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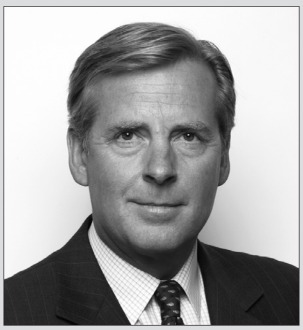
THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Investing in Industrial and Consumer Goods



ALEXANDER J. ROEPERS is the President and Portfolio Manager of Atlantic Investment Management, Inc. ("Atlantic"), which he founded in 1988. Atlantic is a $1.5 billion global Registered Investment Advisor, with offices in New York and Tokyo. From 1984 through 1988, Mr. Roepers was director of corporate development at the Thyssen-Bornemisza Group in New York. In 1983, Mr. Roepers worked on acquisitions at Dover Corporation in New York. From 1980 through 1982, he worked in operations at Dover's Universal Instruments in upstate New York. Mr. Roepers received his MBA degree from Harvard Business School (1984) and holds an undergraduate degree from Nijenrode University, the Netherlands School of Business (1980).

SECTOR – GENERAL INVESTING

TWST: Why don't you start with an overview of Atlantic Investment Management and the investment philosophy there?

Mr. Roepers: I started Atlantic Investment in 1988 after seven years working for two industrial diversified conglomerates, Dover Corp. and Thyssen-Bornemisza, where I did corporate development work. I learned a lot about analyzing and valuing companies and I wanted to apply the same investment approach (i.e. one of an outright owner), but without paying a control premium. We see ourselves as owners of companies, not as owners of securities. I decided to set up Atlantic to be in the public markets in order to have the ability to buy into high-quality industrial and consumer goods companies at very attractive valuation multiples, and to avoid paying the associated premiums when you buy outright control. I also wanted the ability to trade and get out of investments in a reasonable period of time.

I started with that concept. I also wanted to concentrate on the highest conviction ideas, so we typically concentrate our investors' capital on five to six core long positions and augment that with five to 10 smaller positions. We also have a short book, but the five to six core positions are really the engine room for our funds. Today we have five funds — long/short U.S. and non-U.S. in developed markets, and long-only U.S., Europe and Japan.

Currently, we have $1.5 billion under management and 27 on the team, of which 13 are highly experienced equity analysts, three are traders providing 24-hour coverage, and the rest is finance, admin and client relations. I have been the Portfolio Manager since inception. Our main office is in New York and we have a research office in Tokyo. The Tokyo office is focused on our Japanese investments, and we have several analysts doing research in India and China, primarily because it's so important to understand what's going on there for a lot of the companies in our portfolio, whether they are European, U.S. or Japanese.

TWST: Would you continue with a description of the strategy and the criteria you look for? Are the criteria different for the short and the long?

Mr. Roepers: The criteria differ indeed for the longs and shorts. On the long side for our core positions, we have a three-step approach for selecting companies. The first and overriding selector is the investment universe with which we work. We've focused on this universe for over 20 years, and it's not going to change. First, we narrow the universe to companies with a market cap between $1 billion and $20 billion. The $1 billion-and-below category is not of interest because of illiquidity concerns, and the $20 billion-and-above category is not of interest because we don't feel we can get any particular edge in due diligence, which we feel is necessary given our degree of concentration.

We seek to be typically a top 15 shareholder in the core holdings in order to gain access to the CEO, to be able to do plant visits and interviews at different levels of the corporation, which is hard to get when you're a small shareholder.

Within the $1 billion to $20 billion market cap range, we exclude certain areas that we feel do not lend themselves to concentrated investing and that don't lend themselves to our private equity way of looking at companies. We take the presumption of buying a company outright and include in that presumption, paying a premium and borrowing to buy the company, even though we are not actually doing any of that. We want to make sure that the transparency is excellent, that the companies are analyzable.

