

Event-Driven Research: M&A, Activism, Strategic Change PCG, FBHS, T, OXY, BBY

Research solely for
ewiley@gordonhaskett.com

PCG: Judge's ruling is gut punch for equity holders; \$8 Up/\$8 Down

FBHS: Co. may be laying groundwork for Cabinets spin with new "CEO" hire

T: Probably some truth to Apollo/DTV/DISH story; Can Leon Black broker a three-way deal?

OXY: Icahn has been noticeably quiet; Settlement in works as stock flirts with \$30s?

BBY: Strong CEO hire, depressed valuation = Easy Squeezy

It's suddenly a two-horse race at PG&E

It wasn't that long ago that **PG&E** (PCG), the bankrupt Northern California utility, had some momentum at its back and was trading for \$24/share. That amounted to more than \$12bn of equity value. Four months later, the stock has been more than halved and based on a surprising development last night, there are now worries that its equity value will all but disappear before it emerges from bankruptcy. U.S. Bankruptcy Judge Dennis Montali saw to that yesterday as he stripped PCG of its right to exclusively advance its reorganization plan. Instead, creditors like PIMCO and Elliott will be able to pitch a competing re-organization plan and as we understand it, if the creditors end up prevailing, it means very little value will be left behind for current shareholders. While PCG can still win this two-horse race, the utility will probably have to sweeten its offer to the state's fire victims and if that isn't enough, this widely followed event-driven name may be headed for the special sit graveyard. Not surprisingly, this news has crippled PCG's stock and has it trading below \$8 this morning. We see that being in no-man's land, with the stock generally implying \$8 of upside and \$8 of downside depending upon which competing plan is accepted. Looking on the bright side, 2019 has so far been mostly fire-free in Northern California and PCG seems to be doing everything in its power to make it through this fire season without another setback.

Fortune Brands shuffle sets up a Masco-like "Cabinets" move

Masco (MAS) earlier this year decided it was time to let go of its margin-dilutive Cabinets & Windows business in a move that we'd call "addition by subtraction." After a strategic review, these businesses were put up for sale and just last week MAS announced that it had found a buyer willing to pay \$725m for the Windows business. We bring this up because the MAS template is one that **Fortune Brands Home & Security** (FBHS) could borrow and it so happens that it also has a cabinets business that is dragging down the company's overall margins. Full-year margins in this business are expected to be about 10% while margins in the company's plumbing unit and its doors business have been guided to 21% and 13.5%, respectively.

We think this FBHS "Masco" idea got more interesting yesterday when FBHS announced that it has recruited a new executive to run MasterBrand Cabinets. That would be David Banyard and what is interesting about this is Banyard was CEO of **Myers Industries** (MYE). While MYE is a \$600m company,

you don't often see an executive give up a CEO job to run a segment and one explanation for this particular trade is Banyard thinks he will have a CEO job once again if FBHS spins off its cabinets business. This is a good-size unit that will probably do \$300m in EBITDA next year so with a multiple of 8x, you are talking about a ~\$2.5bn company. That would be an upgrade from MYE. Keep in mind, FBHS will also have a new CEO in January and obviously spinoffs are part of the DNA in the Fortune Brands family.

Apollo sticking its nose into a possible satellite TV hookup

As a general rule, we don't pay too much attention to "reports" that come from Fox Business reporter Charles Gasparino. Kind of like [Dodgers pitcher Clayton Kershaw](#), we don't trust Charlie in a big spot. Dodger jokes aside, Gasparino is out this morning with 800 words on **AT&T** that is worth a mention. Per Fox, Apollo Global has cooked up a plan where AT&T would merge its DirecTV satellite business with **DISH** while Apollo would jump in as a minority investor. The Apollo angle is what makes this story fresh. According to the story, AT&T would maintain control and with the proceeds from Apollo's investment, it could pay down some debt. The story was unable to pinpoint how large a commitment Apollo was ready to make to this transaction and it doesn't sound like this proposal is being "actively" discussed within AT&T. Of course, a DTV spin-merge with DISH makes too much sense to ignore and per a September 18 WSJ story, it is an idea that AT&T has at least considered. While such a deal would have to overcome some stubborn regulatory issues, those may be surmountable. What is probably a bigger problem is getting the prickly Charlie Ergen and Randall Stephenson to work something out. **That is where Leon Black could come in handy.** We wouldn't take today's story to the bank but we suspect it points to a real discussion that is going on behind the scenes.

Waiting on Carl to show some moxie at OXY

Occidental Petroleum (OXY) came within \$0.46 yesterday of trading below \$40/share. To put that in perspective, we'll mention that OXY hasn't seen the \$30s since 2008. We bring this up today mostly because we're wondering what's going on with Carl Icahn and his attempt to replace four directors through a consent solicitation. To proceed, he must get 20% of OXY's shareholders to call on the company to fix a record date and so far, it doesn't appear that Icahn has been able to roundup these signatures. In fact, he hasn't said much about OXY since [this August 29 filing](#) where he re-iterated his demand that OXY add new directors that are not hand-picked by CEO Vicky Hollub. In other words, add new directors that come from the four-person slate that he has suggested. To date, OXY hasn't publicly shown much enthusiasm for this idea. That said, Hollub let it be known back in August that she was interested in adding two new directors. That would be in addition to the former BlackRock PM that was elected to the board in July. As of now, however, those spots have not been filled and we suppose one explanation might be that Hollub and Icahn are talking. That might explain why Icahn remained quiet through September and into October. Weeks ago and with the stock in the mid-\$40s, we would have said a settlement was unlikely but with the stock on the verge of becoming a "thirty-something," we wouldn't be surprised if the next comment we get from Icahn is one that congratulates Hollub for seeing the light.

Activists hit the target at Bed & Bath with a knockout hire

When **Kohl's** (KSS) announced last month that President Sona Chawla was leaving the company to pursue other opportunities, her name quickly got tossed around as a candidate to fill the CEO opening at **Bed, Bath & Beyond** (BBBY). It turns out that job got filled yesterday and rather than go with Chowla, BBBY hit the bullseye by snagging **Target** (TGT) CMO Mark Tritton. This strikes us as a particularly strong hire for a struggling \$1.2bn company that has a long turnaround in front of it and traders seemed to agree as

they have the stock up ~20% in the pre-market. Though this will be his first CEO job, Tritton checks a number of boxes and after playing a role in TGT's recent surge, he certainly comes to BBBY with a hot hand. So hot, in fact, that we're actually surprised he didn't hold out for a bigger job. On second thought, CEO openings at big nationwide retailers don't open up too often and Tritton must see BBBY as a viable reclamation project. Coming out of this looking good is the three-headed activist group that jumped on BBBY back in March and struck a deal with the company at the end of May that put four new directors in the boardroom. Just before that settlement was reached, BBBY let go of CEO Steven Temares and we'd guess most investors will consider the Tritton-for-Temares trade to be a major upgrade. Given BBBY's compressed valuation and super-high short interest, this news has "squeeze" written all over it.

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Gordon Haskett Research Advisors

441 Lexington Avenue

New York, NY 10017

+1 212 883 0600

gordonhaskett.com/research