

Edgar Filing: VERTRUE INC - Form SC 13D

VERTRUE INC
Form SC 13D
May 18, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 13D
(RULE 13d-101)

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

VERTRUE INC

(Name of Issuer)

COMMON STOCK, \$.001 par value per share

(TITLE OF CLASS OF SECURITIES)

92534N101

(CUSIP NUMBER)

BRENCOURT ADVISORS, LLC
600 LEXINGTON AVENUE, 8TH FLOOR
NEW YORK, NY 10022
(212) 313-9700

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO
RECEIVE NOTICE AND COMMUNICATIONS)

MAY 18, 2007

(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(b) for other parties to whom copies are to be sent.

(1) 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 the disclosures provided in a prior cover page.

The information required in the 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 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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1. NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS (ENTITIES ONLY) BRENCOURT
ADVISORS, LLC

2. CHECK THE APPROPRIATE BOX IF A GROUP*

(a)
(b) [X]

INAPPLICABLE

3. SEC USE ONLY

4. SOURCES OF FUNDS

00 (FUNDS FROM INVESTMENT ADVISORY CLIENTS)

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)

6. CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE, USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7. SOLE VOTING POWER	920,589
	8. SHARED VOTING POWER	0
	9. SOLE DISPOSITIVE POWER	920,589
	10. SHARED DISPOSITIVE POWER	0

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 920,589

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES *

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 9.47%

14. TYPE OF REPORTING PERSON*
IA

* SEE INSTRUCTIONS BEFORE FILLING OUT!

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ITEM 1 SECURITY AND ISSUER

Title of Class of Securities

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Common stock \$0.01 par value per share (the "Shares")

Name and Address of Issuer

VERTRUE INC
20 GLOVER AVENUE
NORWALK, CT 06850

ITEM 2 IDENTITY AND BACKGROUND

(a) BRENCOURT ADVISORS, LLC (the "Manager")

(b) 600 LEXINGTON AVENUE, 8TH FLOOR, NEW YORK, NEW YORK 10022

(c) The Manager serves as an investment manager to several funds and managed accounts (collectively the "Funds").

(d) During the past five years, neither the Manager nor the Funds has not been convicted in a criminal proceeding

(e) During the past five years, neither the Manager nor the Funds have been party to a civil proceeding as a result of which they are subject to a judgment, decree, or final order enjoining it from or mandating activities subject to federal or state securities laws, or finding it in violation of such laws.

(f) The Manager is organized under the laws of Delaware, USA.

ITEM 3 SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

The Manager is the investment manager of several Funds which have acquired their respective shares in open market transactions

ITEM 4 PURPOSE OF TRANSACTION

The Funds have acquired the shares of Common Stock for investment purposes and have no other intentions other than those stated in the letter, attached here as an exhibit. The Funds reserve the right to communicate further with the Company's operating management and with members of its Board, as well as with other stockholders and third parties about these and other matters. The Funds continue to examine all of their options with respect to the possibility of taking actions that they believe will enhance shareholder value. Any such actions could relate to or result in one or more of the matters referred to in paragraphs (a) through (j) of Item 4 of Schedule 13D. The Funds also reserve the right to purchase or otherwise acquire additional Common Stock or to sell or otherwise dispose of Common Stock owned by them, in each case in open market or privately negotiated transactions or otherwise.

ITEM 5 INTEREST IN SECURITIES OF THE ISSUER

(a)-(b) The Manager may be deemed, for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, to be the beneficial owner of the aggregate amount of 920,589 Shares owned by the Funds representing approximately 9.47% of the Issuer's 9,725,000 Shares outstanding as of March 31, 2007 (as reported on the Issuer's Form 8-K filed on May 8, 2007 period ended March 31, 2007).

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(c)

Transaction Date	Bought	Sold	Price per Share (\$)
March 8, 2007	14,200		46.49
March 13, 2007	2,038		44.99
March 13, 2007	4,800		45.11
March 14, 2007	6,869		44.97
March 22, 2007	2,000		48.11
March 23, 2007	59,634		48.55
April 11, 2007	10,383		47.08
April 11, 2007	6,774		47.09
April 12, 2007	4,529		47.02
April 13, 2007	1,299		47.29
May 8, 2007	34,191		47.50
May 8, 2007	14,729		47.50
May 9, 2007	200		47.60
May 10, 2007	167,000		47.97
May 11, 2007	26,621		48.02
May 11, 2007	5,900		48.04
May 14, 2007	100,000		48.20
May 14, 2007	3,297		47.85
May 15, 2007	5,541		47.70
May 15, 2007	2,410		47.82
May 16, 2007	1,227		49.08
May 16, 2007	105,366		48.04
May 17, 2007	2,873		48.06

(d) None.

(e) Inapplicable.

