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L.A. Improves Public Standing

INVESTMENT: Deals, IPOs help add 13 traded firms to list.

By HOWARD FINE

After several slow years, deals and initial public offerings have roared back, shaking up the Business Journal's annual list of publicly traded companies in Los Angeles.

Thirteen companies, with a collective market capitalization of more than $16 billion, were added to the list, up from just three newcomers last year with a collective market cap of $2.1 billion. This year's list includes nine companies that debuted as the result of IPOs.

Meanwhile, 15 companies worth a cumulative $4 billion exited the list, most through acquisitions by competitors or private equity firms outside the region. In almost all those cases, the companies were taking advantage of favorable equity markets or substantially improved economic conditions to make deals.

"In the big picture, this is a very healthy part of the cycle," said Steve Reiner, managing director at B. Riley & Co. in West Los Angeles.

"Companies are looking for the greatest opportunity: For some, it's through public equity offerings; for others, it's through private transactions."

Overall, the net gain of $12 billion in market cap from all these deals helped propel the 165 companies on this year's list to $670 billion in market value, up 21% from last year. That's roughly in line with the broader markets as the Standard & Poor's 500 and Russell 3000 indices both rose about 22% during the 12 months ended June 30.

IPO rebound

The nine companies that went public over the past 12 months had a collective market cap of $12.2 billion as of June 30; the three that went public last year had a combined market cap of $2.1 billion at the same point.

The largest local IPOs on this year's list were Ares Management of Century City – valued at $4 billion as of June 30 – and American Homes 4 Rent of Agoura Hills, valued at $3.3 billion. Two others – Kite Pharma Inc. and TrueCar Inc., both of Santa Monica – had market caps topping $1 billion as of June 30.

One other company, MGM Holdings Inc. of Beverly Hills, is poised to file for an IPO that will allow wider trading. It currently trades on the "gray market" with limited shares sold only in big blocks and had a June 30 market capitalization of $4.2 billion.

The market for private transactions is also active. Of the 15 companies that dropped off the list, seven were snapped up by private parties. Among those: Arden Group of Compton, bought for $394 million by TPG, a private equity firm in Fort Worth, Texas; National Technical Systems Inc. of Calabasas, bought for $267 million by Westwood private equity firm Aurora Capital; and Overhill Farms of Vernon, bought for $81 million by competitor Bellisio Foods of Minneapolis.

Towering over those in value was the move by David Murdock, 90-year-old billionaire chief executive of Dole Food Co., to take the Westlake Village fruit giant private for $1.2 billion.

Lloyd Greif, president of downtown L.A. middle-market investment bank Greif & Co., said the mergers and acquisitions market surpassed IPOs due to the strength of the stock market which makes stock attractive to finance acquisitions, low interest rates, lenders scrambling to put money to work and companies desiring to grow faster than the overall economy.

"We have the perfect storm for heightened merger and acquisitions activity," Greif said.

Unfortunately, L.A. companies are more often the ones being acquired instead of the ones doing the acquiring, which is why most of the dealmaking results in companies leaving L.A.'s public company list.

"We're very good at creating entrepreneurial companies and bringing them to market through IPOs," Greif said. "But once companies go public, we tend to have trouble keeping those companies here."

He said the state's business climate becomes less friendly as companies grow and face greater regulatory hurdles. That dynamic often makes them less willing to acquire and more willing to be acquired.

Disney's world

Walt Disney Co. further solidified its perch atop this year's list, as its market cap swelled 30% in the 12 months ended June 30 to $148 billion. The Burbank entertainment giant alone now accounts for 22% of the cumulative market cap of all 165 companies on the Business Journal list.

Investors cheered the performance of Disney's theme parks, ESPN sports network and animated features, especially the hit movie "Frozen."

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"In the businesses that the Street cares about, the company is firing on all cylinders," said David Miller, media and entertainment analyst with Topeka Capital Markets in New York.

