

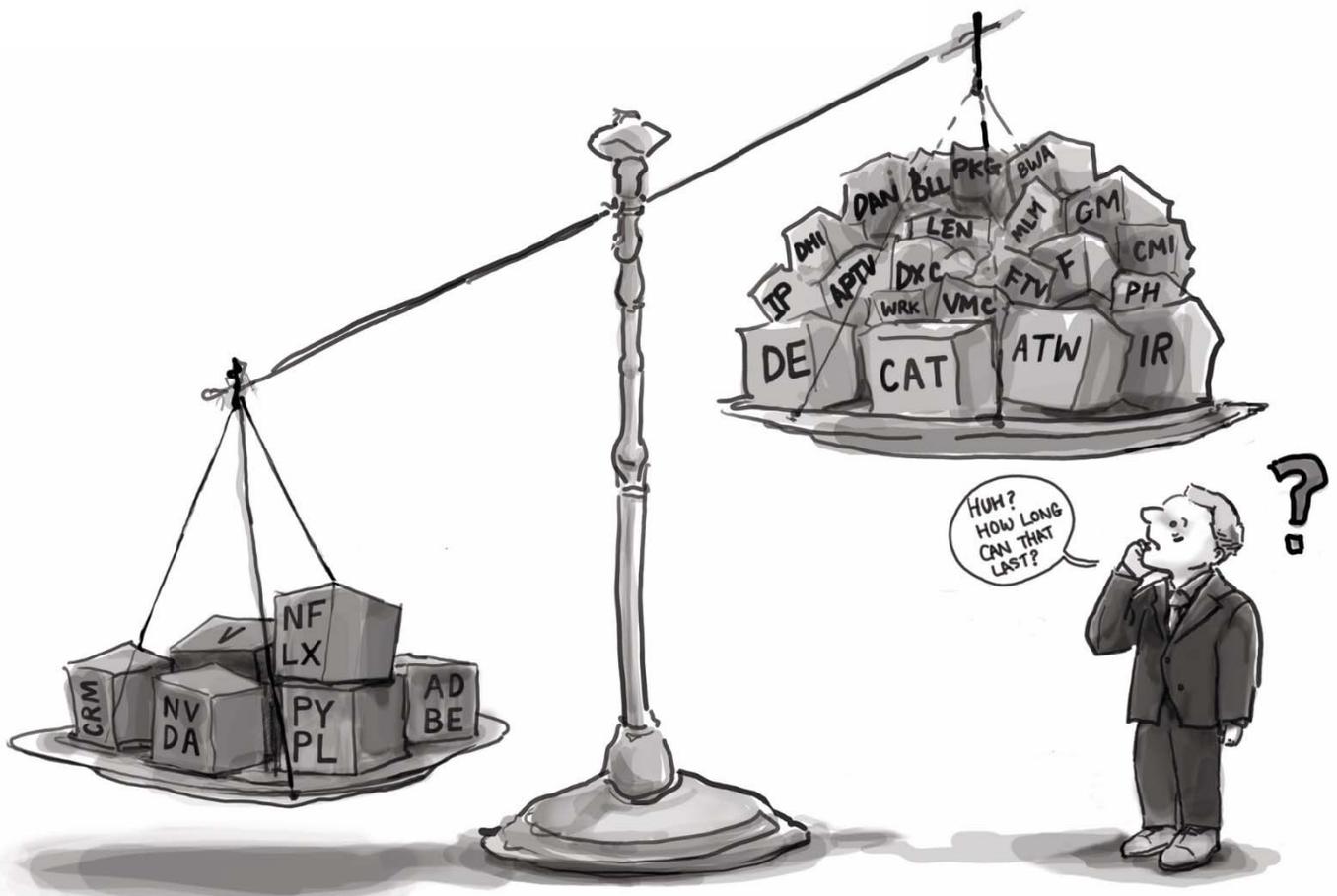
Putting Things into Perspective: Compelling Value Opportunities in a Growth Market

by

Alexander J. Roepers

Founder and Chief Investment Officer
Atlantic Investment Management

Investors are well aware we're in the 10th year of a bull market favoring large caps, growth stories and technology stocks. Unicorns with lofty promises of growth and—often—big losses go public with huge valuations, and there's no shortage of these companies in this year's IPO backlog. As a result, the valuation divergence between growth and value investment styles, between the "disrupters" and the "disrupted," is at or near multi-year highs.



Just to put things into perspective: for less than the "price" of six well known growth companies, you can "buy" the 80 largest stocks of four key industrial sectors, namely machinery, automotive, paper & packaging and home builders/construction materials companies. Moreover, the latter aren't unknown companies but industry giants, such as Caterpillar, John Deere, and General Motors, among others.

