

Edgar Filing: PHH CORP - Form SC 13D/A

PHH CORP  
Form SC 13D/A  
April 30, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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SCHEDULE 13D/A  
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO  
RULE 13d-2(a)

Under the Securities Exchange Act of 1934

(AMENDMENT No. 1)

PHH Corp.

-----  
(Name of Issuer)

Common Stock

-----  
(Title of Class of Securities)

693320202

-----  
(CUSIP Number)

Alan Fournier  
c/o Pennant Capital Management LLC  
40 Main Street  
Chatham, NJ 07928

-----  
(Name, Address and Telephone Number of Person Authorized to Receive Notices and  
Communications)

April 26, 2007

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(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box [ ].

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

(Continued on following pages)  
(Page 1 of 7 Pages)

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\* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page. The information required on the

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remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 693320202

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1	NAME OF REPORTING PERSON	
	Pennant Capital Management, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input type="checkbox"/> (b) <input checked="" type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	Delaware	
7	NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	SOLE VOTING POWER
		0
8	NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	SHARED VOTING POWER
		4,169,800
9	NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	SOLE DISPOSITIVE POWER
		0
10	NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON	SHARED DISPOSITIVE POWER
		4,169,800
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
		4,169,800
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11	
		7.8%
14	TYPE OF REPORTING PERSON	
	OO	

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1	NAME OF REPORTING PERSON	
	Alan Fournier c/o Pennant Capital Management, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input type="checkbox"/> (b) <input checked="" type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	United States	
NUMBER OF	7	SOLE VOTING POWER
SHARES	0	
BENEFICIALLY	8	SHARED VOTING POWER
OWNED	4,169,800	
BY EACH	9	SOLE DISPOSITIVE POWER
REPORTING	0	
PERSON	10	SHARED DISPOSITIVE POWER
WITH	4,169,800	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	4,169,800	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11	
	7.8%	
14	TYPE OF REPORTING PERSON	
	IN	

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SCHEDULE 13D

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The Schedule 13D filed on March 22, 2007 by Pennant Capital Management, LLC, a Delaware limited liability company ("Pennant Capital") and Alan Fournier, a United States citizen ("Fournier") (collectively, the "Reporting Persons") with respect to the shares of Common Stock, par value \$0.01 per share (the "Common Stock"), of PHH Corp., a Maryland corporation (the "Issuer"), is hereby amended as set forth herein by this Amendment No. 1.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

Item 3 of the Schedule 13D is hereby amended and restated as follows:

Funds for the purchase of the shares of Common Stock reported herein to be held by Offshore, Onshore, Qualified, Spinnaker, Windward LP and Windward Ltd. were derived from their respective general working capital and margin account borrowings made in the ordinary course of business. A total of approximately \$120.3 million was paid to acquire the shares of Common Stock reported herein.

ITEM 4. PURPOSE OF TRANSACTION

Item 4 of the Schedule 13D is hereby amended and restated as follows:

The Reporting Persons originally acquired the shares of Common Stock for investment purposes in the ordinary course of business because they believed the shares to be undervalued and represented an attractive investment opportunity.

On March 15, 2007, the Issuer announced that it had entered into a definitive merger agreement (the "Merger Agreement") to be acquired by GE Capital Solutions the "Merger"). Under the terms of the Merger Agreement, shareholders of the Issuer would receive \$31.50 per share in cash at the closing of the Merger. The Reporting Persons do not believe that the merger consideration adequately values the Issuer and, accordingly, do not believe that the Merger is in the best interest of the shareholders of the Issuer. Consequently, based on the currently available information and terms, the Reporting Persons intend at this time to vote against the Merger.

On April 30, 2007, Pennant Capital delivered a letter to the Issuer's board of directors outlining its objections to the Merger as being at a price that is not reflective of the value of the Issuer and not being in the best interest of the Issuer's shareholders based upon a number of factors, including (i) current conditions of the general mortgage market, (ii) Issuer-specific circumstances, including accounting restatements, and (iii) the tax implications of a sale and break-up will prevent realization of the Issuer's full value at this time. The letter urges the Issuer's board to pursue a separation of the Issuer's mortgage and fleet business through a spin-off to allow shareholders to realize the full valuation potential of the Issuer in the public market. The foregoing description of the letter is qualified in its entirety by reference to a copy of the letter attached hereto as Exhibit A and incorporated herein by reference.