Further, we avoid four areas with idiosyncratic risks: First is technological obsolescence, which includes all high-tech, biotech and software companies. In the past, we have found that even insiders of high-tech companies have a hard time gauging the status of their own R&D, the length of time it takes to bring new products to market, and the potential market application and pricing of the new products. It is even harder to judge the impact of R&D efforts of a competitor. These things can all change the business model radically.

The second risk area we avoid is companies with major product liabilities, such as tobacco or pharmaceuticals. The third risk area we avoid is government intervention, i.e., where the government can change the rules of the game, for instance health maintenance organizations, utilities or cable television. Finally, we avoid "lack-of-transparency" companies, which includes banks, brokerage firms and insurance companies. If you take all those out, you cut our universe in the $1 billion to $20 billion category by half and are left with about 500 companies in the U.S. and 700 companies in the developed markets of Europe and Asia.

The second cut involves a set of additional criteria. First, we avoid companies with stretched balance sheets. We insist on solid balance sheets with interest expense less than 25% EBITDA. Secondly, we avoid companies that are dependent on commodity pricing; examples include pure steel, pure chemical, coal mining companies, copper companies, even dry bulk shipping. What these companies have in common is that their sales and earnings are largely a function of the price that the global market sets for that product, which is very much outside of their control; it becomes more of a speculation than a fundamental exercise, a game of guessing what the sentiment will be on the commodity pricing and then what investors might do with the stock of the company.

Thirdly, we seek recurring and predictable revenues. This is a function of the nature of the business, the diversity of the customer and products that are being sold, and even the geographic diversity. We prefer companies which derive a large percentage of their profits from maintenance/repair/overhaul (MRO) activities, i.e., benefiting from their installed base. A good example would be an elevator company that gets 70% to 80% of their earnings from maintenance contracts on the elevators that are installed. We also like companies that have consumable products. Fourth, we look for low insider ownership, which makes a company vulnerable to an outside takeover attempt.

For our third major cut in our stock selection process, we strictly adhere to our buy/sell discipline. We look for companies to trade down to 8x enterprise value (EV) to EBIT multiple. Enterprise value is calculated conservatively; it's not only the market value of the stock plus the net debt, but we also add unfunded pension liabilities and accounts receivable securitizations and similar liabilities Although we know these companies already, when the company approaches our scale-in level, we step up due diligence, hold management meetings and conduct a 360-degree analysis of the company, including peer and competitor review. We'll typically scale in using a quarter to a sixth of the daily trading volume and over a period of several weeks to establish a core position.

A company at this valuation level typically has a 10% free cash flow yield. With a two-year initial time horizon, we get about 20% of our investment back in free cash flow either directly or indirectly; directly through dividends, indirectly through debt repayment, or share repurchase or acquisitions. We are cash flow oriented, looking for strong downside support. We're not particularly interested in price-to-book values; we're interested in predictable, reliable, recurring cash flows and low multiples in the investment-grade companies in our universe.

Upside is created in part by multiple expansion from the low end towards the high end of the valuation range. Most of our kind of companies typically trade between 8x and 12x on the EV/EBIT multiple. The equivalent EBITDA multiple range is 5.5x to 8.0x, and the p/e range would be 10x to 15x. They are highly likely to get to the higher end within a period of one or two years, given historical trading patterns and as the company gets back on track, stringing together several good quar-

Highlights

Alexander J. Roepers invests in high-quality industrial and consumer goods companies at very attractive valuation multiples. He focuses on five to six core long positions and augments that with five to 10 smaller positions. He seeks to be a top 15 shareholder in his core holdings in order to gain access to the CEO, to be able to do plant visits and interviews at different levels of the corporation, which is difficult to get when you are a small shareholder. He avoids four areas with risks: technological obsolescence, which includes all high tech, biotech and software companies; companies with major product liabilities, such as tobacco, asbestos or pharmaceuticals; government intervention in companies, such as HMOs, utilities and cable TV; and "lack-of-transparency" companies , which include banks, brokerage firms and insurance companies. He also avoids companies with stretched balance sheets, and businesses that are dependent on commodity pricing; and he looks for companies with recurring and predictable revenues and low insider ownership, which he accumulates when they approach 8X enterprise value to EBIT.