(f) Inapplicable.

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SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

May 18, 2007

(Dated)

/s/ Michael Palmer

(Signature)

Chief Financial Officer

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(Title)

May 17, 2007

Gary A Johnson
President/CEO/Chairman of the Board
20 Glover Avenue
Norwalk, CT 06850

Dear Gary,

Brencourt Advisors, LLC ("Brencourt") is one of the largest shareholders of Vertrue Incorporated ("Vertrue" or the "Company"). We are writing to inform you of our dissatisfaction with the current offer price by the One Equity Partners consortium ("One Equity" or the "Sponsors") and our intention to vote against the merger offer. We believe that the current offer significantly undervalues the strong growth that Vertrue is experiencing and is a sub-optimal alternative to other strategies that deliver superior shareholder value.

THE CURRENT OFFER IS TOO LOW

Brencourt's position is that the current \$48.50 offer price is too low. In examining the materials the Board reviewed in support of this bid, namely the Jefferies Broadview ("Jefferies") analysis set forth in the Company's preliminary proxy statement on file with the SEC, we believe that there were major flaws in Jefferies methodology which undervalued Vertrue's shares.

For example, Jefferies calculated a weighted average cost of capital ("WACC") that was too low. Jefferies estimated that Vertrue's WACC was 16.5%, comprised of a 17.8% cost of equity and a 9.25% cost of debt. We fail to see how Jefferies could have arrived at these numbers. Aside from the fact that Jefferies used a 7.8% market risk premium (versus a market standard 5%), we believe the 2.3% "Size Premium" for the cost of equity is ridiculous. Using Jefferies' beta of 1.4x, we believe the cost of equity should be 11.7%. Jefferies calculated the cost of debt based on the coupon of the Company's publicly issued debt. However, prior to the \$48.50 offer, Vertrue's 9.25% senior notes were yielding 7%. Using this correct cost of debt (7%) would result in a WACC of 10.2%. Based on MANAGEMENT'S OWN PROJECTIONS, this more realistic WACC would imply an equity value over \$60, A 25% PREMIUM TO THE CURRENT OFFER. If one were to apply 10.2% WACC to Jefferies' "NPV Sensitivity" chart, fair value for our shares would be above \$70.

	Jefferies	Market
	-----	-----
Beta	1.4	1.4
Market Risk Premium	7.8%	5.0%
Risk Free Rate	4.5%	4.7%
Size Premium	2.3%	0.0%
Cost of Equity	17.8%	11.7%
Cost of Debt	9.3%	7.0%
Corporate Tax Rate	38.0%	38.0%
Equity Value	\$582,361	\$582,361

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Total Debt	\$148,817	\$148,817
WACC	15.4%	10.2%
WACC Jefferies Uses	16.5%	

We believe that the other valuation methods employed by Jefferies were flawed as well. While Jefferies correctly pointed out that there are no other truly comparable public companies to Vertrue, they drew incorrect inferences from the SOLE precedent transaction in the universe: Apollo's purchase of Cendant Corp's Marketing Services Division ("Affinion"). First, that transaction occurred in July 2005, NEARLY 2 YEARS AGO. Since then, valuations have gone up for nearly every company, especially for less understood business models like Vertrue. Second, Jefferies did not adjust for certain one-time items that raised the Affinion acquisition multiple from 6.25x to 7.1x (please see the debt prospectus for the transaction).

In similar fashion, Jefferies does not properly calculate the acquisition multiple implicit in the Vertrue transaction. Jefferies reports that \$48.50 represents 8.9x TTM EBITDA, ostensibly a fair multiple, especially with respect to the Affinion transaction. However, this methodology ignores timing differences in marketing spend that have artificially depressed TTM EBITDA, thereby raising the transaction multiple. As you yourself stated on the 2Q07 (December quarter) conference call, "I want to point out that it's important to note when comparing our performance to last fiscal year, our year-over-year results reflect both a strong first half in fiscal '06 and an increased marketing investment in the first half of fiscal '07". The results for the March 2007 quarter demonstrate your point. In that quarter, adjusted EBITDA rose to \$25.4 from \$18.4 million in 3Q06.(1) Thus, based on management's projected June 2007 EBITDA, the implied transaction multiple would only be 7.2x.

Furthermore, Jefferies does not accord Vertrue the premium multiple that it deserves vis-a-vis the Affinion acquisition. Vertrue, through its established online platform and Management Service segment, has better growth prospects than Affinion. A company with higher growth deserves a higher multiple. Therefore, the 7.2x multiple used to arrive at a \$48.50 price is not quite the "gift" that the Jefferies analysis suggests. In fact, based on management's projected high teens EBITDA growth, Vertrue should trade in the 10-13x range. Even if we discounted that valuation to a 9x multiple, we still arrive at a fair value for the stock above \$60.

