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The new king of brand names

Can a budding conglomerate thrive in 2008? The CEO of Fortune 500 newcomer Jarden Corp. is busy reviving old brands, but Wall Street has its doubts.

By Telis Demos, writer-reporter
July 2, 2008: 6:03 AM EDT

(Fortune) -- If his career had taken a different turn, Martin Franklin would've been an excellent infomercial pitchman. Sportily dressed in jeans and a white button-down, with a touch of an English accent, he bounces around the product showcase wall at the headquarters of Jarden Corp., a no-name company behind dozens of name brands.

He fiddles with an LED camping lantern made by Coleman, explaining how mirrors make the small electronic light as bright as a kerosene lamp. He stabs the air with a green plastic fork by Diamond cutlery made from recycled materials. He explains how the indoor Sunbeam Rocket Grill can flash-broil a steak in minutes. "Let me tell you a little trade secret," he says, picking up a Völkl ski pole and a Shakespeare fishing rod. "These roll off of the exact same machine. You just snip the end off the ski pole about two feet lower. They're unbreakable." He bends the fishing rod impressively far.

As it turns out, however, Franklin, 43, is the CEO, and what he's selling is not just nifty products but the idea behind Jarden (JAH, Fortune 500) as a company: Snap up undernourished brands and give them a shot in the arm.

He reached a major milestone on that quest this year when Jarden entered the Fortune 500 for the first time, at No. 492, with $4.7 billion in 2007 revenues (up from $305 million in 2001). What Franklin aims to build is a consumer-products empire with the reach and sturdy reputation of a Clorox (CLX, Fortune 500) (No. 474) or a Newell Rubbermaid (NWL, Fortune 500) (No. 378).

Each of the items in that product room is owned by one of the 19 companies that he and his circle of advisors have bought and folded into Jarden in just the past seven years. The company now markets more than 100 brands

- among them Sunbeam, Oster, Rawlings, K2, Hoyle, Mr. Coffee, Crock Pot, and First Alert - and is the market leader in such retail categories as kitchen electronics, playing cards, tents, and grill-gas canisters. It is the 15th-largest U.S. importer from China (measured by number of shipping containers) and a top supplier to Wal-Mart (WMT, Fortune 500). "Size is the only thing that gives you power these days," says Richard Heckmann, who as CEO of sporting-goods maker K2, agreed to sell it to Jarden and has since joined the board. "Little companies have no chance."

Building empires, however, tends to draw critics who question your motives and your methods. Does a mountain of brands add up to a company with staying power or just a whole lot of debt? Jarden's shares have been pounded in the past year, losing over half their value (Franklin himself has lost more than $130 million). A group of short-sellers, including James Chanos of Kynikos Associates, who gained fame by short-selling Enron, believe that Franklin's project is due for a fall. They think Jarden's $2.4 billion in long-term debt is too much and that you can't turn around a motley conglomeration of brands in the face of a credit crunch and a pullback in consumer spending.

But Franklin contends that he's breathing new life into his acquisitions by investing in them and cutting back on overhead, one example being the modest Jarden headquarters situated in just a few rooms in an office park in Rye, N.Y. "I don't believe in big headquarters or corpocracies or having businesses for the sake of it," he says. "You have to have a reason for things."

Franklin began working on his rationale while growing up in Britain. His father, Roland, was a partner of Sir James Goldsmith, the legendary corporate raider. At the age of 24, Franklin joined his father to break a large European packaging company into smaller pieces. The younger Franklin then switched to the company-building side of the ledger, launching an eyewear and lens maker called Benson Eyecare that rolled up several companies, growing to $300 million in revenues. He sold it four years later, walking away with about $50 million.

Jarden got started when Franklin failed to buy a company - Alltrista - and ended up with the CEO job instead. Alltrista was an industrial hodgepodge in Muncie, Ind., that made glass canning jars under the Ball name and other brands. Franklin started acquiring a stake in 2000, in hopes of taking over the company. His overtures were rebuffed, but the board was impressed with his vision for the company and ended up naming him CEO in 2001. He wanted to build on Ball's strong relationship with consumers and retailers by combining it with other home-goods businesses. The first few were such humble lines as playing cards, matchsticks, and vacuum sealers. "I was looking for anti-Internets," he recalls.

He renamed the company in 2003 to reflect its new focus: "Jar," as in Ball jars, and "den" as a homey touch. As the shopping spree got rolling, he hired a "chief transitions officer" who could quickly execute cost-saving plans at the acquired companies. He and his top deputy, CFO Ian Ashken, spent lavishly on due diligence, often traveling to hundreds of stores and factories to draw up their plans in advance, including whom to fire and what distribution channels could be combined with existing businesses.