Companies include: Affiliated Computer Services (ACS); Owns-Illinois (OI); Joy Global (JOYG); Thermo Fisher Scientific (TMO).

"We look for companies to trade down to 8x enterprise value (EV) to EBIT multiple. Enterprise value is calculated conservatively; it's not only the market value of the stock plus the net debt, but we also add unfunded pension liabilities and accounts receivable securitizations."

ters and news events. As a top shareholder, we try to enhance and accelerate the process of value realization through active engagement and discussions with company management in order to put forth an agenda that we feel will help both management and shareholders.

Our proposals are first delivered verbally, then through letters to the CEO/CFO and then to the board, if necessary. Sometimes we help bring the story on a company out in the financial press. Basically, in our conversations with management, we promote an agenda of shareholder value-enhancing use of free cash flow for dividends, share repurchases and accretive bolt-on acquisitions. We have a wide range of ideas that we will bring to bear, all company-specific and situation-dependent, of course. We are also strict with our sell discipline. When one of our companies trades up to 12x EBIT, we start scaling out in a gradual way. This is typically after a one- to three-year holding period, during which we also trade opportunistically to take advantage of spikes or selloffs in the stock, or to size the company properly depending on other opportunities that we have.

On the short side, we have quite a different approach. We look at a much broader universe, including areas that lack transparency, that have product liability issues and where government can change the rules. We avoid "spooky" areas like internet and biotech. The shorts are typically held for shorter periods, so it is much more trading oriented. Shorts are also smaller in size, typically 1% or 2% of capital each, and we observe a strict stop loss rule of 30%.

The gross short exposure in our hedge funds ranges from 10% to 50% of net assets. The gross long exposure typically is between 60% and 100%. We don't use leverage on the gross long exposure, but the overall gross exposure, long plus short exposure, may well be north of 100%. Typically it's between 90% and 130%. The net exposure in our hedge funds is typically between 20% and 70%.

TWST: What is the proportion of long to short in your long/short funds? Does that change according to the market conditions?

Mr. Roepers: The gross long versus gross short exposure multiple will range from 1.5 to 4 typically. The long exposure is a function of what opportunities present themselves within our universe at the right valuation level to scale in and to hold them. Should we have a favorable market for our kind of value investments and a lot of our longs run to past the 12x-EBIT mark, you'll see our gross exposure on the long side dropping quite a bit until we see opportunities to redeploy that capital. The short exposure is largely an expression of our view of the condition and near-term outlook for the equity market, much more top-down. We take a good look at the market technicals, the events/news calendar and the economic environment. Depending on all that, we will determine if we should go to the higher end of our stated gross short exposure range, which is 40% to 45% of capital. Should there be an equity market selloff, we will bring the gross short exposure down. We will also take positions down individually as they meet our targets for a decline.

When we harvest our short portfolio, we can cut half the portfolio out in one or two days if there's a sharp decline in the market. That obviously has the effect of opening our net exposure in the middle of a decline, which typically works well for us. However, if the market goes into a deeper downturn, it can be difficult. But our main objective is to have a positive short attribution. Over time, we've done well with that. The shorts have had positive attribution on an absolute basis in eight of the past 12 years, and particularly in the years where we needed it most, like 2000-2002 and 2008.

"The gross long versus gross short exposure multiple will range from 1.5 to 4 typically. The long exposure is a function of what opportunities present themselves within our universe at the right valuation level to scale in and to hold them."

