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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Achieving Superior Returns Over Time Through High-Conviction Ideas

ALEXANDER ROEPERS, 61, is the President and Chief Investment Officer at Atlantic Investment Management, which he founded in 1988. He has 38 years of experience in the sector. He founded Atlantic in 1988. Earlier, he worked at Thyssen-Bornemisza Group and Dover Corporation. He received an MBA from Harvard Business School in 1984 and a bachelor's degree from Nijenrode University, the Netherlands School of Business in 1980.

SECTOR — GENERAL INVESTING

TWST: Could you tell me about the firm?

Mr. Roepers: Yes, we started the firm in 1988. It is an equity investment firm focused on midcap — $1 billion to $20 billion — market cap companies globally that are in the industrial products and services space.

TWST: And does it have a unique investment philosophy?

Mr. Roepers: Yes, we do. We concentrate capital in high-conviction ideas. Our main funds have typically 10 to 15 stocks. We are working specifically in the $1 billion to $20 billion market cap space, avoiding companies that lack transparency, including financials and insurance companies. We also avoid companies where technological obsolescence risk is a big issue. We are typically not in high-tech or biotech companies.

Besides concentration and our specific universe definition, we strictly adhere to our buy/sell discipline. We typically get into our kind of companies when their valuation is between four times and six times enterprise value to EBITDA or seven times to eight times EV to EBIT. We are sellers when they reach a valuation of eight times to nine times EV to EBITDA or 11 times to 12 times EV to EBIT. We are clearly value-conscious and have a private equity approach to due diligence, and we are looking specifically for companies with strong recurring and resilient cash flow generation.

Another differentiating feature of our investment approach is that we typically become a significant minority shareholder. That's defined as 1% to 5% ownership of the target company and use that to deploy our constructive shareholder activism by engaging actively with the top management, sometimes with the board, to enhance and accelerate shareholder value for all shareholders.

TWST: And you mentioned you have typically 10 to 15 stocks in the main funds. Generally, what's the benefit of having that number and not having more?

Mr. Roepers: We try to provide superior returns for our investors over time. And we believe that concentration of capital and research on highest-conviction ideas can achieve that. Our investors obviously have many other investment options, managers, ETFs and stock funds to invest in, so we need to stand out over time with superior performance. More diversified funds tend to look and act more like an equity market. Hence, we have felt strongly all along that this kind of concentration is crucial to be able to achieve superior performance over time.

TWST: And being on the more active side when it comes to being a shareholder has its benefits too. Could you explain that?

Mr. Roepers: Yes. We've been known as an activist firm. However, we have made it clear to our investors and the companies we invest in that our activism stops at the point where we become illiquid. We have no interest to being on the board of a company or to fight a proxy battle or to do anything that restricts us from buying or selling the shares. Quite often, our buying or selling of shares is for dynamic sizing of the position. Therefore, we also call our form of constructive activism, "liquid activism."

Even so, we feel that our engagement with these companies always improves our due diligence and puts us in a position to have a better judgment as to what is likely to happen or not happen. At the same time, we develop a strong rapport with management and urge them to pursue an agenda that will enhance and accelerate shareholder value.

TWST: Do you want to highlight a stock that you find interesting now?

Mr. Roepers: Yes. The first one is a company called **O-I Glass** (NYSE:OI), formerly Owens-Illinois. It's the world's largest maker of glass bottles. That's all they do. They do it in 77 plants around the world. And they have sales of about $6.5 billion. Only 25% or so comes from North America. The rest is from outside the U.S., including Europe, Latin America and Australia.

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OI has largely grown through acquisition in what was, for quite a while, a challenging business that was under attack from aluminum and plastic packaging. **OI** basically won the glass packaging consolidation war and became by far the largest in the world with a monopoly or duopoly position in most of the 21 countries in which they operate. So that gives you a sense for the company.

They have struggled a bit in recent years. Number one was the dollar strength, which caused their foreign earnings to be translated at a lower rate. They manufacture in places like Brazil and Europe and sell there. They don't hedge FX, so the foreign earnings translation has been quite a drag on reported U.S. dollar earnings.

