Course Corrections

Viacom Breaks Up

2005 is emerging as a great year for proofs of my Soccer Ball Management system. First, Hewlett-Packard CEO Carly Fiorina bites the dust as I said she would four years ago. Then Sony CEO Idei resigns for the same reasons: problems I had identified at Sony for a half decade. Yesterday Bernie Ebbers was convicted for gaming the Soccer Ball System. Finally, today Viacom talks about breaking up, fulfilling everything I wrote about it five years ago in FutureWealth (St. Martin's 2000), and countless times since.

Three weeks ago, Viacom announced an $18 billion write down, which I said on February 25th was no surprise because the company has been on the ropes for years. Sales are in a stall, and cash velocity is falling fast as Viacom's ability to get paid has deteriorated. Its Velocity of Cash Index is -81, a 24-point drop in the last two years.

Any one with a balance sheet and a calculator could have foreseen Viacom's problems. And, apparently, the market did: Viacom's stock is off 30% over five years. By comparison, the S&P 500 is off only 9%.

In some respects, the wonder is that Viacom, which gets my Soccer Ball Management F Grade, is not worth a lot less. The market still values it at $60 billion. I value it at about 50% of sales, tops. That's $11 billion.

Viacom has a WorldCom-like problem: if you accept that management is not trying to deceive shareholders — there is no evidence of this — then you have to accept that shareholders are deceiving themselves. To the tune of about $50 billion or about 82% of the value of their shares.

Clients will get my full assessment, "Viacom in Pain" on Monday.

As I said yesterday about Bernie Ebbers, don't get fooled again. Make sure that my "Soccer Ball Management: How Top CEOs Get A Grade Performance" is your guide. Order your copy immediately. $50 billion is one hell of a mistake.

Course Corrections This post was written by Francis on Thursday, March 17, 2005.