1-Year Daily Chart of Thermo Fisher Scientific

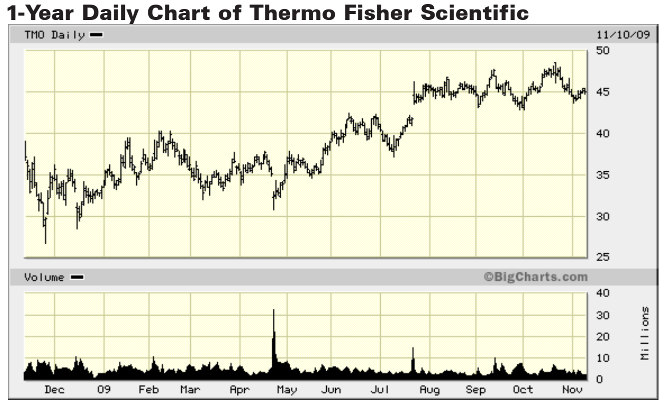


Chart provided by www.BigCharts.com

TWST: Would you tell us how you may have changed your investing strategy during the difficult last 12 months?

Mr. Roepers: We really haven't changed our approach much as a result of the incredible volatility in 2008. We entered September 2008 with 90% long and 30% short exposure in our hedge funds, and fairly fully invested in our long-only funds. As the market tumbled in the post-Lehman demise, we started to harvest the shorts as we have typically done on a sharp selloff. We also deployed further cash on the long side in stocks that we felt were already compelling before the decline, and so we opened up our exposure too early in hindsight.

Importantly, however, our companies are strong both in profitability and the sustainability of that profitability, even in a dire economic scenario. They have solid balance sheets. In fact, our companies on the long side, both domestic and international, came through the 2008 crisis without the need for rights issues, covenant renegotiations or the need for rushed access to the credit markets to fund their operations. So we felt confident in our long book. That said, we did change out a few companies because of their end markets, which would have been a source of negative news flow for a couple of years.

We used the proceeds from these position sales to buy shares in heretofore unavailable — at our scale-in level — companies in defensive areas. Companies like **Thermo Fisher Scientific** (TMO) or **Smucker** (SJM), which we have looked at repeatedly in the past but which had not reached our valuation level of 8x EV/ EBIT. In late 2008, we did get hit hard as a result of being in mid caps and being long biased. In a liquidity crash, a lot of capital goes out of the market, and what stays gravitates to the top 20 most liquid names, which held up the S&P to some degree in 2008. Mid-cap names were disproportionately hit, and our portfolio was no exception; fundamental analysis obviously didn't matter. This year, we are clearly seeing a return to stock picking, a return to value in many cases, and we're doing well, recovering a good portion of our decline in 2008. Going forward, we will keep an even closer eye on volatility in the market, which might make us more cautious, deploying long cash slower and keeping shorts on longer. But I am not sure this would have made a material difference in our returns last year.

In fact, that cumulative record is about double what Berkshire Hathaway stock has done over the same period.

TWST: What about the European and Asian areas, which have long-only? What is the outlook of those funds?

Mr. Roepers: The European and Japanese long-only funds are entirely modeled after the U.S. Cambrian Fund. We've had quite a few clients that were interested in investing in that manner with us in Europe and Japan, and that's how we got the capital there. The international funds didn't start until 2004. We didn't have the wherewithal to set up the infrastructure and to hire the analysts, and do the thorough investigation of the universe in the European and Japanese markets until then.

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TWST: What are the advantages of having such a concentrated portfolio in a bear market? The rewards are obvious in a bull market, but what about the risks?

Mr. Roepers: Depends on what kind of bear market you have. We had a bear market from 2000 to 2002, and we made money in each of those three years. That bear market was entirely a valuation and economy-driven situation. There was major undervaluation of value stocks by early 2000 as a result of the tech bubble, which had literally sucked a tremendous amount of liquidity from the rest of the market to fuel itself. We actually did quite well in 1999; we were up in the mid-30s, which doesn't sound very exciting for 1999, but if you realize we didn't have a single tech stock, it was actually a very good performance for a value-oriented, mid-cap strategy in that year.