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The Reporting Persons and their representatives intend to monitor





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		(Sold)	
4/20/07	Offshore	87,320	30.43
4/20/07	Onshore	23,750	30.43
4/20/07	Qualified	53,500	30.43
4/20/07	Spinnaker	33,500	30.43
4/20/07	Windward LP	112,010	30.43
4/20/07	Windward Ltd.	169,920	30.43
4/26/07	Offshore	106,320	30.56
4/26/07	Onshore	28,910	30.56
4/26/07	Qualified	65,140	30.56
4/26/07	Spinnaker	40,780	30.56
4/26/07	Windward LP	136,370	30.56
4/26/07	Windward Ltd.	206,880	30.56
4/27/07	Offshore	8,020	30.58
4/27/07	Onshore	2,180	30.58
4/27/07	Qualified	4,920	30.58
4/27/07	Spinnaker	3,080	30.58
4/27/07	Windward LP	10,290	30.58
4/27/07	Windward Ltd.	15,610	30.58
4/30/07	Offshore	111,390	30.58
4/30/07	Onshore	30,840	30.58
4/30/07	Qualified	68,560	30.58
4/30/07	Spinnaker	25,920	30.58
4/30/07	Windward LP	53,570	30.58
4/30/07	Windward Ltd.	81,220	30.58

EXHIBIT A

LETTER TO THE ISSUER'S BOARD OF DIRECTORS

Dear Members of the Board,

We are writing this letter to tell you that we strongly object to the proposed sale of PHH Corp. (the "Company") to GE Capital Solutions ("GE") and The Blackstone Group ("Blackstone"). We believe the current conditions of the general mortgage market, the Company-specific circumstances and the tax implications of a sale and break-up of the Company will prevent realization of full value at this time. We believe that instead, the Company should pursue a tax-free spin-off of the Fleet business. We estimate that this would allow existing shareholders to realize an estimated combined valuation of \$48 to \$66 per share over the course of 2 to 3 years, a vastly superior outcome to a sale at \$31.50 per share in the third quarter of 2007. By agreeing to sell the Company to GE and Blackstone, the Company's Board of Directors has demonstrated a lack of long-term commitment to the business and a lack of understanding of shareholder value creation. Pennant Capital Management LLC currently owns 4,169,800 shares or approximately 7.79% of the total outstanding shares of the Company based upon 53,506,822 shares of common stock reported by the Company to be outstanding as of March 15, 2007.

The current cyclical downturn in the mortgage production business in the U.S. has led to weak volumes and pricing for the Company and its competitors. In addition, while the Company only has a minimal presence in the Subprime and Alt-A mortgage markets, rising defaults in these market segments have exacerbated investor concerns about the mortgage industry in general. This makes it a particularly inopportune time to sell a mortgage business. Cyclicity in the mortgage market is not new and it is only a matter of time until we return

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to volume growth, expanding gain on sale margins and improved profitability.

While the industry in general is going through difficult times, the Company's specific circumstances further obfuscate its underlying value. While in the end, the accounting restatements have proven benign from an investor's perspective, they have contributed to the perceived uncertainty and prevented the Company from developing a mainstream shareholder base. In addition, the restatements and the uncertainty around the Company's ownership prior to and following the spin-off from Cendant have slowed the signings of new outsourcing clients and have hurt the penetration of the real estate broker channel. This has led to weaker than expected volumes and an oversized cost structure. Importantly, all of these factors are temporary in nature and can be addressed by the Company's own actions. They do not affect the Company's foundation of success: The ability to provide clients that outsource with superior economics based on its unique call center platform and historical industry-leading cost structure and customer service.

We agree with GE's and Blackstone's decision to separate the mortgage business from the fleet business. There are no synergies between these two business units and they appeal to different shareholders. However, it appears that the tax leakage in a sale is prohibitive. Both the mortgage servicing rights ("MSRs") as well as the vehicle fleet have much lower tax values than book values. A sale of one of these businesses requires the seller to write-up either the MSRs or the fleet for tax purposes, resulting in a taxable gain on sale. While we hope to learn more about the tax consequences of the proposed sale by GE in the Proxy Statement, a crude estimate would be the deferred income tax liability related to unamortized MSRs as of December 31, 2005. This estimate is \$9.51 per share or 30% of the proposed per share deal valuation. This prevents buyers from realizing the full value of the Company, but as existing shareholders we likely could benefit from a tax-free separation of these businesses through a spin-off. It is our expectation that such a spin-off would unlock immediate shareholder value as the fleet business likely would be valued using a multiple of earnings or free cash flow, while the mortgage business is unlikely to trade below tangible book value.