Secondly, they did a large acquisition in Mexico in 2015, which caused debt to increase quite a bit. It didn't help that since then the Mexican peso has declined, even though it has been a good acquisition. Recently, the market has not favored stocks that have higher leverage levels. So at our urging, the company has undertaken a program of asset sales and selected divestitures, which is ongoing. We believe that they're going to be successful in improving the balance sheet near term with the help of asset sales.

Due to the coronavirus crisis, **OI** stock got hit, trading now at around $7 per share with a market cap of about $1 billion. Their total net debt level is about $5 billion, which is around four times EBITDA. **OI** shares are currently trading at about six times EBITDA. Between some divestitures and an improvement in market sentiment, we are seeing this company achieve about $2 in earnings per share in 2021. At an achievable p/e of 10 times, you would have a triple on the stock from here. Also, at an EV to EBITDA of 7.5 times, which is in line with where transactions take place and where peers trade, you would also get to the $20-plus per share in 12 to 18 months.

The debt is trading fine, the covenants are well-met, and the debt maturities are stretched out. We feel strongly that the company will be resilient and come through this crisis well. Clearly, the consumption of the end product, which is wine, beer, liquor and fancy waters in glass, remains relatively stable even in an economic scenario like the one we are in.

Highlights

Alexander Roepers discusses Atlantic Investment Management. Mr. Roepers focuses on midcap companies in the industrial products and services space. He avoids companies that lack transparency or have technological obsolescence risk, including financials, insurance, biotech and high-tech companies. Mr. Roepers concentrates on high-conviction ideas in order to provide investors with superior returns over time. He strictly adheres to his buy/sell discipline, is value-conscious and has a private equity approach to due diligence. Mr. Roepers likes companies with recurring and resilient cash flow generation.

Companies discussed: O-I Glass (NYSE:OI); WestRock Co. (NYSE:WRK); Oshkosh Corp. (NYSE:OSK); Axalta Coating Systems Ltd. (NYSE:AXTA); PPG Industries (NYSE:PPG) and Sherwin-Williams Co. (NYSE:SHW).

TWST: Is there anything that will be impacted by the coronavirus outbreak?

Mr. Roepers: No, in the aggregate, we expect relatively little change in overall glass packaging volumes. Clearly, the closure of restaurants and bars, which affects the on-premise consumption of wine, beer and liquor, will be down. But then there is the off-premise, at-home consumption, which has gone up. At the end of the day, total consumption, we believe, will not be that materially changed, more in line with what you've seen during the recessionary impacts of 2002 and 2009, when volumes declined in the 2% range.

TWST: Do you want to mention another company?

Mr. Roepers: Yes, **WestRock** (NYSE:WRK). **WestRock** is the second-largest U.S. producer of container boards and consumer boards. Think of cardboard boxes. They provide their customers, which is a broad range of consumer product companies and industrial users, with packaging solutions that are fiber-based, as opposed to plastic-based. Clearly, in this at-home economy we're in and just in general with e-commerce, we are all receiving what we order in boxes.

WestRock stock has corrected dramatically from over $70 in early 2018 to below $25 recently. At the current price of $29, we see **WRK** shares as a compelling value. **WRK** has $17.7 billion in sales and a total enterprise value of $16 billion. Our 12- to 18-month target is $42 based on eight times fiscal 2021 EV to EBITDA. Meanwhile, you get a dividend yield of 7% right now and a free cash flow yield of about 13%. **WRK** currently trades at about six times EV to EBITDA, which is at the low end of its historical range, despite stable end markets with secular growth due to the factors mentioned.

From all our checks, they should be able to do well through this period, even though the second quarter might be somewhat weaker. Further, the company is using its excess cash flow to bring the debt down, part of which came from the acquisition of KapStone Paper & Packaging, which was done two years ago.