In 2000, when the tech bubble turned, we were up 55%. We also performed well in 2001 and 2002. That was a bear market where, with a concentrated strategy and with active management of the key portfolio companies, we were able to do well. We didn't do well in 1998 when the market went through a systemic risk crisis, nor in the September-October period of last year. Those episodes hurt us and it did not matter much whether one was concentrated or diversified. But in bear markets in general, concentration can be a benefit. Concentrated investing is a simple concept. If we have 20 great ideas from our universe, we will analyze all 20 even more until we get to the top five or six highest-conviction ideas. We concentrate our capital on those five or six rather than spreading it out over all 20 names. Over time, we do better with those five or six, even though it might create more volatility near term. We don't subscribe to the notion that volatility in a concentrated portfolio of high-quality companies equates to more risk. Warren Buffett has been saying the same thing for a long time. We've shown that with our cautious approach to selecting our companies and by doing a tremendous amount of research, we can avoid incurring a major loss on an individual position. We have had only a few realized losses in our core holdings over the last 20 years. Cambrian fund, our flagship fund with only five or six stocks, has a cumulative net return of eight times the S&P 500 over 17 years.

1-Year Daily Chart of Joy Global

Chart provided by www.BigCharts.com

From 2003 through 2006, we closed for existing and new investors in both our U.S. funds, the long/short fund and the long-only fund, because we reached our own capacity limit given our concentration. We were not going to broaden the number of stocks we held just because we can attract more capital. We do not want to compromise our self-imposed liquidity limits, which state that we need to be able to sell any core long position in an orderly fashion within 30 days using a quarter of the daily trading volume. We are very strict on that, and we will close again as necessary. In late 2003, we set up plans to do the same strategy in the developed markets in Europe and Japan, hired experienced analysts with the language skills and experience in those areas, and spent about one year preparing. We launched the international long/short fund, Rodinia Fund, in late 2004. And then the long-only versions of that fund, Cambrian Europe and Cambrian Japan, each with our five or six highest-conviction ideas in those regions, were started just two to three years ago. Similar to the U.S. Cambrian Fund, they had a tough 2008. They were fully invested and were down about 50% — not entirely surprising given that they're long-only and fully invested in mid-cap names. Even though our holdings were solid value stocks, it didn't really matter.

This year both funds are strongly outperforming their indexes. Cambrian Japan is up 21% for the year, while the MSCI Japan index is up 6% and Cambrian Europe is up 31%, while the MSCI Europe index is up 23%. Just like the U.S. Cambrian Fund, we are invested in a portfolio of defensive companies, most of which made more money in 2009 than 2008 and will be making more money in 2010 than 2009 — companies that are predictable reliable generators of cash. The world's equity markets have taken a liking towards cyclical recovery plays, which has driven up the indexes. This has actually been frustrating for us because we cannot justify investing in those kinds of companies due to our scale-in metrics. As a result, we've missed some explosive moves in stocks that speculators and optimistic stock market investors have gone after. Clearly, a lot of hope is baked into this cyclical recovery. Many are companies that we would normally look at in our universe, but most are now trading at 15 to 18 times 2011 estimated earnings and even higher multiples on 2010 estimates. We simply can't touch them for those reasons. Currently, our long book across Europe, Japan and the U.S. is trading at just eight or nine times EV/EBIT multiple and 10 to 11 times p/e. Our holdings are positioned to do well as the market starts to rotate towards more value. Even if there is an equity selloff, I think they will hold up well because these companies have shown to be resilient and are trading still at attractive levels.

In fact, defensive companies have probably been sources of cash for the rally in the cyclical recovery plays, much like value stocks were a source of cash for the tech bubble in 1999. We are seeing a strong split in the market between these two camps. The nature of the split is different, but nonetheless it's a very noticeable split. I think our 2009 performance shows that with our concentrated stock picking we've done rather well, particularly considering that we have not been exposed to these cyclical recovery plays.

