

Good Harbinger or Bad?

One-time hedge-fund titan Philip Falcone has given an entirely new meaning to his reputation as a distressed investor. But are his troubles unduly masking the value in his permanent-capital vehicle Harbinger Group?

In an industry accustomed to the occasional flameout, few have been as spectacular as that of Harbinger Capital Partners' Philip Falcone. An ice-hockey standout at Harvard, Falcone launched his hedge fund in 2001 and made his name as a distressed-debt investor who also made billions shorting subprime mortgages. At its peak, his fund managed more than \$25 billion. Today it is a shell of its former self, decimated by investor defections and an outsized bet on wireless broadband start-up LightSquared, which is now in bankruptcy. Last June, the SEC filed fraud charges against Falcone, alleging "misappropriation of client assets, market manipulation, and betraying clients."

So it comes as somewhat of a surprise that Mittleman Brothers LLC's Chris Mittleman – whose featured ideas are collectively up 50% since a *VII* feature interview last July – is so high on Harbinger Group, a publicly traded investment vehicle Falcone established in 2009. Harbinger Capital is the controlling shareholder of Harbinger Group, but the latter is a completely separate legal entity, whose assets by Mittleman's reckoning aren't getting the respect they deserve from the market.

Each of Harbinger Group's primary assets reflect Falcone's original penchant for the unloved and unwanted. Its largest holding, Spectrum Brands [SPB], went bankrupt in 2009 but has since emerged as a dynamic and increasingly profitable seller of consumer products such as batteries, shavers, pet supplies and mosquito repellent. Wholly owned Fidelity & Guaranty Life, a fixed-annuity insurance company bought in 2011 for \$350 million – less than 40% of its statutory capital at the time – has sharply increased its profits and last year paid \$40 million in dividends up to the parent company. Earlier this year HRG added a third big holding, paying \$373 million for a 75% stake in a joint venture with Exco Resources [XCO] to develop conventional natural gas as-

sets. Even if natural gas prices remain depressed, Mittleman says the joint venture is expected to generate at least \$30 million in dividends for HRG this year.

What's it all worth? Conservatively valuing Spectrum at its current market price, Fidelity & Guaranty at its book value minus what's known as "accumulated other comprehensive income," and the Exco JV at the price HRG paid for it, Mittleman pegs HRG's current net asset value – which he believes should grow at

an above-market rate – at around \$11.50 per fully diluted share. That's 40% above the current market price of \$8.25.

As for Falcone's future with HRG, Mittleman is optimistic. "Were he forced out, it's unlikely to change the current value of the company, which has been more of a team effort anyway," he says. "It might impact their ability to source deals in the future, but the assembled team is impressive and it shouldn't be a catastrophe for HRG to lose him." **VII**

INVESTMENT SNAPSHOT

Harbinger Group

(NYSE: HRG)

Business: Investment vehicle controlled by Harbinger Capital; top holdings: Spectrum Brands and Fidelity & Guaranty Life.

Share Information (@3/28/13):

Price	8.26
52-Week Range	4.50 - 10.85
Dividend Yield	0.0%
Market Cap	\$1.18 billion

Financials (TTM):

Revenue	\$4.54 billion
Operating Profit Margin	13.0%
Net Profit Margin	2.7%

Valuation Metrics

(@3/28/13):

	HRG	Russell 2000
P/E (TTM)	79.4	34.6
Forward P/E (Est.)	10.2	15.6
EV/EBITDA (TTM)	4.5	

Largest Institutional Owners

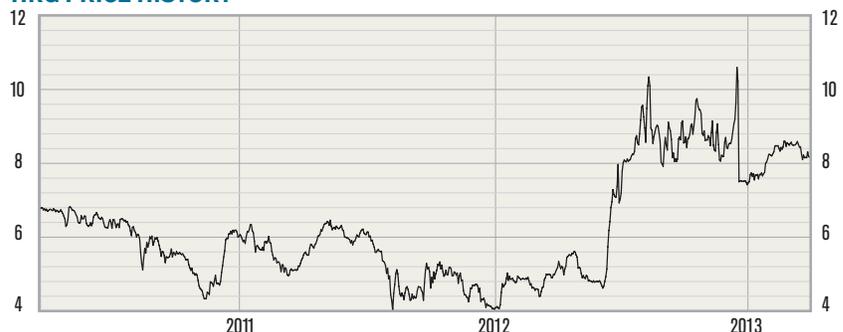
(@12/31/12):

Company	% Owned
Harbinger Capital	76.7%
Omega Advisors	3.5%
Putnam Inv	1.9%

Short Interest (as of 2/28/13):

Shares Short/Float	3.8%
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HRG PRICE HISTORY



THE BOTTOM LINE

Its founder's high-profile problems appear to be clouding the market's judgment about this holding company's asset values, says Chris Mittleman. Ascribing what he considers conservative values to its three primary assets – Spectrum Brands, Fidelity & Guaranty Life and a natural-gas JV – he pegs NAV at 40% above the current market price.

Sources: Company reports, other publicly available information

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