

Intrawest v. Pirate: Expect a battle of wills

Neither Houssian nor Hudson likely to cave under pressure

Lori McLeod, Financial Post

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It's Joe Houssian versus a band of U.S. pirates.

From its origins 30 years ago as a small urban real estate developer, Mr. Houssian's Intrawest Corp. has become North America's largest ski resort operator. Its crown jewel is British Columbia's Whistler Blackcomb resort, host site of the 2010 Winter Olympics.

It also owns beach and golf resorts, a stake in exclusive travel firm Abercrombie & Kent, a heliskiing operation, and a big real estate development arm.

But the empire Mr. Houssian built -- the company has a market capitalization of \$1.8-billion -- is being challenged. Intrawest's biggest shareholder, Pirate Capital LLC, has bought 12% control and is publicly pressuring Intrawest to nail up a "For sale" sign.

As the names suggests, Pirate is an aggressive hedge fund. For months, it has been quietly pressuring Intrawest to make moves that Pirate believes would boost the value of the stock. Even though the share price has risen 62% since April, 2005, Pirate is still not satisfied.

At first, Intrawest was stubborn, yet just accommodative enough to keep the Pirate at bay. However, the gloves came off on March 1 when the hedge fund sent Intrawest's board of directors a letter prompting it to sell the company at once.

"We urge you to fulfill your fiduciary duties to all shareholders by immediately initiating a sale of the entire company," Pirate analyst Stephanie Tran said in a letter filed with regulators.

Intrawest said it would continue its ongoing strategic review, with the help of recently hired financial advisor Goldman, Sachs & Co., and Pirate's letter wouldn't change a thing.

"He also takes a lot of pride in the business, I think it means a great deal to him and he really enjoys running it."

From his humble beginnings in Brandon, Man., which included a stint as a salesman at Xerox, Mr. Houssian has built Intrawest into one of the largest ski resort operators in the world. He started in real estate in Vancouver in the 1970s and made a big move into the ski resort business in 1986 with the purchase of Blackcomb, adjacent to the Whistler ski resort.

Intrawest continued buying up mountain resorts on its own and through partnerships. The company went public in Toronto in 1990 at \$10 a share. In 1997, Intrawest bought Whistler Mountain and Copper Mountain for \$260-million in stock. By July, 1998, the stock had risen to \$31.50.

But three years later the tourism industry was hit by the 9/11 terrorist attacks on the United States and SARS. That, combined with concerns about Intrawest's high debt and lack of free cash flow, drove the stock to less than \$15 by mid-2003.

But to Mr. Houssian's credit, the stock has clawed its way back to previous heights, despite the

surging Canadian dollar keeping U.S. tourists away and several seasons of poor snow conditions.

The stock closed at \$36.60 in Toronto Friday and US\$31.63 in New York.

In part, the stock's comeback can be attributed to investors such as Pirate snapping up shares. But Intrawest's balance sheet has also improved and it has taken on partners to share risk in real estate development.

"I think they've had their struggles with the issues of how they managed their growth early on," **Mr. Scilipoti** said. "But I think the [partnership] structures that they've set up have done wonders to improve their liquidity and the stock has responded."

In the past, Pirate has waged proxy battles in which it threatened to rally other shareholders to replace a company's board and take control.

Virginia-based James River Coal Co., U.S. prison operator Cornell Cos., and Florida-based Walter Industries Inc. are just some of the companies that have bent to Pirate's demands. James River put itself up for sale, Cornell replaced its board of directors with Pirate's candidates, and Walter agreed to spin off its water and pipe businesses from its home-building and mining operations. The stocks all rose as a result.

Pirate founder and portfolio manager Thomas Hudson has parlayed US\$2-million of his own money into a hedge fund with US\$1.6-billion of assets under management. From 2002 to 2005, Pirate's annual return has averaged 27%.

Mr. Hudson has demonstrated a strong backbone in his personal life as well. As a young trader, he was fired by Goldman Sachs after allegedly lying about an extramarital affair with a co-worker.

He responded with a lawsuit for defamation and unfair dismissal. He lost the suit but was vindicated by the comments of State Supreme Court Justice Beatrice Shainswit, who dismissed his case "with great reluctance" and noted he was fired mere weeks before he was to collect a US\$5-million bonus.

Pirate is Intrawest's most visible shareholder. It accumulated more than 5% of Intrawest shares in June, 2005 -- a level of ownership usually considered an aggressive move by a hedge fund. Pirate Capital is not the only shareholder that has taken issue with Intrawest in the past. Last year, another investor sent the company a letter requesting Intrawest better disclose its executive pay. According to a source close to the situation, Mr. Houssian was "apoplectic" over the letter. However, the two sides settled their differences --Intrawest showed how it was improving executive pay disclosure -- and the letter was withdrawn.

The stock moved higher weeks later when Intrawest announced the sale of most of its stake in the Mammoth Mountain Ski Area to Starwood Capital Group Global LLC. Analysts liked the company's decision to retain a small stake in Mammoth and to pay down debt with the US\$166-million pre-tax proceeds of the sale.

But Pirate kept pushing, this time for a share buyback. In November, Intrawest announced both a dividend increase and a buyback plan (which was subsequently put on hold). It also sold a beachfront property in Hawaii.

Oddly, at the company's annual general meeting in New York last November, Mr. Hudson stood up and congratulated Mr. Houssian for doing a "great job."

On a conference call, he reiterated his kudos, while encouraging the company to find yet more ways to increase value. But none of this means Pirate is truly happy.

For Mr. Houssian, his talk about increasing value has focused on expanding the company into a full leisure travel operator. This includes opening resorts in Europe and possibly China with the help of partners.

"We have people approaching us all the time, people that say, 'Why don't we fund your China initiative or why don't we fund your whatever?'" Mr. Houssian said recently.

That kind of talk puts him on a collision course with his biggest shareholder.

"It seems to me that Pirate Capital is adamant the company be sold," National Bank analyst Michael Smith said.

Pirate's position is Intrawest's real worth is undervalued in the market and that its complicated joint ventures are too complex for public investors to appreciate. "We believe the fair valuation for the collection of Intrawest's businesses is US\$45-plus per share," Ms. Tran said in her letter.

It is the other shareholders that may decide the company's fate. Intrawest's top 10 stakeholders, excluding Mr. Houssian (just under 4%) and Pirate, hold about 38% of the stock, according to Bloomberg's latest figures. One of those shareholders is the hedge fund where Pirate's Ms. Tran once worked, Los Angeles-based Cliffwood Partners LLC. For the time being, it is casting its lot with Mr. Houssian.

"Though we agree with Pirate on the valuation, I would hate to say there's only one way you can get to those numbers," said Carl Tash, Cliffwood's chief executive. "I know Joe [Houssian], I know what Intrawest is doing and what it can do. I'm willing to listen to what management thinks they can do to realize value here."

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