In the next year, I think you are probably going to see a market that is in a trading range from here because there are a lot of challenges in the economy and there is a lot of hope that's baked into the recent equity market rally. As the rotation happens and reality sets in for economically sensitive stocks, I think you are going to see more and more valuation return to the stable generators of cash and earnings where we are exposed.

TWST: With so few major haul of securities in your portfolio, what triggers an exit? How long do these five or six companies remain in the portfolio?

Mr. Roepers: Typically, it's one to three years. But as you can imagine with the volatility we have just had, there has been somewhat more turnover. We had, for instance, a company called **Joy Global** (JOYG). It's the largest coal mining machinery-maker in the world, and also one of the largest makers of above ground mining equipment that's used in copper/gold mining and the oil sands in Canada. **Joy Global** has been a core holding of ours several times in the last four years, and we got in post the 2008 crash at a very attractive valuation and in fact became a 13D holder, owning close to 6% of the company by early March of this year. At an average of $20 a share, **Joy Global** was an attractive and highly compelling investment to us. The stock rallied quickly above $30. We started scaling out because as a percent of capital, it became disproportionate.

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1-Year Daily Chart of Affiliated Computer Services

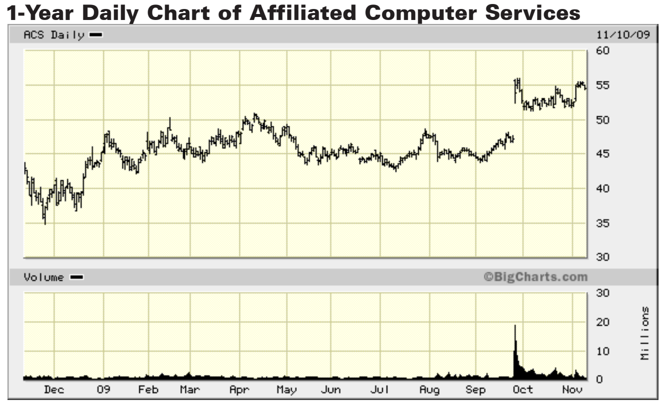

Chart provided by www.BigCharts.com

"Thermo Fisher Scientific is another company we bought post crash. A very attractive company selling consumable medical and laboratory type products. TMO shares fell hard in the 2008 crash, in part due to well-placed fear that their equipment business, which is about 30% of sales, would decline. We picked up TMO shares in the low 30s late 2008. By August this year, TMO stock reached the high 40s, trading near our valuation target, so we scaled out of it."

Then the stock actually ran through 12 times forward EBIT. We obviously have detailed models and based our target price on estimates from calendar 2010. Clearly, this is a long-cycle company that has very good earnings this year based on fulfillment of an order book that was established in 2007-2008. Now the new orders are falling down quite dramatically, and therefore their 2010 and 2011 sales and earnings will come down. This is no surprise to the company nor to the market, but yet a whole host of investors are willing to bid this company up further and further. We sold Joy in the low to mid-30s; the stock is now above $50 to my chagrin, but it's not our business to invest our clients' capital outside of our stated valuation range.

The share price of a company like this is now largely dependent on quarterly order bookings and on the hope that these order bookings are going to come flowing in the next two or three years to get earnings back up in 2012. That's a different game. We will wait until this company trades again at eight times predictable, reliable EBIT based on next year's estimates. We are very strict on that.

Thermo Fisher Scientific (TMO) is another company we bought post crash. A very attractive company selling consumable medical and laboratory type products. TMO shares fell hard in the 2008 crash, in part due to well-placed fear that their equipment business, which is about 30% of sales, would decline. We picked up TMO shares in the low 30s late 2008. By August this year, TMO stock reached the high 40s, trading near our valuation target, so we scaled out of it. From our perspective, it is clear when we should start scaling out. It is rare that we scale out before we reach our valuation target. Sometimes, however, we do so because we have made specific judgments that a company is going to have tough news flow.

