How One of Canada's Greatest Investors Creates Value

Description

Think back with me to 2007, which was a time where cracks were starting to be felt in the economy. In that year, Longview Fibre, an owner of timberlands and a paper mill, was looking to sell itself after rejecting a $1.33 billion (USD) takeover
from two private equity firms. The problem was that other buyers were starting to get nervous. Not only that, but the deal was too large and too complex for many of the timber REITs that would be logical strategic buyers because the
paper mill that came with it was generating negative cash flow.

Buy low and sell high

For **Brookfield Asset Management** (TSX: BAM.A, NYSE: BAM), however, it was the type of deal it loves to do. Complex, real tangible assets and the opportunity to both unlock and create value over the long term. The company swooped in and offered $2.15 billion (USD) for the complete package, which was financed with $1 billion in equity and $1.15 billion in debt. Of that equity, just $100 million was invested into the struggling paper and packaging assets.

This past quarter Brookfield decided it was time to cash out of its long-term investment in Longview. It realized gross proceeds of $3.68 billion (USD) as it sold Longview in two separate deals. With that sale the company was able to generate a 10-fold return of a billion dollars on the paper and packaging business, while earning a 10% compound annual return on the timber assets which were sold to timber REIT **Weyerhaeuser** (NYSE: WY). Shrewd moves, along with a focus on the long-term really paid off for Brookfield.

The anatomy of a turnaround

Brookfield's first move was to split apart the asset so that the management teams could better focus. The timber business was seeded with Longview's 588,000 acres and eventually expanded to 645,000 acres before being sold to Weyerhaeuser. Along the way Brookfield spun out some of the acres into **Brookfield Infrastructure Partners** (TSX: BIP.UN, NYSE: BIP) as a way of maximizing the value of those assets by taking advantage of BIP's tax structure.

Brookfield also reduced harvest levels during the economic downturn, developed export markets in Asia, both of which shifted the business focus to one on long-term margins as opposed to short-term cash flow. The strategy paid off handsomely when it was able to sell the business to Weyerhaeuser at one of the highest prices ever achieved for U.S. Timberlands.

Meanwhile, Brookfield refocused the paper and packaging business, changing its corporate culture to one of operating excellence and worker safety. Further, it simplified the business by moving from more than 200 products to just 70 high margin products. In five short years it turned the business from one generating little to no earnings to a business forecasted to produce $200 million in operating earnings this year. That enabled Brookfield to cash in when a strategic buyer came calling.

Final Foolish thoughts

There are three lesson's to be learned from Brookfield's great deal. First, with the right focus by management teams, special situations and turn around opportunities can really pay off. Second, just like with companies, investors should focus on their most profitable ideas. Finally, nothing beats a long-term outlook that is backed by having the liquidity to withstand the market's whims.

Brookfield is one of Canada's greatest businesses and is profiled further in our special **FREE** report "**5 Stocks That Should Replace Your Canadian Index Fund**". Another of these stocks was just taken out for a huge premium. **Click here now** to learn more about this collection of Canadian super-companies.

The Motley Fool's purpose is to help the world invest, better. ***Click here now*** *for your free subscription to* ***Take Stock****, The Motley Fool Canada's free investing newsletter. Packed with stock ideas and investing advice, it is essential reading for anyone looking to build and grow their wealth in the years ahead.*

Follow us on Twitter and Facebook for the latest in Foolish investing.

Fool contributor Matt Dilallo owns shares of Brookfield Asset Management. The Motley Fool does not own shares in any companies mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. TSX:BN (Brookfield)

Category

1. Investing

Date
2025/08/26
Date Created
2013/08/12
Author
mdilallo