Institutional Investor's
Alpha
JULY/AUGUST 2008
www.alphamagazine.com
FOR HEDGE FUND INVESTORS AND MANAGERS

The New Bankers
Hedge funds are no longer the lender of last resort

Staying Alive
A survival guide for managers of small hedge funds

American Dream
Man Group hopes to jump-start its U.S. business

THE GENTLEMAN ACTIVIST
Alexander Roepers doesn't wage bitter proxy battles or write threatening letters, but his brand of constructive activism may be just the answer for today's turbulent markets

Atlantic Investment Management president Alexander Roepers

By Jaye Scholl

The Gentleman Activist

Alexander Roepers takes big stakes in companies, then nudges their managements to improve them. His brand of constructive activism may be just the answer for today's tumultuous markets.

Alexander Roepers is a big believer in accountability. As president and portfolio manager of Atlantic Investment Management, a $4.2 billion New York–based hedge fund firm, he expects the managements of the companies in which he invests to do right by shareholders. When it comes to his own operation, he is no less demanding.

Unlike most hedge fund managers, who are notoriously secretive even with their own limited partners, Roepers holds meetings for his investors in the U.S., Europe and Japan several times each year — "rain or shine," he says — to report on how Atlantic Investment is doing. At an investor luncheon on June 17 at New York's Pierre Hotel, he began by apologizing — not for his firm's performance (its five funds were all doing better than the broader market), but because many investors probably had heard the gist of his remarks before. Roepers has been talking for years about many of the same stocks — unsexy names like mining equipment maker Joy Global and printer R.R. Donnelley & Sons Co. — and his theme never changes: Buy very low, sell slightly higher.

Roepers went on to contrast his firm's style of activism with that of the Children's Investment Fund (UK), known as TCI, which remains embroiled in a bitter proxy battle with CSX Corp. to wrest control of the railroad company's board of directors from its management. "I'm glad that TCI and the others are out there," Roepers told his 130 guests. "They want the same things we want — to enhance and accelerate the process of share value creation. The question is, How do you go about it?"

Unlike TCI's high-profile founder, Christopher Hohn, Roepers has no interest in obtaining board seats and prefers liquidity over control. "I don't understand why anybody would want to be on anybody's board as an active shareholder," he says. "Once you're on it, you cannot sell."

Roepers calls himself a "constructive" shareholder activist. He doesn't want to be confused with the hordes of confrontational managers who clamor for board seats, badmouth CEOs and send scathing notes to company managements. Born and raised in the Netherlands, the 49-year-old Roepers has a European courtliness that, if nothing else, makes it easier for corporate executives to listen to his suggestions on how to run their companies better.

"I don't know any other shareholder like Alex in terms of the effort he makes and the interest he takes in getting to know the company, the business and the individuals," says Peter Bakker, CEO of TNT, a Dutch company that runs Europe's equivalent of Federal Express and is a longtime core Atlantic Investment holding.

Roepers sometimes likens himself to a McKinsey consultant, the key difference being, of course, that no one at any of the companies he targets has asked for his help. Trim and athletic, with deep-set blue eyes and light brown hair, Roepers brims with the self-confidence that comes from a keen intelligence (he was one of only two college graduates from the Netherlands to be accepted by Harvard Business School the year he applied) and a competitive nature that has found outlets in skiing, tennis, field hockey and, in recent years, yacht racing (see page 28).

Although he may lack the publicity-seeking instincts of TCI's Hohn or the caustic wit of Daniel Loeb, the manager of New York–based Third Point Partners who is known for his poison-pen letters, Roepers is no pushover. On occasion he has publicly challenged CEOs, sometimes using the financial press to present his side of the story. In the fall of 2002, he complained to *Barron's* that David Murdock, then chairman and CEO of Dole Food Co. and its biggest shareholder, was trying to enrich himself by offering to take the food conglomerate private at $29.50 a share, a 20 percent premium to its then–share price. Although Roepers, who owned 6 percent of Dole, lost his argument that the company should remain public, he kicked up enough of a ruckus that Murdock agreed to pay stockholders $33.50 a share when he took Dole private in March 2003.

But such public disputes are rare. Typically, Roepers works behind the scenes, offering his recommendations in phone calls and face-to-face meetings with top management, which he follows up with letters outlining his proposed changes. Despite his low profile, Roepers commands attention. Because his firm tends to buy sizable stakes — usually 2 to 7 percent of a company's stock — he can assume the role of, well, a Dutch uncle ready to advise CEOs about how to get their businesses back on track, usually through some combination of spin-offs, sales of nonessential subsidiaries, share buybacks and dividend hikes.

