say people familiar with his research. (Chanos declined to comment.)

FIFTH ANNIVERSARY

SHORTING JARDEN IS not for the faint of heart. Its management has succeeded three times before with similar ventures. Martin Franklin, Jarden's 41-year-old chief executive officer, and Ian Ashken, its 45-year-old chief financial officer, have a strong record of boosting companies' market values through serial acquisitions. That's what they're doing at Jarden: acquiring a diverse portfolio of consumer



products companies including the former Sunbeam Products Inc. and Holmes Group Inc. Two previous consolidations, Benson Eyecare Corp. and Lumen Technologies Inc., rose 1,569% and 107% in value, respectively, under the duo's guidance.

But the team sold both those companies within four years of taking charge. September marks their five-year anniversary at Jarden. Having taken the stock from 2.50 to 42, how much more value can they squeeze out? Says Franklin: "Are there still hundreds of millions if not bil-

FRANKLIN He took the stock from 2.50 to 42

lions of dollars of value to be created? Absolutely. If I didn't think so, I'd be gone."

The bears' litany of knocks against Jarden are mostly financial. Jarden has accumulated a \$1.5 billion debt load to finance acquisitions, giving it a 154% debt-to-equity ratio (the industry average is 128%). Franklin counters that the ratio lenders care most about is debt to earnings before interest, taxes, depreciation, and amortization, and that ratio is 3.3, the industry average. Bears fault Jarden for emphasizing adjusted EBITDA in its press releases and analyst calls instead of free cash flow, which has been negative for the past two quarters. Franklin says Jarden's highly seasonal cash flows are weighed down in the year's first half by rising inventories and accounts receivable, which get corrected in the busy third and fourth quarters.

JANUARY DIVE

BUT THIS YEAR'S second half may not play out as in years past. Retailers, anxious to boost flagging earnings, are streamlining inventory and not buying as many brands. Spectrum Brands Inc., maker of Rayovac batteries and Cutter insect repellent, has fallen 63% since April largely because of such cutbacks. "Jarden may face Target or Wal-Mart saying: 'We're not going to take this product this year,'" says Amit Chokshi, managing member at Stamford (Conn.) hedge fund Kinaras Capital Management. (Chokshi declined comment on whether he's shorting Jarden.) Franklin says Jarden should be safe because most of its products are category leaders.

Franklin is all too aware of what he calls "the cynics." In January, when Jarden missed fourth-quarter earnings-per-share estimates by a dime, or 4.5%, the stock shed 17% of its value in a week, and class actions flew fast and furious. "It's proba-

bly the biggest motivator of me not wanting to run a public company anymore," he says.

How's that? Franklin says he's committed to Jarden for the long haul and has \$65.6 million worth of stock to motivate him. But "nirvana for me is to run 100% of my own business." That raises an intriguing prospect: The stock likely won't zoom from here, but a leveraged buyout could fetch a premium. If that happens, the shorts will have made a costly mistake. ■