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Some Firms Look to Reverse Their Share Fortunes

INVESTMENT: Analyst cautions stock splits don't often work long term

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With the stock market on an upward trajectory, a handful of struggling L.A. companies are attempting a tried – but not so true – strategy to catch some of that lift: a reverse stock split.

Just last week, Sequential Brands Group Inc., a downtown L.A. apparel company that trades over the counter, announced a reverse split, combining 15 shares of its 30-cent stock into one higher-priced share. In doing so, it's joining more prominent firms, such as Agoura Hills video game maker THQ Inc., which tried reverse splits earlier this year.

The maneuver is generally an attempt to remain listed or to gain listing on major exchanges such as the Nasdaq, which has a minimum share price requirement of $1. The companies also might hope to attract institutional investors, which generally do not buy shares priced below $5.

For example, NetSol Technologies Inc., a Calabasas company that makes automotive leasing software, carried out a 1-for-10 reverse split last month that kept it from being delisted from Nasdaq.

NetSol's shares nosedived last year after reporting a quarterly loss and earlier this year after announcing a dilutive stock offering. The split sent NetSol shares from 45 cents to almost $5 overnight. The company posted a quarterly profit earlier this month that helped shares close at $5.40 on Sept. 12.

"Most of (NetSol's) customers are Toyota, Daimler … prestigious customers who want to see a strong company," said Matt Sheldon, an investor's relations consultant who worked with the company on the reverse split. "Being listed on a national exchange is important for the customers."

Cancer drug developer CytRx Inc., which has yet to see a drug hit the market, also benefited from a 1-for-7 reverse split. Shares of the West L.A. company rose from 37 cents to $2.59 in May. The company got a later boost when one of its drugs went to clinical trial. Shares closed at $3.89 on Sept. 12.

However, prominent L.A. investment banker Lloyd Greif is not a fan of reverse splits, especially for microcaps. He said reducing outstanding shares can make the security more illiquid.

A better option is for the company to find a buyer as it doesn't have the same access to capital in the public market that a larger, stronger company does – yet it still must endure shareholder scrutiny.

"It's easier to fix the company when you're outside of the public's eye. You don't have to fix it with a 90-day report card," said Greif, chief executive of downtown's Greif & Co.

Consider THQ. Its reverse split in July raised its beaten-down stock from 52 cents to $5.79. But the stock already has slid despite THQ releasing a best-selling video game in August. Shares closed at $4.01 on Sept 12.

Even worse, OriginOil Inc., an L.A. biofuels company, did a 1-for-30 reverse split last year to gain listing on a major exchange. That boosted its share price from 12 cents to $3 in August 2011. Still, the unprofitable company's stock has since retreated to about $1 and is currently trading over the counter.

"A rising tide lifts almost all ships, but these thinly traded stocks do not, in my experience, move with the market," noted Greif.