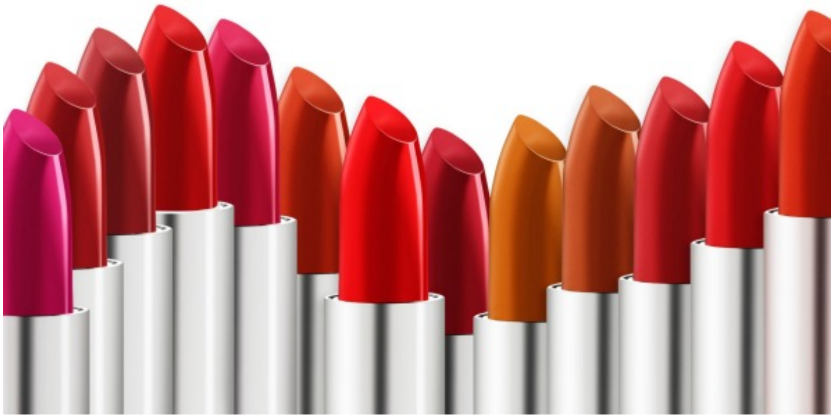
Mar 15 2017 at 11:45 AM | Updated Mar 15 2017 at 11:57 AM

Mittleman Brothers Investment targets private equity without the premium



Chris Mittleman is the second largest shareholder in Revlon behind billionaire Ron Perelman.
act\lyndall.larkham

by **James Frost**

Global cosmetics company Revlon, Singaporean conglomerate Jardine Strategic and Greek lottery outfit Intralot might appear to have little in common.

But to global funds manager Chris Mittleman of Mittleman Brothers Investment Management they share one important characteristic. Unrealised value.

Mittleman describes his approach as one that targets private equity type returns without ever having to pay a premium for control. The firm runs $US472 million out of offices in Manhattan and Long Island and is preparing to open its global equity strategy to Australian investors for the very first time.

"I feel much better about this [style of investing] than buying the index right now. The market is about 11 times EBITDA [earnings before interest, tax, depreciation and amortisation] and 20 times free cash flow. Our portfolio is about 6.5 times EBITDA and 10 times free cash flow," Mittleman says.

The firm has delivered investors with a return of 17.6 per cent per annum since inception in 2002. But that rise hasn't been without its ups and downs. In 2015 the fund's value fell 22 per cent compared with a small rise of 1.4 per cent in the S&P 500.

Related Articles

University of Sydney Business School tops BOSS 2017 MBA rankings

APRA gets it right with CBA's investigative panel

Some of that was due to a sharp fall in the value of Revlon, the $1.7 billion cosmetics giant that is Mittleman's single biggest holding, accounting for 14.8 per cent of its portfolio.

Cash cow and sacrificial lamb

Revlon has been a massive money spinner for Mittleman over the years but it is to some degree hostage to the actions of controlling shareholder Ron Perelman, who owns 77.5 per cent of the company.

Perelman isn't known for treating minority shareholders well. He tried to take the company private in 2009 but failed and the tiny free float means few sell side brokers cover the stock. But those reasons were part of what attracted Mittleman to the company.

"We started buying it December 2010 at $10 a share, today it's $30 a share. It's not a fast grower but it has excellent cash flow and it's a high margin business. I think it's worth $70 a share," Mittleman says.

Mittleman uses peer comparisons with firms like Coty, Estee Lauder and L'Oreal to justify his forecast. The shadow of Perelman ensures the stock trades at a discount of nine times EBITDA while its rivals trade at anywhere between 13 and 15 times EBITDA.

"All I am doing is applying the same low-end multiple that is enjoyed by its peers. It is suffering from a stigma we don't think is fair. We have made money from Ron Perelman before," Mittleman says.

No screens

As a boutique firm with a global investment mandate, it may come as a surprise that Mittleman doesn't use screens to whittle down the universe to a manageable proposition.

"I have tried to read everything I can get my hands on daily, weekly or even monthly for 27 years now. By not using screens we put ourselves in a position where we can see a lot of companies that others won't see," he says.

This approach has led the firm to such companies as Jardine Strategic, a Singaporean conglomerate and party to a complex crossholding that was created years ago to ward off a corporate raider.

While the threat of takeover has dissipated the structure has remained and investors don't especially like the opaque nature of the conglomerate's structure. While the share price is a fraction of the net asset value, the net asset value has been rising at the steady clip of 20 per cent per year.

In addition to real estate, retail, hotel and car dealership interests it owns the licences for a popular convenience store with IKEA in many of Asia's high growth regions.

"Even a simpleton can understand that the opportunity to invest in businesses in the Philippines and Indonesia where GDP [gross domestic product] is growing, where the median age is 27 years old, where sovereign debt and consumer debt is low and there is such a big discount on offer – is extraordinary," he says.

Another classic pick

The third example of a classic Mittleman stock pick is Greek lottery ticket operator.

58 mins ago

Ten insolvency full of strategic blunders

How pairs trading can blow up a trader

Top 500 Private Companies 2017

Latest Stories

Money laundering breaches cost Pakistan bank $225m

3 mins ago

Parents push prenups for property

19 mins ago

Markets Live: ASX dips, Aussie shines

LIVE |

More

The name may have some recognition among readers because the firm acquired the scratch lottery and Keno licences in Victoria only to abandon the business after it lost $63 million over a seven-year period.

Intralot had a difficult year in 2016 and the performance was exacerbated by the weaker euro but Mittleman believes that the company is worth three times as much as it is at current prices.

Lottery and wagering companies are notoriously resilient in down markets, the firm is the second largest lottery operator in the world and around a quarter of its revenue comes from US lotteries.

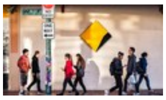
Mittleman has hedged its position by also owning the number one player in the space, IGT. Mittleman says he is prepared to hold the position as long as it takes, referencing an early trade in activist investor Carl Ichan's company that he held for six years before it delivered.

"I am willing to have almost eternal patience when the opportunity is there."

Recommended


Apple iPhone shortfalls seen as result of early...


Elon Musk's World War 3 warning is no joke, and...


John Laker, Grant Samuel, Jillian Broadbent named to...


Gordon and Murdoch got Ten bid horribly wrong


Gerry Harvey lets rip on 'enemy' John Hempton

From Around the Web

Special Reports

Australia's hottest new export

What to wear in Melbourne at twilight

Why Melania Trump loves Delpozo

The designers making money from 3D fashion

The best place to be a jewellery maker

University of Sydney Business School tops BOSS 2017 MBA rankings

The best Executive MBA courses in Australia

How the Boss MBA Rankings are created

Short, fast and intense courses for busy executives

The $100,000 MBAs

Men's suits straight from film set to you: what's hot this week

Here's the pick of property around Australia right now

On a higher plane in ancient Ladakh

For the best French cocktail, head to the NSW coast

Newman's lost Rolex sets auction world alight

Ways to supercharge the economy

Driving change from the inside can bring rewards

Recognising an ever-growing need

Robot technology could spur growth

Creating a more competitive manufacturing sector