1-Year Daily Chart of O-I Glass

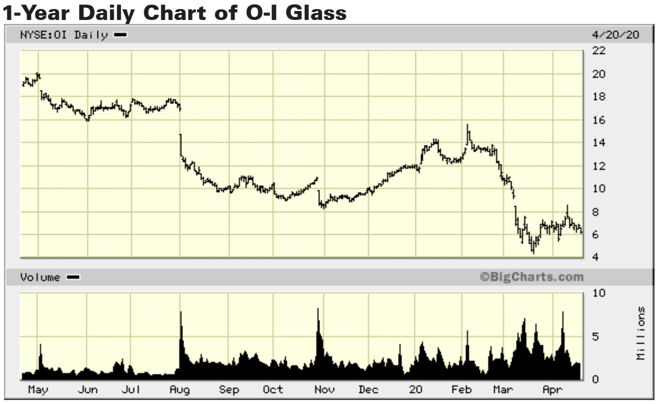

Chart provided by www.BigCharts.com

"We submit that while the company has strong recovery potential by itself, with multiple options to enhance shareholder value by using their strong cash flow for debt paydowns, strategic add-on acquisitions and share buybacks, it is also a takeover target."

TWST: In general, how does a company that provides these kinds of products ensure that there are not shortages in times like these, with businesses needing to ship products very quickly?

Mr. Roepers: First, they have a broad distribution system, both direct to their largest users and through distributors. And so if there are shortages, they have many plants around the country that can ramp up production, and they can draw on their own inventories to satisfy demand.

TWST: Did you want to mention another company?

Mr. Roepers: Yes. The next one we'd like to mention is a company called **Oshkosh** (NYSE:OSK). This is a diversified manufacturing company. A good chunk of their business, about 42%, is so-called access equipment, sold under the brand JLG, which you might have seen across construction sites in the United States. It's an orange-looking vehicle that typically is rented by contractors to help with construction or maintenance projects on buildings and infrastructure. They're the leader in this particular field.

Clearly, **OSK's** access equipment unit is a beneficiary of ongoing maintenance and new construction as well as a potential new infrastructure bill and a resurgence in homebuilding. This unit also has a good European business. While access equipment has some cyclical elements to it, it is a solid business overall, and when you combine it with the rest of **Oshkosh**, it makes for an attractive company.

The rest of **OSK** includes a defense business, which is a leading maker of armored vehicles for the military, which represents 27% of sales. This unit has a strong backlog. Further, **OSK** owns the leading maker of firetrucks and emergency equipment, under the brand name Pierce, which has been a solidly trending and resilient business. Finally, **OSK** manufactures other specialty equipment like cement and garbage trucks. In all, **OSK** is a quality maker of heavy equipment with different end markets, strong economic resiliency and solid backlogs, particularly on the military side.

OSK's current enterprise value is $4.3 billion and sales of $7.6 billion this year. Even with adjustments to earnings for the coronavirus crisis, **OSK** is trading at about nine times earnings per share on 2021 fiscal. Their fiscal year ends in September. The stock currently is about $64 per share, and we expect it to go up to something like $90 a share, which is where it was about two months ago, in the next 12 months.

TWST: And if the Congress and the President move forward with an infrastructure bill with a lot of money behind it, this company would stand to benefit if they work on roads, bridges, highways, airports and things like that.

Mr. Roepers: For sure. They would.

TWST: And did you want to mention one final company?

Mr. Roepers: Yes, a company called **Axalta Coating Systems** (NYSE:AXTA). The stock trades around $16 to $17 now.

1-Year Daily Chart of Axalta Coating Systems Ltd.

Chart provided by www.BigCharts.com

Axalta is a $4.5 billion sales company that currently has a market value of about $3.8 billion. The stock has, like so many others, come down hard in this market.

They're a leading provider of coating systems for industrial and automotive users. They not only sell the paint, but they also provide the systems to apply the paint and ancillary services. They have strong embedded relationships with many of their key customers. Of course, a lot of paint is used in ongoing maintenance-related as well as overhaul- and repair-related work. Peer paint companies, such as **PPG** (NYSE:PPG) and **Sherwin-Williams** (NYSE:SHW), trade at much higher valuation multiples.

Axalta has been undergoing a strategic review, which has recently been called off. During this process, 18 companies signed nondisclosure agreements to take a close look at the company. Apparently, several offers were made to the company, but all were rejected as insufficient when the company traded at over $30 per share. Right now, **Axalta** is not for sale.