Roepers's brand of activism has proved effective. Atlantic Investment's oldest hedge fund, Cambrian Fund, a long-only vehicle that invests in a concentrated portfolio of publicly traded U.S. companies, has a compound annual growth rate of 24.3 percent since its October 1992 inception, more than double the 10.1 percent annualized return of the Standard & Poor's 500 index during the same period. AJR International (BVI), a long-short U.S. equity fund that is five months younger than Cambrian, has a 17.3 percent compound annual gain since inception, compared with 9.9 percent for the S&P.

In 2004, Roepers began exporting his strategy outside the U.S. with the launch of Rodinia, a long-short equity fund that invests primarily in Europe and Japan. Rodinia has achieved respectable compound annual growth of 11 percent in its relatively brief existence. More recently, Roepers launched Cambrian Europe and Cambrian Asia, long-only funds with a concentrated investment approach modeled after that of the highly successful Cambrian original. Both new Cambrian funds are down since inception but ahead of their benchmarks.

Today, Atlantic Investment's five hedge funds manage

$4.2 billion in assets for an elite list of clients that includes Soros Fund Management, Swiss private bank Pictet & Cie and Permal Group, a $37 billion fund-of-funds firm that was acquired by Legg Mason in 2005.

"There are several things I like about Alex," says former Merrill Lynch & Co. vice chairman John (Launny) Steffens, who has been an investor with Atlantic Investment since 2001, when he founded Spring Mountain Capital, a New York–based fund of hedge funds. "He is a very disciplined Dutchman. He knows the things that he knows, and he knows the things that he doesn't know. There are a lot of people who think they can do what Alex does — it doesn't look very complicated — but it's not that easy."

Roepers's taste in investments is driven by his experience working at conglomerates Dover Corp. and Thyssen-Bornemisza Group during the 1980s. He looks for companies that are leaders in their industries, that have recurring and predictable revenue and cash flow and that are not dependent on commodity pricing or prone to technological obsolescence. The half dozen or so stocks that are the heart and soul of Atlantic Investment's various portfolios — the "core longs," as Roepers dubs them — are companies that typically supply the industrial world with products like shovels for coal-mining equipment and engine parts for aircraft.

However disparate the mix of products, every company in Atlantic Investment's portfolios is financially sound and largely well run, pays a dividend and — what seals it for Roepers — has hit an apparently temporary snag that has depressed its share price to a level he feels is dirt cheap. Once the problem is corrected, which can take one to three years, Roepers is equally disciplined about selling his position, exiting when a stock is trading at eight or nine times free cash flow. Then he repeats the process, buying his core longs if and when they are very cheap again — something he did recently with Precision Castparts Corp., a Portland, Oregon–based company that makes castings and forgings for the aerospace, defense and power generation industries.

Roepers and his highly disciplined style of investing may be just the thing for today's troubled markets. Atlantic Investment has repeatedly demonstrated the ability to put up positive returns during tough times. From 2000 to 2002, when stock prices suffered severe declines in the wake of the dot-com bust and the S&P 500 dropped nearly 45 percent, AJR International and Cambrian each soared more than 75 percent. During last year's tumult, both funds rose more than 20 percent, compared with the S&P 500's 5.5 percent gain.

Like most hedge fund managers, Roepers lost money on his investments this June, as investors across the globe scrambled for the exits, spooked by the tenuous state of the U.S. and European economies, soaring commodities prices, the struggling housing market and the likelihood of more fallout from the credit crisis. But, as he told investors during his June 17 presentation, he remains sanguine about his firm's prospects: "We live in the space between where fear gives us a fantastic company at a cheap price and where a more reasonable price would bring it."

Atlantic Investment analysts Kristian Gevert (left) and Michael Meek prowl the globe for cheap stocks with good businesses.

THE MIDTOWN-MANHATTAN headquarters of Atlantic Investment Management reflect Roepers's interests. Viewed from the inside, the glassed-in offices — with teak-colored furniture, white walls and gray-green carpeting — look like the cabin of a modestly decorated yacht (quite unlike the spartan Swan 45 racing machine that Roepers recently skippered from Newport, Rhode Island, to Bermuda). There is little clutter, apart from stacks of research reports in the analysts' offices. Photorealist paintings by Steve Smulka in the halls depict images of canning jars and faucets, the kind of basic but necessary products made by the companies in which Roepers invests.

