Cott stock rises after hedge fund buys stake, suggesting possible takeover

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TORONTO — Cott Corp.'s stock popped nearly 14 per cent Monday on reports that a U.S. hedge fund wants to shake up the leadership of the soft drink maker (TSX:BCB), raising questions about a possible takeover of the struggling company.

Cott stock, which has lost its fizz after years of losses due to rising costs and changing consumer tastes, rose 44 cents or 13.9 per cent to close at $3.61 on the TSX after Crescendo Partners of New York disclosed it has purchased an 8.7 per cent stake in the company and is seeking changes in its operations and management.

Cott shares, worth over $17 a year ago, traded as low as $1.74 in March. At the current price, its stock-market value is about $250 million.

Crescendo said Mario Pilozzi, former chief executive of Wal-Mart Canada, has agreed to serve as a director or an executive of Cott if Crescendo gets seats on its board, while Csaba Reider, a former Cott executive, is willing to become the new CEO. Mark Benadiba, once vice-president of North American operations at Cott, would be willing to act as chairman.

"This is the first shot in a campaign to persuade other shareholders that their team of Benadiba as chairman and Reider as president would do a better job of running the company," said ***Peter Holden,*** an analyst with ***Veritas Investment Research***.

Despite talk last year that Cott may have been looking to merge with Cadbury Schweppes after Cadbury announced plans to split its drinks and candy operations, ***Holden*** said he didn't see "any obvious synergies" with that company.

"It would be other investors," he said, noting that Cott's stock price, once worth as much as $40 per share, is now languishing in the single digits.

"If anybody can present a viable plan for improving operations, shareholders will listen," he said. "The board would listen. The issue is what they propose."

Crescendo CEO Eric Rosenfeld - known in Canada for orchestrating the sale of Spar Aerospace to L-3 Communications in 2001, agitating for the 2006 private-equity takeover of Geac Computer and pressing last year's sale of Emergis Inc. to Telus Corp. - declined to provide further details about the fund's plans, saying "for now, the 13d (filing) must speak for itself."

Cott - whose major shareholders include Fidelity Management and Research, with a 13.2 per cent stake, and CI Investments, with a 9.4 per cent interest - didn't return calls seeking comment.

Crescendo said late Friday it would meet company executives to discuss Cott's performance, as well as "potential changes in the composition of the management team and the board of directors," calling the stock "very undervalued" and "an attractive investment opportunity."

Crescendo "has engaged in and intends to continue to engage in discussions with management and the board of directors of the issuer concerning the business, operations and future plans," the firm stated in a filing with the U.S. Securities and Exchange Commission. It may also opt to increase its stake.

Cott has been struggling to maintain its private-label soft-drink dominance in a world of changing tastes, swelling expenses and intense big-brand competition.

The company recently suffered a blow when its biggest customer, Wal-Mart, scaled back its shelf space and merchandising support.

Cott is currently run by interim CEO David Gibbons, who abruptly replaced Brent Willis in March as the company's fourth chief executive in five years.

It has said it believes a focus on new products such as fortified bottled water and energy drinks will aid its turnaround.

But to ***Holden***, Cott's problems lie in surging commodity prices which have made costs soar for cans, plastics, corn syrup and other inputs, along with an inability to pass those costs through to customers.

"The issue is not who's running it but how are they going to turn this around - how are they going to increase margins? - because if you can't increase margins on domestic soda pop, you can't increase the value of the company," ***Holden*** said.

"And margins of domestic soda pop have been declining for five years now."

Cott lost US$20.7 million in the first quarter, down from a year-ago profit of $4.8 million, as sales fell 2.6 per cent to US$389.7 million on declining volume.