We submit that while the company has strong recovery potential by itself, with multiple options to enhance shareholder value by using their strong cash flow for debt paydowns, strategic add-on acquisitions and share buybacks, it is also a takeover target. We think that once the dust settles from the coronavirus crisis, there's a good chance that any of these potential suitors will come back.

In fact, we deem **Axalta** to be quite vulnerable to an unsolicited takeover now given that the stock is off more than 40% from two months ago and from the $30-plus level where various corporate buyers were interested. Even with a pretty heavy cut to earnings estimates for this year and in 2021, we're still coming to $1.90 in earnings per share for next year at a 14 or 15 multiple; **Axalta** shares can recover back to the $30 range. So this a combination of a special situation — because of its takeover potential — and a strong recovery play upon a resurgence in the U.S. economy.

TWST: Changing direction, what are some of the concerns from investors over the last few weeks? Certainly, the market has been volatile.

Mr. Roepers: Of course, nobody likes to see the kind of drawdown that happens in almost any public equity portfolio during a time of panic and turmoil such as this time. Particularly, with our focus on midcap industrial and services companies, the drawdowns have initially been in excess of the large-cap market-cap-weighted stock indexes. If you look at what's happened to the value line, unweighted 1,500-stock index, it was down over 40% for the year.

On the other hand, most everybody sees what's happening. There's a lot of forced selling, a lot of negative-scenario discounting, including a scenario of a depression in the U.S. and elsewhere, and a scenario of the health care systems being overrun. In our view, the further we get into this, we will see that these draconian doomsday scenarios are not going to take place, at which time we will see confidence coming back to the equity markets.

In our case, we have seen our investors stay put during this volatile and uncertain period, confident in us to navigate through this as we have done during 2008 and 1998. We are gratified by the support of our investors and encouraged by the interest from prospective investors that have kept an eye on what we're doing, how our funds are behaving and our commentary on specific positions and the equity market dynamics. We expect that this increased interest will materialize in new and add-on investments in the coming months.

TWST: Is there any advice you'd give to somebody who's a Baby Boomer that is nearing retirement or even in retirement years, especially if their portfolio has dropped in value over the last few weeks? Should they stay put?

Mr. Roepers: I think they should stay put, if they can. They should, with their adviser or alone, make sure that they look through what they own. If they own a lot of overvalued growth names, which have been driving the market for the last 10 years, they should take a hard look at those names to see if they can stomach owning them at high-valuation multiples in this new economic environment.

By and large, we think the equity market should be able to hold its own and do better from here amid lower interest rates, lower energy prices, pent-up demand and government stimulus spending. All these are good reasons why equities should do well, particularly once confidence returns to the market. For individual investors, it is important as well to look at margin of safety and fundamentals when selecting stocks. We think a great place for investors to allocate to is value stocks, as opposed to the growth stocks that have driven the market the last 10 years or so.

TWST: And would that also apply, let's say, to younger investors, who might have been hesitant a few years back to get involved in the market? Is this an opportunity for them maybe to get in?

Mr. Roepers: I think it is an opportunity for anybody to get in. What I would recommend is that when they look at stock investments, they should keep their same sense of value, as if they were buying a car or a house. They really need to crunch the numbers a bit and not just wildly follow what is in vogue or so-called cult stocks. New investors to the market should do it seriously and study what they're buying and make sure they're not overpaying.

TWST: Is there anything we haven't talked about you care to bring up?

Mr. Roepers: I think we are in a mode of climbing a wall of worry, but I think there is reason for optimism. The world is facing a unique crisis, which in the end will make us better prepared for another health scare down the road. The common approach from central banks and governments around the world to provide monetary and economic support to get through this difficult period will prove to have been the right one.

We believe the health care community will come up with solutions for the treatment and future care of virus patients and that the hospital systems of the world will be better equipped and better prepared next time something like this happens. Net net, we will all come out of this better. In sum, I think it is a good time for existing investors to stay in and to add to their holdings if they can and those who have not looked at equity investing before to take a serious look at investing now.

TWST: Thank you. (ES)

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