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EVENT-DRIVEN DAILY

Zoetis under fire, Emerson changes course on M&A, Tenet spin idea slowly gaining altitude (LINE, LAMR, TAP)

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Zoetis peppered with M&A questions

Twenty months ago there was a report that Novartis made an attempt to buy **Zoetis** (ZTS), the animal health business that was owned at the time by **Pfizer** (PFE). Of course nothing came of that overture and a topical question these days is whether it is now time for the tables to be turned. That question was on the mind of analysts yesterday as ZTS CEO Juan Ramon Alaix was asked several times during his company's 3Q earnings call whether he had any interest in buying the animal health businesses currently owned by Novartis and **Merck** (MRK). The question is timely because media reports have claimed the Swiss pharmaceutical giant is exploring a sale and MRK Chairman Ken Frazier, as we discussed here on 10/29, might also be ready to do something with his animal business, which is about three-quarters the size of ZTS. Not surprisingly, Alaix got a little dodgy when this topic came up and he actually killed two similar questions on this topic with the same line. In essence, Alaix reasoned that ZTS already has a lot on its plate and any M&A his company pursues is likely to be of the "bolt-on" variety. That CEO-speak did not quiet the crowd as two more analysts jumped into the mix and asked Alaix why he was so cool to large-scale deal-making. The discussion basically ended there but if one thinks that questions asked by analysts are a fair proxy for what is on the mind of investors, it figures Alaix will get hammered on this issue in the months ahead.

Emerson looks to step up its M&A game

Emerson Electric's (EMR) stated appetite for M&A has been a little bit tough to gauge since the start of 2012.

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Don Bilson
+1 212 883 6816
dbilson@gordonhaskett.com

Sales
+1 212 894 3573
sales@gordonhaskett.com

Questions/Feedback
EventDrivenDaily@gordonhaskett.com

On the one hand, the company struck a bullish pose at its Annual Investor Conference in February of 2012 but few deals subsequently got done and at this year's conference, the company seemed to offer a more cautious outlook. It now looks like the company has changed course again as yesterday, it posted its 4Q results and there is specific commentary in the press release indicating that the company expects to see M&A activity pick up in 2014. Given the huge pile of cash now sitting on its balance sheet, this should not be a huge surprise but listen to what CEO David Farr had to say yesterday about deal-making in the year ahead. "We are definitely stepping up," said Farr "and we are really trying to get about $1.5bn done this year." That isn't a very impressive figure given EMR's size and Farr later reminded folks that he doesn't see a "big, big deal" out there" but that cautionary qualifier doesn't worry us or prevent us from thinking big. So what might EMR buy? We have one name in mind and it is based right up there in Milwaukee, Wisconsin. It would be a big one and ABB might get there first but from this perch, an EMR-**Rockwell Automation** (ROK) tie-up would be the marriage of the year in the industrials space. Both ABB and EMR have occasionally been mentioned in press reports and sellside think pieces as good fits for ROK.

A silver lining at Tenet

The news yesterday at **Tenet Healthcare** (THC) wasn't too hot as the hospital operator offered a disappointing 4Q outlook that led to a 9% selloff. That said, if there was a silver lining in yesterday's news it was that a sleepy business within THC is starting to gain momentum and could be quickly morphing into an interesting spin candidate. The business, known as *Conifer Health Solutions*, helps hospitals manage patient information and collect revenues. It also happens to have watched its EBITDA grow 50% in the third quarter. As importantly, it produced $225m in revenues during the quarter, meaning it is on a $900m run rate and it won't be long before this is a billion dollar business producing more than $150m in EBITDA. With these types of numbers, Conifer could theoretically stand on its own. And that has us paying attention. Now what makes this story particularly interesting moving forward, and it is something we have previously discussed, is CEO Trevor Fetter has admitted Conifer possess traits that would make it an attractive public company. Those traits include high margins, low capex and manageable regulation. And if THC believes investors are missing something with Conifer, Fetter has signaled the company would consider its options. It may be premature for such a review but Conifer is getting to a point where a review is no longer a crazy thought.

Linn not quite out of the fog just yet

We have a small update to provide that might be of interest to shareholders of **Berry Petroleum** (BRY). Here is the reset. **Linn Energy** (LINE), through its acquisition vehicle, is buying BRY and the SEC has informed the companies that it will have no further comments on the relevant proxy. That is important because LINE's accounting is the subject of an SEC investigation that was disclosed July 1. We had assumed the SEC's blessing of the proxy probably bode well for the investigation under the theory that the commission wouldn't have green lighted the proxy if it had unearthed a smoking gun. It turns out this assumption was misplaced as LINE mentioned yesterday during an earnings call that "The inquiry is still ongoing. Investors should not draw any conclusions with respect to the inquiry [and the proxy] ... as they are separate events and investors should treat them as such." That, of course, is something BRY shareholders should keep in mind as they are getting shares in the deal and if LINE's accounting remains in doubt, they still have a reason to be leery.

Quick Hits

Here are a few items that caught our eye on a busy morning:

Lamar Advertising (LAMR) is out with its 3Q earnings this morning and it has an update on its REIT conversion plan. Well, actually, it is no update at all as the language in today's press release largely mimics what the company said in its 2Q earnings release back in August. The moral to this story is LAMR is still waiting on the IRS to grant it a private letter ruling though the company is making preparations to elect REIT status in 2014.

When **Molson Coors** (TAP) bought Starbev in April of 2012, we didn't get the sense that investors were too excited about this big bet on Central and Eastern Europe. Now comes word that they had reason to be skeptical. TAP is out this morning taking a $151m asset impairment charge due to problems that have cropped up at two of the brands it acquired in the Starbev deal. This may be worth remembering the next time TAP is mentioned as a suitor.

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Gordon Haskett Research Advisors
441 Lexington Avenue
New York, NY 10017
+1 212 883 0600