SWISHER HYGIENE INC(SWSH) - $10.35 on Apr 15, 2011 by hawkeye901

			2010	2011
Price:	$10.35	EarningsPerShare:	$0.00	$0.00
Shares Outstanding (in M):	149	P/E:	0.0x	0.0x
Market Cap (in $M):	1,550	P/FCF:	0.0x	0.0x
Net Debt (in $M):	50	EBIT (in $M):	$0	$0
TEV (in $M):	1,500	TEV/EBIT:	0.0x	0.0x

Description:

Swisher Hygiene ("Swisher" or the "Copmany") is one of the most compelling short opportunities I have ever seen. Over the past several years, I have posted recommendations on many shorts (MOTR, GDOT, IGTE, BTIM, IMGG, STEC and BPZ) - every one is profitable since the post and two (BPZ and IMGG) are down over 80%. Still, I can't say I have ever encountered a situation quite like Swisher.

Background

Swisher provides cleaning services to commercial clients such as restaurants, hospitals, retail stores, etc. Simply, (i) they deliver soap, toilet paper and towels to their clients, (ii) provide mops and floor mats, (iii) clean the bathrooms and (iv) throw away the trash. As you can imagine, this is not a particularly great business, margins are thin and in fact, Swisher does not even generate an operating profit.

In 2004, Swisher was acquired for around $15 million by Wayne Huizenga and Steven Berrard (Huizenga's business partner and former CEO of Blockbuster and Autonation) from original founder Patrick Swisher. Berrard is Swisher's CEO. Incidently, Patrick Swisher served jail time for tax evasion and the company had issues with accounting restatements, auditor withdrawals and expense report infractions. Since the acquisition, Huizenga and Berrard have sunk about $64 million of equity in the business and incurred debt of $41 million to try to grow the company and buy up certain Swisher franchises.

In August 2010, Swisher was merged into Cool Brands (ticker: SWI CN), a publicly-traded Canadian shell company. Cool Brands was an ice cream and frozen yogurt company founded in the 1980s by brothers Michael and Aaron Serruya. The company grew through acquisitions and eventually busted from too much debt, poor operations and accounting issues. The business was ultimately sold and the shell had $65 million in cash at the time of the merger with Swisher. Cool Brands had a 52% pro forma stake and Swisher had a 48% pro forma stake of the public entity, effectively valuing Swisher at around $65 million as recently as last August. It seems the link up in these two companies can be tied back to Jamba Juice (ticker: JMBA), a Berrard-led SPAC in which Michael Serruya is a board member. Jamba Juice is down 75% since its public listing.

Over the past several years, Swisher's revenues have been flat at around $65 million. The Company has consistently lost between $6 and $10 million per year. Additionally, at December 31, 2010, the Company had only $9 million in tangible assets.

In February 2011, Swisher purchased a solid waste company called Choice Environmental for $92 million (cash and stock), representing a multiple of 10x EBITDA and 16x EBIT. Additionally, Swisher has done multiple private placements to swell its share count. Pro forma for the acquisition, we estimate Swisher will have $110 million of revenues and lose around $5 million per year.

Since the merger last August, Swisher's stock is up almost 10-fold and with approximately 149 million shares currently outstanding, the market capitalization of Swisher is $1.5 billion or 14x revenues!

What is going on here?

This is one of the most distorted situations we have ever seen. We can only imagine that certain investors are enamored with the idea of backing Huizenga and Berrard. Both individuals have been promoting the company. The idea is that somehow they can roll up small mom and pop bathroom cleaners and turn this into a large company. Despite the notable past successes, it is worth pointing out that recent Berrard ventures have been a disaster (Jamba Juice and now bankrupt flower shop roll-up Gerald Stevens). There is no clear business logic or synergy to buying small, local bathroom cleaners in our view.

Huizenga and Berrard are also locked up until early 2012 which may be leading to the distortion in the valuation. We do believe that investors are still confused about the facts here. The stock was only recently listed on the Nasdaq, the company is not covered by Wall Street and the company hasn't had any quarterly calls yet.

What is it worth?

We believe Swisher is worth no more $2.00 per share in an optimistic case (which would represent 80+% downside). More realistically, it is probably worth $0.00 - $1.00 (which would represent 90% to 100% downside).

One approach to valuation here is looking at the net capital invested in the business ($15 million for Swisher + $106 million of debt and equity invested over time + $92 million for Choice Environmental + $26 million for other recent acquisitions + approximately $50 million net cash) / 149 million shares or $2 per share.

We also can look to at possible trading multiples assuming the company achieved a positive operating margin. We think a best case operating margin for this business is between 5% and 10% (company targets EBITDA margins of 15%, obviously before D&A costs) which would put operating profit $6 to $11 million. At a generous 8x - 12x multiple, the enterprise value of the company would be between $50 million to $130 million representing an equity value of $100 million to $180 million or $0.70 to $1.20 per share.

<u>Catalysts</u>

Shares issued in acquisitions will have to be registered soon and we know we have a huge wave of lock up expirations in early 2012. As this stock gets more investor attention and people realize what is really going on here, we believe it will likely end up in the toilet well before Huizenga and Berrard can dump their shares.

Catalyst:
Share sales from shares issued in acquisitions, investor recognition of the facts, end of the hype