Private Equity Wins Big With Jamieson Wellness Inc.

Description

It's been less than a week since vitamin manufacturer **Jamieson Wellness Inc.** (TSX:JWEL) went public at $15.75 per share.

Up almost 11% since its IPO debut, many institutional investors have probably moved on, leaving retail investors to fill the void.

While the prospects for Jamieson's business are reasonably good, don't be lured into buying its stock because that only plays into the hands of CCMP Capital Advisors, its private equity owners.

A little backstory

Eric Margolis might be best known to Canadians as an internationally syndicated columnist who came to prominence immediately following the 9/11 attacks in 2001. I can vividly remember his daily appearances on CBC and CTV and in the various Canadian newspapers.

However, Margolis is also the former owner of Jamieson, selling the company to CCMP for $300 million in January 2014.

At the time of the sale, Margolis was quick to point out that the deal took 18 months to come to fruition because of his desire to keep the company's manufacturing in Canada. So far, CCMP has held to that promise.

"There are so many options for a company like this. We could take it public on the Toronto Stock Exchange. We could turn over to what we would call another financial buyer, another private equity firm, or we could sell it to a strategic buyer, another player in the industry or a global player in the industry," CCMP managing director Rich Zannino said in 2014. "There was interest from all of the above prior to our buying it."

CCMP's average hold is six years. In this case, it's exiting in fewer than four years. More importantly for its investors, it's leaving with a three-fold return (31.5% annualized) on its original investment.

The private equity model

When a private equity firm buys a company, it uses between 20-40% of its own investors' capital, the cash on hand of the company it's acquiring, borrowing the rest using the acquired company's financial strength to backstop any loans.

Then it goes to work cutting expenses while making tuck-in acquisitions to grow revenues until such time that an exit strategy is found that benefits its investors.

Former Jamieson CEO Vic Neufeld, now CEO of **Aphria Inc.**, appeared on BNN at the end of June. He mentioned that the rumour on Bay Street was that CCMP was looking for an appropriate strategic buyer, but there were no takers. CCMP suggests it could have sold to Chinese businesses but thought the company should stay in Canadian hands and opt for an IPO instead.

We'll never know the truth, but given the strength of the IPO market this year, it's entirely possible that it stopped looking once it knew a public offering would be a slam dunk given the scarcity of publicly traded consumer stocks in Canada.

Bottom line

At Jamieson's current market cap of $689 million, it's trading at 28 times its 2016 adjusted net income of $24.8 million. That's a lot to pay for a company that's expecting annual revenue growth of 6% over the next five years.

A bigger concern for me is why CCMP couldn't find a strategic buyer on this side of the Pacific? That tells me Jamieson will only continue to grow by acquiring other small companies like the two it's bought since taking control in 2014.

Frankly, in my opinion, CCMP's getting out while the getting's still good. Two years from now, I doubt things will be nearly as rosy at Jamieson headquarters.

I'd avoid its stock until it trades below its IPO price of $15.75.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/26

Date Created
2017/07/11
Author
washworth