

# Quickie idea: Navistar \$NAV

This post is another in a series I plan to do on an irregular basis. A "quickie" idea is an investment specific idea that I've been mulling over and find interesting, but haven't dove fully into yet. The hope with this particular idea is to provide the jumping off point for a discussion of an idea I find extremely interesting right now, as I suspect the opportunity could be fleeting but it's liquid enough that just about anyone could participate at any size. The idea? Buying Navistar (NAV).

The background here is simple: Volkswagen / Traton (VW) owns just under 20% of NAV and is trying to buy the whole company. They offered \$35/share back in January, and then bumped their bid to \$43/share in September. Today, they announced that the \$43/share offer is their "best and final", and the offer will expire Friday afternoon if NAV doesn't take it.

NAV currently trades for ~\$36/share, so the market is clearly expressing doubt that NAV will take the deal. If you think NAV's downside without a deal is ~\$30/share and VW is serious that their final bid is \$43, then at today's share price the market is expressing slightly worse than 50/50 odds that NAV will accept VW's bid.

Perhaps those odds make sense; the NYPost reported that Traton increased their offer and filed their Sept. 13-D only after talks with the board on a deal broke down. Traton clearly filed this "best and final" note because the two still couldn't come to an agreement.

So there's a real chance that no deal happens. Still, I ultimately suspect that NAV takes VW's bid and brings it to shareholders, and I suspect shareholders will ultimately approve the deal.

The most important thing to know about NAV is that it is rather tightly controlled; 3 shareholders each own 16-17% of the company (for ~50% combined ownership) and can each nominate two members of NAV's board (for six of the total 10 board seats). Those shareholders are Carl Icahn, MHR, and VW. Gamco owns ~6.5% of the company as well, so they'll have some voice here though not a major one (this post article noted a large shareholder who wasn't Icahn or MHR saying they should sell if Traton bumped their offer slightly; my money would be that quot'es from Gamco).

Given the share ownership / board control of each of those three funds, I think analyzing what they do is all that matters for a potential transaction happening; I suspect the board members will take their cue from their respective shareholders, and I suspect that minority shareholders will ultimately follow what the board / larger shareholders recommend.

So let's look at what the three shareholders want.

Traton is obvious: they want to buy NAV. Next!

MHR is equally obvious: their sole purpose in life is to bungle every deal imaginable with outrageous asks and then to ride their companies into oblivion. I'm not joking; MHR's track record of ridiculous negotiating demands and blowing up

deals on the one yard line only to watch his company's value crater is rivalled only by "author" of the Art of the Deal. I'm serious; consider his track record:

- Rejects "at least" \$40/share from Hasbro for Lionsgate in 2017 (current share price: <\$8).
- Rejects a \$5B bid for Starz from CBS in 2019 (current EV of LGF: ~\$4.5B, suggesting the market values Starz + all of Lionsgate at significantly less than CBS valued just Starz)
- Rejects a >\$80/share offer to buy Loral in 2014 (current share price: <\$20, though they did pay a \$5.50/share div earlier this year)

Anyway, the NYPost reports the Rachesky wants >\$70/share for NAV, which is both unimaginable and completely on brand with his negotiating history. Consider him a "no" no matter what Traton offers.

So the whole NAV saga likely turns on what Icahn will do.

History suggests that if you don't pay Icahn top dollar for his assets, he's willing to walk away and bet you'll come back (or someone else will bid). And the Post reporting seems to suggest that a \$43 offer won't get it done ("an offer at \$50 would lead to a very tough discussion" suggests an offer at \$43 will lead to a swift rejection.) All of that seems to suggest Traton's bid is going to be rejected.

Yet I think this time is different for two reasons.

First, Icahn is 84. He's perpetually bearish on the market, and he's a huge supporter of Donald Trump who is looking at a potential Democrat "blue wave" sweep. Icahn is certainly willing to let his politics play in his investing; remember, he went and bought stocks the night of Trump's election, and he's admitted to regretting not buying more (who wouldn't!?!?!). Icahn also just entered a succession agreement with his son. Wouldn't it make sense for him to sell out of an illiquid position and take a big cash gain? I think so. Look at that narrative: you have someone who is bearish on the market being offered a ~\$700m check right before his political party falls out of favor. If he doesn't take it, the stock will crash and he'll be stuck with it (given his size). Wouldn't he want that huge premium so he can hand over his portfolio to his son without this huge legacy position?

Second, Traton holds some really good cards here. Their first offer notes they won't sell to anyone else, and NAV / Traton already have a strategic alliance that has somewhat integrated NAV / Traton. There's almost certainly no other bidder for NAV. Second, NAV has been hit pretty hard by Corona (sales were down 45% in Q3'20, and inventory is currently elevated), and the company faces some large pension obligation in the near future (>\$100m). If I was a major owner of NAV and I faced the choice between a strategic offer at a premium and going standalone into the current environment with no prospect of any other buyer, I'd swallow and take the premium even if I thought the company was worth a much bigger premium.

Anyway, that's my take: Traton holds some really good cards, and given how good Traton's cards are plus Icahn's bearishness, I think Icahn takes an extra quarantini or three and accepts the deal on the table as the deadline approaches Friday. The market thinks that's unlikely. We'll see on Friday / Monday.

One other thing before I wrap up: this is a "quickie" note. I've been following the situation loosely for a while, but I'm no expert. Obviously with the bid deadline on Friday, I'm trying to ramp up quickly. If you have divergent views, I'd love to hear them!