No. 2 Amgen Inc.'s growth of 21% was in line with the average as some of the Thousand Oaks company's drugs won approval or fast-track status while sales of other drugs fell short of analyst expectations.

No. 3 Occidental Petroleum Corp. saw its market cap grow 12% as the Westwood oil giant embarked on a massive restructuring. Oil prices, the main driver of its profits, rose just 7% in the same period.

The biggest percentage gainer in market cap over the year was Arrowhead Research Corp. The Pasadena drug maker's market cap rocketed nearly 1,100% to $742 million as investors cheered positive test results for its drug to treat hepatitis B infections and four other drugs in its pipeline.

Fellow biotech company CytRx Corp. saw its market cap jump nearly 300% as its experimental anti-cancer drugs showed positive test results. The jump would likely have been even higher had the West L.A. company not become embroiled in a stock promotion conflict.

Retail woes

One category stood in stark contrast to the tremendous gains in market capitalization: companies that rely on sales in brick-and-mortar retail stores, especially local apparel firms.

Of the 25 companies on this year's list that registered double-digit percentage drops in market capitalization over the last year, seven relied mostly on brick-and-mortar store sales. Five of those sell apparel products: Big 5 Sporting Goods Corp. of El Segundo, Joe's Jeans Inc. of Commerce, Sport Chalet Inc. of La Cañada Flintridge, and American Apparel Inc. and Guess Inc. in downtown Los Angeles. The other two – Mattel Inc. of El Segundo and Jakks Pacific Inc. of Malibu – are toymakers.

"Other companies may have joined the Wall Street party over the past year, but definitely not the retailers," said Jeff Van Sinderen, senior analyst with B. Riley.

Van Sinderen said a confluence of factors has led to the sluggish retail performance, including a brutal winter that kept many shoppers at home, a lack of enticing fashion designs, the continued rise of online retail and consumers still feeling a financial squeeze.

Most profitable

Meanwhile, perennial leader Herbalife Ltd. once again tops the Business Journal's annual most profitable companies list. The downtown L.A. supplements company posted a three-year return on equity, the amount of net income returned as a percent of shareholder equity, of 96% and a one-year ROE of 251%. This despite a sustained attack on the multilevel marketing company from hedge fund manager William Ackman, who alleges the company functions as an illegal pyramid scheme. One analyst tracking the company said its growth has come through international expansion.

"Herbalife expanded its highly successful nutrition club business model from Mexico to the rest of the world, which enabled growth to accelerate in various regions globally," said Rommel Dionisio, analyst in the New York office of Wedbush Securities of Los Angeles.

Fast-casual restaurant chain DineEquity Inc. of Glendale and apparel and footwear marketer Cherokee Inc. of Sherman Oaks came in at No. 2 and No. 3, respectively.

Looking ahead

Next year's public companies list could see more dramatic changes. For starters, No. 3 Occidental has announced it's leaving its Westwood headquarters by the end of this year and moving to Houston. A California spinoff, with a market cap estimated at about $20 billion, will remain in the state, though no announcement has been made about the headquarters location for the entity, which will be called California Resources Corp. Long Beach, Los Angeles and other local cities are vying for corporate headquarters honors; if the headquarters is sited in Los Angeles County, the spinoff would still rank in the Top 10 on the public companies list.

Meanwhile, AT&T Corp. of Dallas has made a $48-billion offer for No. 4 DirecTV Inc. of El Segundo. If that deal goes through, DirecTV would fall off the list. Also dropping off will be Sport Chalet, which has agreed to be purchased by a unit of Philadelphia's Versa Capital Management in a deal expected to close in the third quarter.

On the positive side of the ledger, No. 32 Aecom Technology Corp., a downtown L.A. engineering firm with a June 30 market cap of $3.2 billion, agreed this month to acquire San Francisco rival URS Corp. for $6 billion, keeping the headquarters of the combined company in Los Angeles. Assuming the deal goes through, the combined firm would have a market cap of $7.5 billion, based on what the companies were valued July 14, the day the deal was announced. That would vault Aecom into the top 15 on the list.