We also find fault with the IRR returns of this transaction. If one were to take management's projections and use the same entry/exit multiples, One Equity will realize a mid 40% IRR over a 5-year horizon. This analysis includes all fees and expenses and does not consider One Equity re-levering at various stages of the investment to take dividends out of the Company. Although we understand that new buyers need an adequate return to compensate them for long-term risk, mid 40% is far higher than the 15-20% IRRs that private equity sponsors typically accept in current markets. At even a 30% IRR, the implied share price would be above \$58, 20% HIGHER than the current offer.

Finally, we take issue with Jefferies analysis that this offer is fair because it represents a 20% premium to the pre-NY Post article price of \$40.12. While we do not believe that the premium offered to shareholders has any relevance to the ACTUAL value of our shares, we regard Jefferies analysis as incomplete. Nowhere does Jefferies account for the technical selling caused by Vertrue's converts that are struck at \$40.37. Historically, the stock price has been capped by convert holders who hedge their stock exposure above that strike price. Likewise, Jefferies does not mention that the Company raised its guidance on January 24, 2007, THE SAME DAY that the NY Post reported the company was up for sale. We fail to see how Jefferies could not attribute any of the appreciation

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in the stock to that. Therefore, based on the \$43.82 closing price on January 24th, this transaction represents a mere 10.8% premium. How is that fair to shareholders based on Jefferies analysis?

ALTERNATIVES

We believe that there are other ways to increase shareholder value other than by accepting a low ball bid for the company. We believe that the Board should reconsider its recommendation of the One Equity offer in the light of the points we make above and the existence of alternative, value-enhancing transactions. In particular, we encourage the Board to re-visit a leveraged recapitalization of the Vertrue's balance sheet and to use those proceeds to fund a special dividend to shareholders.

We understand the Board's reluctance to approach the debt markets considering the Company's experience in 2004. However, much has changed in the market since then. Affinion's experience in the debt markets is a directly relevant example for Vertrue. At the end of 2005, Affinion launched a bond offering to partially fund the acquisition by Apollo. In similar fashion to Vertrue's 2004 offering, Affinion found that the capital markets were not receptive to its offering and consequently, the underwriting banks were forced to hold a large portion of the issue in a bridge facility. In order to move this bridge facility off their balance sheets, the underwriting banks educated the investment community on Affinion's business model to create demand for a new bond issue. In April 2006, the bond issue was placed as 11.5% subordinated debt.

Over the next several months, Affinion met expectations and that same debt appreciated substantially. Today, that 11.5% subordinated issue yields 8.8% despite Affinion being levered 5.2X. Furthermore, in January 2007, Affinion re-levered its balance sheet to 6.4X and used the \$350 million of proceeds to buy back preferred debt and dividend to Apollo an amount in excess of Apollo's initial equity investment.

We believe Vertrue should draw upon Affinion's experience for the benefit of its own shareholders. Based on current market conditions and management's projections, Vertrue could issue debt to fund at least a \$30 dividend while still maintaining a healthy balance sheet with significant free cash flow. We assess that based on a price to earnings ratio between 12.5 and 13.5x, the pro forma stock price, including the special dividend, would be 25-35% higher than the \$48.50 offer. We further suggest that if market conditions one year from now are similar and management meets expectations, Vertrue could issue more debt to fund ANOTHER special dividend to shareholders, while allowing current shareholders to maintain their ownership in the Company. We would note that given the size of One Equity's financing package, the Sponsor's bankers believe that this leveraged strategy for Vertrue is entirely feasible.

Looking at the proposed 1st lien / 2nd lien financing structure One Equity will use for its transaction, we hypothesize that one year from now One Equity will be in a position to take advantage of the cheap call protection of its debt and re-lever the Company, and dividend most, if not all, of its equity investment to itself. Clearly, we don't need a private equity company to do what we as shareholders can do for ourselves.

At this point, I would like to note that Brencourt remains a strong supporter of the Company, its management and its prospects. However we strongly urge the Board of Directors to re-consider its endorsement of the current \$48.50 offer. We do not believe that the proposed transaction adequately compensates us for our shares. Otherwise we remain prepared to further defend alternative means that deliver greater shareholder value.

Sincerely,

/s/ WILLIAM L. COLLINS

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William L. Collins
Chief Executive Officer
Brencourt Advisors LLC

CC: James B. Duffy, EVP/CFO/COO/Director
Vincent DiBenedetto, EVP/Director
Robert Kamerschen, Director/Chairman of the Special Committee
Alec L. Ellison, Director
Joseph E. Heid, Director
Michael T. McClorey, Director
Edward M. Stern, Director
Marc S. Tesler, Director

(1) Company press release 5/08/07, after adding back \$5.0 million of merger related expenses