Takeover Targets
Bonus Report:

10 Takeover Targets Ready to Move

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Lions Gate Entertainment (LGF.A, LGF.B)

The acquisition of Time Warner by **AT&T** (NYSE:T) has led to a belief that consolidation is coming in the media space.

The previous lines between media distribution, media creation, and content licensing have been completely wiped away. This is just the beginning of a heated M&A race, with all players knowing once-unthinkable partnerships are now going to be permitted.

And so the owners of content look like attractive targets, and **Lions Gate Entertainment** (NYSE:LGF.A, NYSE:LGF.B) is high on the list.

As Will Healy argued last month, its ownership of Starz, films such as *The Hunger Games* and TV programs, including *Mad Men* and *Will & Grace* all make Lions Gate an intriguing target for larger distributors.

LGF earnings have struggled a bit, and so has LGF stock. Analysts have abandoned the story of late. And investors likely will need a bit of patience. It seems likely that consolidation, if it comes, won't kick into full gear until the drama between **Comcast** (NASDAQ:CMCSA), **Disney** (NYSE:DIS) and **Twenty-First Century Fox** (NASDAQ:FOX, NASDAQ:FOXA) has completed.

But for investors who believe that consolidation is inevitable, LGF's lower valuation and content portfolio make it among the most attractive takeover stocks to buy at the moment.

AMC Networks (AMCX)

Lions Gate isn't the only potential target, however. **AMC** (NASDAQ:AMCX) is another mid-sized content provider that could provide an attractive consolation prize for acquirers who miss out on the big fish. It also provides a nice 'tuck-in' acquisition for companies looking to expand their reach.

AMC owns five networks, including the flagship AMC, along with WE tv, Sundance, BBC America and IFC. Ratings for The Walking Dead have declined of late, but it's still the most-watched program on cable and it has a huge long tail of content licensing revenue ahead. (AMCX owns Dead in full, unlike *Mad Men* and *Breaking Bad*.)

Meanwhile, AMCX is controlled by the Dolan family, who has already sold off Cablevision and reportedly would like to do the same with **MSG Networks** (NYSE:MSGN).

BioMarin Pharmaceutical (BMRN)

Acquisition rumors have swirled around specialty biotech **BioMarin Pharmaceutical** (NASDAQ:BMRN) for years now. In fact, *Genetic Engineering & Biotechnology News* has had it on its takeover target list for six years now.

Source: Shutterstock

Analysts have become part of the act off and on as well, with speculated acquirers including **Sanofi** (NYSE:SNY) and **Roche Holdings** (OTCMKTS:RHHBY).

The M&A case here makes some sense. BioMarin has developed an attractive portfolio, including several "orphan drugs", as well as potentially valuable gene therapy treatments for hemophilia.

2018 revenue should be in the range of $1.5 billion, but BioMarin continues to post losses, which is one reason why the stock has flat-lined the past few years.

A larger acquirer could add growth from BioMarin's drugs and cut costs to turn the company profitable. The big concern is valuation, particularly after a 30% run off of April lows.

Still, at some point, the long-awaited sale of BioMarin appears likely. And even just below $100, there's still more upside to come in that scenario.

Mattel (MAT)

Mattel (NASDAQ:MAT) is not a stock for the faint of heart.

Execution missteps and weak demand have led MAT stock to drop by about 62% over the past five years, and 32% over the past three, even with a recent rally. The loss of a key licensing deal with Disney to rival **Hasbro** (NASDAQ:HAS) has only added to the pressure.

Indeed, I don't see MAT as a buy, particularly after gains over the past couple of months. I argued a year ago that the stock was a value trap (when it traded above current levels) and I wasn't particularly impressed with Q1 results.


Source: Shutterstock

But Mattel appears to have entered the realm of takeover stocks, and with some reason. Hasbro could be a suitor, although antitrust concerns are an issue. The company itself said it had rejected an offer from MGA Entertainment in May.

The huge amount of debt is a big problem, as markets are valuing that debt as low as 82 cents on the dollar, making it less likely that an acquirer would want to pay par and provide a premium to equity owners. Still, rumors continue to swirl, and if Mattel can make some progress on its turnaround, the calls for a sale likely will only get louder.

Sprouts Farmers Market (SFM)

Grocery stocks have struggled for the past year, ever since Amazon announced its acquisition of Whole Foods Market. And with the industry's majors looking to increase scale and stand out from the crowd, **Sprouts Farmers Market** (NASDAQ:SFM) seems like an intriguing target.

Source: Shutterstock

Analysts have called out Sprouts as an attractive target. And indeed, Sprouts itself has taken steps down that path. Its CEO said in December that Sprouts was amenable to a takeover.

It held talks with Albertsons early last year, though after they fell through, that giant instead chose to merge with **Rite Aid** (NYSE:RAD). **Target** (NYSE:TGT), **Walmart** (NYSE:WMT) and **Kroger** (NYSE:KR) all potentially make sense as buyers.

