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Experts See Jabil's Buyout Potential

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Could Jabil Circuit be a target for a buyout by private equity companies?

Could it go the way of other local employers such as Outback Steakhouse, The Nielsen Co. and Catalina Marketing and go private?

Just about anything is possible lately in the booming private equity market, with major companies such as Chrysler and Hilton attracting offers from private equity funds.

That kind of speculation may be behind a nearly 9 percent jump in Jabil's stock price during the past two days. On Tuesday, Forbes.com attributed the jump to speculation among unnamed hedge fund managers that Jabil was a buyout target.

Jabil officials declined to comment Wednesday on whether they have been contacted by any private equity firms about a deal.

Still, private equity firms tend to look at the same kinds of factors when searching for targets, and acquisition experts say several factors could make Jabil an attractive acquisition, while other factors may not.

Perhaps the most important factors:

Private Equity Binge: Private equity has seen a major heyday lately, said Tracey A. Zaccone, a merger and acquisition lawyer in the New York law office of King & Spalding.

"We're seeing private equity companies do deals they just would not have done 10 years ago," Zaccone said.

Hundreds of billions of dollars have flowed into private equity firms, which are loosely regulated pools of money from wealthy individuals, insurance companies and pension funds. In general, private equity companies buy target companies, restructure their operations and hope to resell or take them public again at a steep profit.

Those private equity companies have seen unprecedented profits lately, with low interest rates helping give them easy access to credit to expand their buying power.

Financial Health: Jabil has strong revenue growth worldwide and is considered financially stable. For that reason, top managers may not be interested in a private equity deal, said Gary Tanel, a vice president at the Dallas-based investment company Allegiance Capital. Tanel specializes in electronics companies and has studied Jabil's business.

"They just don't need the money," Tanel said. "Their other rivals really need someone to buy them because they're in bad shape, but Jabil has grown from an \$8-billion-a-year business to \$11 billion in just a couple years. They're a strong company, and I'd think they would be the ones interested in doing the acquisitions."

Reliable Cash Flow: Perhaps first and foremost, private equity firms look for steady, healthy cash flow. Unlike net income or profit, that take into account things such as restructuring charges, this is the actual cash a business generates after paying all expenses and taxes.

That cash can go toward payments on new debt taken on by the company. Jabil has generated \$450 million to about \$600 million in cash a year during the past few years.

However, Zaccone notes that electronics companies tend to have seasonal business, so they could be less attractive to private equity companies that would need to make steady debt payments after a deal.

Lagging Stock Price: A buyout often means accumulating a majority of outstanding stock in a target company that is publicly traded. A lower stock price helps make that purchase less expensive. Lately, Jabil's stock has been trading somewhat lower. It slid from a closing high of \$42.86 per share last year to about \$23 a share last month. On Wednesday shares closed at \$28.83, up about 2.2 percent.

"I believe they are a potential candidate for a takeover," said Seth Goldblum, a managing partner with CMF Associates, a firm that helps private equity funds restructure companies they buy.

Low Debt: A favorite tactic by private equity firms is to buy a company, load it up with debt and then order special dividends to pay off the original purchase - thus giving the private equity firm all its money back quickly.

Jabil has relatively low debt, about \$1.3 billion, compared with other companies its size, according to data from Bloomberg News. That means a buyout company would have room on Jabil's balance sheet to add debt and seek an immediate payoff.

People: Of course, any private equity deal involves people who run the company.

Jabil executives have seen their company grow from a small electronics outfit in Michigan. The decision would be up to Jabil Chairman William D. Morean and executives such as Chief Executive Officer Timothy Main, and they are not commenting.

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