"The tremendous rally in cyclical recovery stocks has seemingly made ACS a source of cash, as it is deemed boring — it grows revenues mid- to high single digits with high predictability. Each year, ACS starts with 85% of their sales booked already because they have four- to 10-year terms on most of their contracts that they have."

For instance, we were recently invested in **Precision Castparts** (PCP) and **Goodrich** (GR), both Tier 1 suppliers to the aircraft manufacturers. In early June 2009, we felt that there might be further Boeing 787 delays, which would put the entire category into a negative sentiment. So we preferred to be out of these companies for a while to get past this news flow and then potentially scale back in later.

TWST: Do you ever invest in the smaller-cap arena, or do you stick firmly in the mid-cap?

Mr. Roepers: In our hedge funds, with our smaller long positions, 1% to 5% of capital, we can go somewhat lower in market cap and not violate our own liquidity requirements.

TWST: What gives your investment approach at Atlantic its edge? What distinguishes your style and approach from those of other peer companies?

Mr. Roepers: We have developed our edge with over 20 years of experience implementing our unique and differentiated investment strategy. What further sets us apart is that our outstanding 14-member equity research team is exclusively focused on our narrow, well-defined universe, resulting in in-depth research capabilities, deep industry contacts and knowledge brought to bear on our target companies. We are industrial tourists with an insatiable appetite to kick the tires, tour plants and perform hands-on due diligence. Globally, we conduct over 1,000 onsite company visits annually in addition to countless meetings with executives at our offices, conferences and conference calls.

Further, we have developed extensive proprietary databases and software allowing us to set high/low price alerts on thousands of chosen companies worldwide, screen them for our valuation metrics and for unusual technical stock price behavior. We have multiple meetings each week in New York and Tokyo with the regional analyst teams to plow through these signal screens and to come up with new work lists

1-Year Daily Chart of Owens-Illinois

Chart provided by www.BigCharts.com

for each analyst. These sessions are a major input in determining coming due diligence activities and making sure we catch the compelling opportunities in our universe on a timely basis.

I would say that our company-specific due diligence is as extensive as that of a private equity or corporate buyer contemplating the outright acquisition of a company. For our core long positions, which we typically hold for one to three years, we may have one senior equity analyst spend 25% to 50% of his time on that name. As a result, we seek to be the most knowledgeable analyst of that company. This is very much a function of having the mandate from our clients for concentrated investing, which allows us to deploy more analytical capabilities per position. The concentration also puts us in a unique situation vis-à-vis the company management, as we are typically the only top 10 shareholder who can claim to have 10% to 15% of our capital invested in their company. This shows commitment and an interest level that others can't match.

Further, adhering to one's stated investment style is key to investors. We do so strictly, particularly given how sharply defined our investment strategy is, and have done so through bubbles, bull and bear markets.

Finally, in an industry known for big egos, infighting and turnover, many of our investors have noted that the team culture at Atlantic is outstanding. There is collegiality and cross-region/industry/functional area co-operation, and as a result we have experienced virtually no turnover.

TWST: Who are your typical clients? Who is attracted to this type of investment process?

Mr. Roepers: We have historically had mostly high-net-worth individuals. In the 2001 to 2004 period, as we grew in size, more institutions and fund of funds became investors. Today, 40% of our assets under management is from high-net-worth individuals, and 45% is from institutional investors, including corporate pension funds and fund of funds. The remainder is internal capital.

TWST: Would you like to mention any particular companies in this climate?

Mr. Roepers: Affiliated Computer Services (ACS), based in Dallas, with $7 billion in sales. This company is providing IT services for the federal and state governments, localities and for commercial customers. For instance, for E-ZPass they do the qualifications for the tags and the billings. They have call centers in the Philippines, Mexico and India to qualify people for miles reward programs, child support payments, student loan processing, etc. The attractiveness of this company is clear, as over the years various private equity groups, including **Texas Pacific Group** and **Cerberus**, have tried to buy them. Recently, **Dell** (DELL) agreed to buy **Perot Systems** (PER), a peer to ACS, for a high multiple.