The concern is that – like many of these takeover stocks – some M&A premium is already priced in. And SFM did fall hard after a disappointing Q1 report in early May.

But the stock has regained most of those losses, and it has held up despite the pressure on the space. That's likely because the market believes that at some point, a buyout offer will come along.

Square (SQ)

Square (NYSE:SQ) seems like a classic takeout candidate. It's disrupting a payment space largely led by giants. The business could benefit from increased scale, and an acquirer could gain from lower sales and marketing spend.

Source: Via Square

The only question at this point is whether SQ stock is too expensive. I've long been bearish from a valuation perspective, but so far, I've been completely wrong. In my defense, I'm not alone.

At $65, SQ stock is well ahead of the consensus Wall Street target of $57. And at nearly 10x revenue, there's a question as to whether the valuation can support anything left in the way of premium.

Companies like **PayPal** (NASDAQ:PYPL) and even **Visa** (NYSE:V) and **Mastercard** (NYSE:MA) could be logical suitors.

But can they – and will they – pay what Square shareholders would ask for?

National Beverage (FIZZ)

Just a few years ago, beverage maker **National Beverage Corp.** (NASDAQ:FIZZ) was a sleepy producer of smaller soft drink brands. But the company's LaCroix sparkling water brand took off, and so did FIZZ stock. It has risen 484% in the past five years alone.

Along with that increased valuation has come increased attention. Short sellers have targeted FIZZ stock. And rumors of a takeover have only amplified.

After all, LaCroix looks like a big winner. It has massive market share in sparkling water, a category that is taking share from diet soda (and regular soda as well). Quirky branding, design and marketing has garnered the label a cult following.

And so an acquisition makes sense – if one of the majors can't undercut the LaCroix business. **PepsiCo** (NASDAQ:PEP) is trying to do so with its Bubly line. **Coca-Cola Co** (NYSE:KO) has rolled out Dasani sparkling water and acquired Topo Chico.

But if LaCroix continues its dominance, Pepsi or Coke may simply decide to buy out National Beverage. Acquisitive **Dr Pepper Snapple Group** (NYSE:DPS) could be in the mix as well.

Campbell's Soup (CPB)

The rumor mill is as hot around **Campbell Soup** (NYSE:CPB) as any of the takeover stocks right now. In May, disappointing numbers and the exit of its CEO sent CPB stock to its lowest levels in nearly five years. But reports that **Kraft Heinz Co** (NASDAQ:KHC) is interested in buying the company have sent CPB shares soaring.

From here, the logic of a Kraft-Campbell's tie-up seems minimal. Adding one zero-growth, indebted manufacturer to another doesn't seem like an attractive combination. But at the least, it does seem like CPB's family ownership group is accepting the need for a sale.

And with activist pressure helping, that could lead to a buyout, whether by Kraft or by someone else.

Hain Celestial (HAIN)

A common trend in the food industry the last few years has been for larger companies to buy smaller, faster-growing brands in the natural and organic spaces. But **Hain Celestial** (NASDAQ:HAIN) seems to have missed out.

Over the past few years, Hain has been cited as a possible target for a number of companies, including Kraft Heinz, Campbell's and **Hormel Foods** (NYSE:HRL). But a somewhat unwieldy portfolio, which includes personal care, meats and snacks, has made a straight sale difficult. In the meantime, HAIN stock has taken a big hit, touching a six-year low in late May before a recent rebound.

But a sale finally may be on the way. An activist has taken a 9.9% stake and is pushing for a sale. HAIN probably won't get a price close to its peak, and it may have to break itself up to create incremental value for existing shareholders. There is some value here, however, and a clear motivation to – finally – get a deal done.

Wynn Resorts (WYNN)

Takeover speculation has ramped up around **Wynn Resorts** (NASDAQ:WYNN) this year. Once founder Steve Wynn stepped down amid sexual harrassment allegations in February, the path to a sale actually became a bit clearer.

Rival **Las Vegas Sands** (NYSE:LVS) seemed like the most logical acquirer. Rumors followed in April that **MGM Resorts** (NYSE:MGM) was interested in a takeover.

And with WYNN pulling back over the past few weeks, largely due to concerns surrounding its operations in Macau, the case for a takeout looks stronger. U.S. casinos have been in full-out M&A mode, with **Eldorado Resorts** (NASDAQ:ERI) buying up Isle of Capri and other assets and **Penn National Gaming** (NASDAQ:PENN) merging with **Pinnacle Entertainment** (NASDAQ:PNK), among many other moves. Similar logic would work for a takeout of Wynn.

The logic of a deal doesn't necessarily mean one is on the way. But one way for Wynn Resorts to get a truly fresh start would be to find a different owner.