With or without a spin-off, we believe the GE and Blackstone offer significantly undervalues the Company for shareholders with an investment horizon greater than a few months. We believe the Fleet business will generate \$55 - \$60 million in free cash flow in 2007. This assumes \$95 - \$100 million in earnings before taxes, a 20% cash tax rate and a \$20 - \$22 million investment to grow the fleet value at a

mid-single digits percentage assuming constant 10x leverage. A 15x to 17x multiple of 2007 free cash flow would therefore yield a fleet valuation of \$15 to \$18 per share today or \$16 to \$20 per share in 2 years. We believe this to be a conservative multiple for a predictable free cash flow stream growing in the mid-single digits. With the vast majority of the interest rate and residual risk passed through to clients, this is primarily a processing business. As the market leader, we suspect GE will be able to extract significant synergies from the business combination. A 5% to 10% reduction in operating expenses (excluding any depreciation or interest expense associated with the fleet) would yield an additional \$15 - \$30 million in EBT or \$3 to \$6 in value per share (which we ignore in the subsequent discussion).

At the proposed deal price of \$31.50 per share, the above fleet valuation likely would imply that the mortgage business is worth less than its tangible book value (even ignoring synergies). In other words, the deal valuation is so low, that shareholders would likely be better off if the mortgage business was liquidated instead of being sold at the proposed valuation, a ridiculous proposition. This is unacceptable. We believe it is the



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Board's fiduciary duty to shareholders to prevent such a deal from happening. We anxiously await the possible basis for the "fairness" opinion in the Proxy Statement.

We value the mortgage production business using a normal mid-cycle pre-tax profit margin of approximately 40 basis points of mortgage origination volumes. This level reflects the low-cost model of the call center platform, which cuts out the typical commissioned loan officers and allows these economics to be passed on to outsourcing clients. Furthermore, there are significant economies of scale in originating mortgages. As a top 10 originator and the only significant private label outsourcer, the Company captures some of the value created when financial institutions with subscale mortgage platforms agree to outsource. Our 40 basis points assumption is consistent with the Company's operating history as well as the Company's prior comments. The Company's recent signing of 8 new outsourcing clients with combined origination volumes of \$3.6 billion (about 9% of the Company's 2006 total), as well as its disclosure that it is in talks with 15 more potential clients with combined volumes of \$5 billion, is a strong indication that the Company's historical edge has not been lost.

We further assume around \$45 - \$50 billion in normalized origination volume, reflecting new outsourcing partnerships and a stabilizing market. This translates into \$180 - \$200 million in normalized mortgage production pre-tax profit. For context, at the cyclical peak in 2003, the Company originated \$84 billion in mortgages at a margin of 88 basis points, generating a \$739 million pre-tax profit.

We value the servicing business assuming a mid-cycle 8 basis points servicing margin on the Company's current \$160 billion servicing portfolio, generating an additional \$128 million in pre-tax profit. Assigning an 8x to 10x multiple to the combined production and servicing earnings we get \$26 to \$34 per share in value for the mortgage businesses.

Further, we assume the Company will earn an average of \$3 to \$4 per share annually as it recovers to a normal profit level in 2 to 3 years. In total, the Company's shareholders would realize a total value of \$48 to \$66 per share at that time, comprised of \$16 to \$20 per share for the fleet business, \$26 to \$34 per share for the mortgage business and \$6 to \$12 per share in cumulative earnings over the next 2 to 3 years. It is clear that if a sale can be prevented, patient shareholders will be rewarded handsomely.

In conclusion, we are disappointed with the Board's pursuit of a sale of the Company at a gross undervaluation. We believe these actions demonstrate the Board operated merely as a "caretaker" with a limited time horizon and without long-term commitment to the business or to shareholder value. Following a shareholder rejection of this transaction, we urge the Board to pursue a separation of the mortgage and fleet businesses through a spin-off and to allow shareholders to realize the full valuation potential of the Company in the public market.

Best regards,  
/s/ Alan P. Fournier  
Alan P. Fournier  
Managing Member  
Pennant Capital Management, LLC