Below are key statistics:

<i>(\$ in billions)</i>	6 Growth Darlings	80 Industrial Leaders	Atlantic's Top Value Stocks
Market Capitalization	\$941	\$789	\$43
Sales	\$99	\$879	\$79
EBITDA	\$36	\$124	\$12
EV/Sales	9.5x	1.1x	0.8x
EV/EBITDA	26.0x	8.0x	5.1x
P/E	44.1x	16.0x	7.7x
6 Growth Darlings	Visa, Netflix, Adobe, Paypal, salesforce.com, NVIDIA		
80 Industrial Leaders	<p>Top 20 Machinery: Caterpillar, Deere, Illinois Tool Works, Fortive, Ingersoll-Rand, Cummins, PACCAR, Parker-Hannifin, Stanley Black & Decker, Xylem, Dover, Wabtec, IDEX, Snap-on, Graco, Nordson, Toro, Donaldson, Pentair, Flowsolve</p> <p>Top 20 Automotive: General Motors, Ford Motor, Aptiv, BorgWarner, Gentex, Harley-Davidson, Goodyear, Thor Industries, Dorman Products, Fox Factory Holding, Dana, LCI Industries, Adient, Visteon, Delphi Technologies, American Axle, Cooper Tire & Rubber, Garrett Motion, Gentherm, Standard Motor Products</p> <p>Top 20 Paper & Packaging: Ball, International Paper, Westrock, Packaging Corp of America, Avery Dennison, Sealed Air, AptarGroup, Sonoco Products, Bemis, Silgan, Domtar, Owens-Illinois, Louisiana-Pacific, Greif, Neenah, Schweitzer-Mauduit International, Boise Cascade, Mercer International, PH Glatfelter, Myers Industries</p> <p>Top 20 Home Builders & Construction Materials : DR Horton, Lennar, Vulcan Materials, Martin Marietta Materials, NVR, PulteGroup, Toll Brothers, Eagle Materials, TopBuild, KB Home, TRI Pointe Group, Meritage Homes, MDC Holdings, LGI Homes, Installed Building Products, Cavco Industries, US Concrete, Century Communities, M/I Homes, William Lyon Homes</p>		
Atlantic's Top Value Stocks	Owens-Illinois, Eastman Chemical, Huntsman Corp, Avnet, Timken, Oshkosh and DXC Technology.		

Footnotes: Atlantic's top value stocks by capital based on its concentrated US fund. Market cap sourced from Bloomberg with pricing date 6/4/2019. Valuations are based on Bloomberg's 2019 estimates. Enterprise Value (EV) is market cap plus net debt and net pension liabilities.

Investment styles tend to move in multi-year cycles. Given this historically wide valuation divergence and a frothy IPO market for money losing Unicorns and growth stories, we believe we're nearing a possible inflection point in the equity market dynamic that could herald a rotation back to value.

To emphasize this point further, we included valuation metrics on our top US value stocks in the table. In our 30+ years of managing our differentiated value investment approach, which has yielded superior returns over the S&P 500, we have not seen our top selections this compelling in both absolute and relative terms.

A key driver behind growth outperformance has been the multi-year global monetary easing phenomenon. While the Fed has raised rates modestly in the past three years, the zero-interest-rate policy from 2008 thru 2015 fueled the search for yield that inflated valuations of many financial assets to record levels. As a result, many investors further reduced their already diminished exposures to value stocks and increased their holdings in perceived safe-haven assets, such as passive large-cap exchange-traded funds (ETFs), mega-cap defensives and growth stocks. This dynamic also caused many investors to crowd into momentum stocks, especially the

so-called FAANG companies (Facebook, Apple, Amazon, Netflix and Google), inflating the valuation premium of growth/momentum stocks over value stocks to levels not seen since the 1999-2000 tech bubble.

Macro clearly plays an important role, and investor sentiment is currently in a risk-off mode due to concerns about the US/China trade conflict as well as European Union politics and their respective impact on global growth. Corporate M&A is held back, capital spending is curtailed and Private Equity firms are sitting on \$1.3 trillion of committed capital, all waiting for the dust to settle before forging ahead with their investments. As a result, we believe too many value stocks have simply become too cheap to ignore, even in a less predictable macro environment.

While a near term resolution of the US/China trade conflict has become less certain, we strongly believe that it is in neither country's interest to escalate the conflict further. As far as the potential impact of Brexit is concerned, none of the leading politicians want a hard Brexit. Right now, markets are heavily discounting the political risks while ignoring that the UK and Western Europe are large and powerful economies currently operating below their full potential. Hence, any improvement in the Brexit situation should cause a material economic uplift, benefiting equities globally and, in our view, value stocks in particular.

In our private lives, we are all value investors: we like to buy a house, a car or a dishwasher when it is a good value and "on sale". Somehow, when it comes to growth/momentum stocks, most "investors" buy what is hot, moving up and/or "talked about". That isn't investing; that's speculating.

In summary, *we advise investors to be long undervalued value stocks in a big way - now!* You might regret not stepping up to the plate when it was obvious that you should buy value stocks before they start moving in earnest.

June 6, 2019

This report was prepared by Atlantic based upon information from sources considered to be reliable and may include subjective statements and opinions are not guarantees of future performance. No representation or warranty is made, expressed or implied with respect to the fairness, correctness, accuracy, reasonableness or completeness of the information and opinions contained herein.

Information about specific past investments made by Atlantic is included for illustrative purposes only and is not intended to be indicative of actual future investments. There is no assurance that similar investment opportunities will be available in the future.