The tremendous rally in cyclical recovery stocks has seemingly made **ACS** a source of cash, as it is deemed boring — it grows revenues mid- to high single digits with high predictability. Each year, **ACS** starts with 85% of their sales booked already because they have four- to 10-year terms on most of their contracts that they have. Typically, they win 90% of their renewals because as the incumbent, they've already amortized the upfront investment. They can bid lower than anybody who is trying to steal that contract away from them, and so it's quite a sticky business. They benefit from the trend towards outsourcing, both in the government and in the corporate world for this kind of work. EBIT margins are near 11%. The stock was at about $45 in August, having really gone nowhere for most of 2009 while the market rallied 50% from the March bottom. We bought 3% of the company in August and September. When **Dell** announced the acquisition of **Perot** in early September, it woke people up to the value inherent in these kind of IT services companies. Three weeks later, **Xerox** (XRX) announced that they had agreed to buy **ACS** for $63/share, 70% in **Xerox** stock — 4.935 shares of **Xerox** for each **ACS** share — and $18.60 in cash. When the deal was announced, **Xerox** shares sold off from $9.00 to $7.50 or so, presumably as many **XRX** shareholders were hoping that **Xerox** would use its cash flow to pay down debt and buy back shares instead of making a big acquisition. I think **XRX** shareholders will slowly come around to see that **Xerox** is doing a strategically sound, well-priced acquisition. At $54 per share, ACS is valued at 8.4 times FY2010 (end June) EBIT. At 10 times EBIT, **ACS** shares would be at $67. Our 12-month standalone target for **ACS** is $77, based on 10 times FY2011 estimated EBIT. Combined, **ACS** and **Xerox** will have $22 billion in annual sales with 70% coming from recurring revenues. **Xerox** just reported Q3-earnings that were better than expected. They also came out with a lengthy description of what ACS-**Xerox** will mean to investors going forward. You can buy ACS now at $54. ACS-**Xerox** can earn close to $1 per share in 2011. So in the next six to 12 months, we see **Xerox** stock trading up to $12. Under this scenario, the value of an investment in ACS stock would go to $77 per share.

"Owens-Illinois is the largest maker of glass bottles in the world. It remains a compelling value here. In the current year, they should earn EPS of $2.80, but that includes a lot of de-stocking early this year. In 2010 they should have EPS of $3.50, and close to $4.00 in 2011. The asbestos payments are coming down year-after-year and are really quite ring-fenced at this point. While we are not concerned about it, we do add the full value of the asbestos liabilities to the debt. And even on that basis, we're seeing a highly attractive risk reward for OI shares."

TWST: Any others?

Mr. Roepers: Owens-Illinois (OI) is the largest maker of glass bottles in the world. This company has had its issues with debt and asbestos. We have known the company for over 20 years and have invested in it several times during this time. The stock fell from $60 in 2008 to $10 in early 2009. We got involved in early 2009 around $13 after we felt a lot of issues facing **OI** were digested by the markets. One issue was that their pension plan had obviously fallen in value due to the 2008 crash. Also they have a lot of FX exposure with large U.K., Australia and Brazil businesses that caused negative translations of profits due to strength in the U.S. dollar. Currently, **OI** is trading at $33/share. It remains a compelling value here. In the current year, they should earn EPS of $2.80, but that includes a lot of de-stocking early this year. In 2010 they should have EPS of $3.50, and close to $4.00 in 2011. The asbestos payments are coming down year-after-year and are really quite ring-fenced at this point. While we are not concerned about it, we do add the full value of the asbestos liabilities to the debt. And even on that basis, we're seeing a highly attractive risk reward for **OI** shares. At 12 times EBIT, we see **OI** trading up to the mid-50s per share in the next 12 months.

TWST: Thank you. (PS)

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