But cost savings aren't enough to convince Wall Street you're adding value. So Franklin's final step in every deal is to plow savings back into development. "Before Jarden, we were investing in our brands at life-support level," says Andy Hill, a Sunbeam veteran tapped to run kitchen appliances. Having created a team he dubs New Sources of Growth, Hill led a redesign of Oster and Mr. Coffee products, converting their white-plastic lineup to stainless steel. First Alert patented and is now introducing the first aerosol-can fire extinguisher, called Tundra. Oster's blenders have spawned Margaritaville, a line of frozen-drink mixers that have become a $40 million line since 2006. "These aren't your father's versions of these brands," says Peter Goldman of market research firm NPD Group.

To Franklin, the new products show that Jarden is succeeding across its brands. His favorite financial chart shows the appliance group's Ebitda - earnings before interest, taxes, depreciation, and amortization costs - growing 8.4%, to $271 million, in 2006, a year there were no big acquisitions. "They've proved they can do more than acquire," says Bill Chappell, an analyst at SunTrust Robinson Humphrey. The market rewarded that growth through 2007, when shares peaked at $44 - from less than $3 in 2000.

Persistent, however, are the short-sellers who started amassing positions in Jarden in 2005, after it took the big step of buying American Household (formerly Sunbeam Corp.), a disastrous roll-up of brands mishandled in the 1990s by its onetime CEO, "Chainsaw" Al Dunlap. Today the short-sellers control about 18% of Jarden shares. So when first-quarter 2007 profits in the home-goods divisions fell compared with the first quarter of 2006, it seemed to validate the short-sellers and sent the stock below $20 per share. "I don't think Franklin can multitask well enough to run all these businesses at once," says Amit Chokshi of hedge fund Kinnaras Capital Management, which is short Jarden.

Jim Chanos even went so far as to question the timing of the acquisition of K2, a ski maker that owns other sporting goods brands like Marmot outerwear and Rawlings baseball gloves, a deal completed in the third quarter of last year for $1.2 billion. At the time, it was reported that Chanos said the deal was "spring-loaded," meaning that K2 had taken one-time charges in the previous quarter to show a nice improvement after Jarden bought it.

Franklin denies that such timing was a consideration, and he points out that when Tudor Investments was contemplating buying Jarden shares, it sent over a team of forensic accountants who found no evidence of wrongdoing. Yet worries have lingered - two analysts recently cited the market's concern about Jarden's earnings "quality," a euphemism for accounting gimmickry, as a downside risk. A recent report on Jarden by Gradient Analytics, an independent research firm, said that one-time restructuring charges could be used to obscure profit drops. Indeed, investors and regulators often raise such questions about companies that make a lot of acquisitions.

Franklin says he does not use one-time charges to cover up problems, only to clarify exactly which parts of the business are making and losing money. "Shorts in this environment can say anything they want," he says. "There's not really much I can do about that. They haven't met me, they don't know me." (Chanos did not respond to requests for an interview.) He says he spends a lot of time on the phone reassuring shareholders, even fending off rumors like one that the SEC had dragged him away in handcuffs.

Even so, he concedes, "I haven't spent enough time explaining to investors what we do every day that's good managerially." To illustrate that, he printed a deck of cards with Jarden's new corporate symbol: all of Jarden's brands floating in a strand of DNA, which is meant to suggest that they've all been injected with newer and better genes. (His aunt, Rosalind Franklin, helped discover DNA's structure.)

Franklin could avoid these headaches by taking the company private (a move he says he's considered). But he still believes Jarden can thrive as a public company. He's confident consumer spending will bounce back soon enough to buoy his brands, so for now he's focusing his intense energies - a longtime Ironman marathoner, he even keeps his Bluetooth earpiece plugged in when running - on integrating K2's brands with the rest of the outdoors businesses, Coleman and Pure Fishing. He envisions a possible chain of Marmot-branded retail stores to compete with North Face and has lured PepsiCo and Procter & Gamble veteran Greg Shearson to run the outdoors business.

Back in the product room, Franklin picks up a Coleman sleeping bag. "Imagine what we could do if we pushed Coleman into the apparel space too," he says, his eyes twinkling as he twirls the bag in his hands. "We could go after Columbia! That turns me on. I love the idea of that." For all the brand names in Jarden's stable, Martin Franklin's enthusiasm may be the company's most important asset. ■

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