

SPOTLIGHT

Japan a 'Candy Store of Value,' Says Atlantic Investment Management's Alex Roepers

Alex Roepers, founder and chief investment officer of \$2.3 billion **Atlantic Investment Management Inc.**, spoke with Bloomberg's Kelly Bit about the firm's brand of constructive shareholder activism and investment opportunities in Europe and Japan. New York-based Atlantic Investment Management, now in its 26th year, is up 10 percent year-to-date in its main Cambrian Fund after returning 38 percent in 2013.

Q: What is your approach to activism?

A: We call our approach constructive shareholder activism. It's very much a hands-on, respectful engagement with management to find ways to enhance and accelerate value creation. We are patient and long-term oriented but we will, if necessary, become more confrontational and directly deal with the board. Key to us is that we retain our ability to trade around a position and to get out at will, which has contributed significantly to long-term performance. Overt activism, with proxy battles and board seats, restricts liquidity. Further, we do not follow other activists, but we are followed regularly. While we don't make outgoing calls to prominent investors, we selectively field incoming calls. Case in point: We just filed a 13D on Triumph Group and quickly we had several large hedge and mutual funds calling.

Q: Other activism works in your favor, then?

A: There was activism in the '80s, in the '60s and '70s. Some think it's new now, but to us, there's nothing new going on. Yes, it's frustrating when you are in a stock and you don't have enough of it and then it pops, for whatever reason. However, we always find new opportunities. Our view is that you have to be early and bold once you have conviction on the investment, then trade it along the way and maintain the ability to scale out, depending on the share price movements that occur as a result.

Q: What's an example?

A: Energizer Holdings, a mini Procter & Gamble that as a result of its 2007 Playtex

acquisition, ended up with too much debt. After they did a secondary in 2009, it became a core long as we saw multiple catalysts for unlocking value. Energizer's operating earnings and working capital metrics were well below that of peers. Their investor relations efforts were poor and they were one of few in their peer group not paying a dividend. For two years, we worked constructively with management and got most of our shareholder value improvement actions implemented, except for the most important item, which was to do a significant restructuring to improve earnings. In August 2012, we substantially added to our position after the stock fell on weak earnings and sent a letter to the chairman. The reaction was positive and swift action was taken, resulting in a six-month 50 percent rally in the stock, after which we scaled out. All in, it was a three-year process which resulted in a near double in the Energizer share price and substantial additional gains from our opportunistic trading during the period.

Q: What about in Europe?

A: We have been a constructively engaged shareholder in Europe since 2004. At any given time, we hold six core positions in Europe and the opportunity set is outstanding. An example is Sulzer AG, a pumps and valves business catering to water, oil and gas applications, whose shares fell in the past year on weak results. We invested recently as we see

multiple catalysts to unlock shareholder value. Sulzer's operating earnings are well below that of peers and it trades at a low valuation multiple on those weak earnings. We are already closely working with the CEO to make sure the company is moving in the right direction.

Q: And in Japan?

A: To us, it is a candy store of value. We have been actively investing in Japan since 2004 and have been successful there. A current core holding is Koito Manufacturing, the largest maker of headlamps for cars. The buying opportunity came as troubles at its small 50 percent-owned publicly-traded affiliate, Koito Industries, which makes airline seats, affected their share price. We advised them to buy out the public shareholders, clean it up and then sell it. They ended up confronting the issues and changed the name of that company. As a result, the discount that Koito Manufacturing was trading at has disappeared. Koito continues to represent excellent value and remains one of our top holdings.

Q: Are you shorting anything?

A: Currently, we are shorting several organic grocers, as we see increased competition causing growth rates and profit margins to decline, leading to a collapse in their lofty valuation multiples. Another current theme is the drilling rig sector, which is looking at deteriorating fundamentals.

AT A GLANCE



Age: 55

Hometown: New York

Education: Nijenrode University, the Netherlands Business School BBA; Harvard University MBA

Professional Background: Founder/CEO of Atlantic Investment Management; Corporate Development at Thyssen-Bornemisza Group and Dover Corporation

Family: Three Children

Hobbies: Yacht racing, tennis, skiing