

Valuing Wilshire Proves To Be Daunting

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Wilshire Enterprises Inc. is in play, and its stock price is soaring, but what the company is worth is anyone's guess.

On Oct. 24, Oaktree Capital Management revealed in a 13D that it had signed a confidentiality agreement to kick the tires at Wilshire. It is joined in its effort by Summit Capital LLC, which made offers for the company last year.

According to letters filed in an April 21 13D, Summit principal Kevin McTavish offered to buy the company twice in 2002, for \$3.60 per share in cash in October and for \$3.75 a share in cash in December. Those proposals were at a 16% and 10% premium, respectively, to where the shares traded at the time.

Now, in response to 1.7% shareholder Summit's interest and an ongoing strategic review being run by Deloitte & Touche Corporate Finance LLC, shares of \$50 million market cap Wilshire have risen to their highest levels in six years. At press time, the shares traded at \$6.80, after hitting a 52-week high of \$7.09 on Oct. 10. The last time Wilshire's stock traded that high was in 1997.

But how to value the firm?

"It's murky," said one source close to the strategic review. "It's such a mixed bag, people have no way of knowing what this company is worth."

Jersey City, N.J.-based Wilshire's properties couldn't be more spread out-about 75% of last year's sales were generated by its apartment complexes and office buildings in Arizona, Texas, Florida, Georgia and New Jersey. Oil and gas contributed the balance of the sales and span from Arkansas to California, as well as the provinces of Alberta and Saskatchewan in Canada.

The source close to the review said the assets would likely be valued on a cash flow basis.

Looking at other recent deals provides some clue to valuation. In July, Unit Corp. signed a deal to buy PetroCorp Inc. for \$190 million, or 21.8 times earnings and 6.9 times sales. Wilshire's oil-and-gas business, based on its 2002 numbers, would be worth \$21.8 million on an earnings multiple and \$39.3 million on a sales multiple, using the multiples for the PetroCorp deal.

Those estimates, of course, do not include the real estate portion of the business, which posted \$14.7 million in sales last year and \$3.4 million in net income. According to data compiled by SNL Financial, in the last 12 months, EBITDA multiples for public REIT takeouts are averaging 11.8 times.

McTavish said he sees more value in the firm even after the share price run-up. He noted its history of cash flows as an attraction-it posted \$277,000 in net income in the second quarter and just over \$1 million last year.

When Summit bid \$3.75 per share, or \$29 million, it offered a multiple of 1.45 times sales and 29 times net income. McTavish admitted, though: "It's a tough company to value. The assets don't necessarily have a lot of geographical continuity."

Dan Pryor, the Deloitte banker running the auction, said there are no comparable deals to aid bidders in valuing Wilshire. The firm could be broken up or sold in one piece, he said. He declined to discuss whether other parties signed confidentiality agreements. Deloitte was hired by Wilshire in September 2002. It began an auction of the oil-and-gas assets in May and expanded the process to the whole company this September.

An investor in Summit said Wilshire is undervalued in part because it is not easy to invest in. The firm has numerous defenses-staggered board, poison pill, very low liquidity and large ownership by the Izak family. Wilshire declined comment.

The source close to the review said Wilshire has been approached by buyout groups owning both oil-and-gas and real estate assets, though most are interested in either one or the other.

Several larger private equity players have holdings in both real estate and energy. The Carlyle Group, for example, controls Legend Natural Gas and Magellan Midstream Partners L.P., as well as office buildings in San Francisco and New York. Hicks Muse Tate & Furst and The Blackstone Group also invest in both industries.

Oaktree, which owns 4.6% of Wilshire, and Summit seem to be attracted to real estate. McTavish most recently worked at real estate investor Colony Capital. Russell Bernard, who declined comment, is heading the effort at Los Angeles-based Oaktree, where he is the director of the firm's real estate investments.