The Atlantic Investment team — it's easy to think of the mostly young and fit analysts as Roepers's "crew" — includes 13 equity analysts with business degrees from the world's top universities, impressive employment records and linguistic skills to match. Collectively, they are fluent in Dutch, French, German, Japanese, Mandarin, Russian and Spanish in addition to English. Three of the four analysts who cover European equities grew up abroad but now live in the New York area. But amid all the talent, Roepers is the only portfolio manager.

"I am the guy who pulls the trigger," he says. "Some people would like to see four or five managers, but this is the way it is."

With so much riding on so few stocks, Roepers and his analysts pursue research with painstaking devotion. Roepers spends an average of 70 days each year abroad on business and attends some 200 meetings with the top

Hedge Fund Master and Commander

Hedge fund manager Alexander Roepers spent 13 years crewing for friends until one day in 2003, when he asked one of them if he could take the helm.

"Get your own boat," the friend replied. Four years later, after buying a sleek, Finnish-built racing yacht called a Swan 45 and assembling a crack crew of young sailors, Roepers beat 21 other boats in the 2007 Swan 45 World Championship held last July off the coast of Southampton, England. In June 2008, Roepers completed his third Newport Bermuda Race, finishing a disappointing 74th out of 128 boats in the 635-nautical-mile event; in September he will defend his Swan 45 World Championship title off the coast of Sardinia.

For Roepers yacht racing and managing a $4.2 billion hedge fund firm have a lot in common. No matter how tight the rigging or how fast the boat, a skipper can't control nature any more than a hedge fund manager can control the stock market.

"What I like about this sport," he says, "is that there are so many lessons for life and business — the team aspect, pulling together the right people, the right skill levels, the right attitude to perform really well under all conditions."

Roepers grew up in the Netherlands sailing and began racing competitively in 1990 on the boats of some of his Harvard Business School buddies. Swan 45s — Roepers named his *Plenty* after Plenty O'Toole, the Bond girl in the movie *Diamonds Are Forever* — are designed to be comfortable enough for weekend cruising yet fast enough for racing.

Roepers (second from right) and the crew of *Plenty*.

BEKEN OF COWES, LTD.

Roepers's victory in last summer's championship won him kudos because, unlike with some classes of racing yachts, it's hard to buy your way to victory sailing a Swan 45. The rules require that boats be owner-skippered and also limit the number of professional sailors on board. It's true that Roepers had the help of a top tactician — Annapolis, Maryland–based Chris Larson — but presumably, so did the other competitors, who included Massimo Ferragamo, scion of the family-owned Italian fashion company that owns part of Nautor, the Finnish boatbuilder that has been making Swans since 1966.

"Alex is very disciplined, very determined," says Tom Stark, a veteran Swan 45 sailor from Connecticut who has raced against Roepers.

After the Swan 45 championship in Sardinia, Roepers will focus on racing his new Farr 40, a class of sailboat that retails for $380,200 (sails and electronics included) and serves as a training vessel for America's Cup sailors in off years. More than 137 Farr 40s will compete in races around the world this year. Roepers hopes to be ranked in the top ten by next June.

"Maybe that's too ambitious, but we'll find out," he says. — J.S.

management of companies in the U.S. and around the world. Among tens of thousands of publicly traded companies, Roepers has eliminated from consideration as potential longs all but 545 in the U.S. and 730 in Europe and Asia. He considers companies with market capitalizations of less than $1 billion as too illiquid and those with more than $20 billion as too big for his firm to have any sway with management.

Roepers is leery of leverage — both for Atlantic Investment and for the companies in which it invests — which makes him something of a heretic among hedge fund managers. Businesses that carry certain risks are out. Roepers avoids utilities and cable television companies because of the chance of government intervention. He shuns tobacco companies, drugmakers and home builders because they carry product liability risks. Banks, brokerage firms and insurance companies are verboten because of their lack of transparency. He also steers clear of software and other high-tech businesses, which can be victims of technological obsolescence.

Atlantic Investment analysts often spend as much as half their week covering a single company. Kenichiro Yamada, who heads the Asian analyst team out of the New York office, puts in a call to Dai Nippon Printing Co. almost every evening, as the Tokyo business day is beginning. Atlantic Investment owns 3.4 percent of Dai Nippon, a diversified printing company with $16 billion in annual revenue.

Michael Meek, who has been at the firm since 2000 and was the first analyst hired by Roepers, covers Joy Global, a Milwaukee, Wisconsin–based coal-mining equipment manufacturing and servicing company whose Godzilla-like electric shovels claw the earth's crust for coal in places like central Appalachia and the Powder River Basin in Wyoming. Joy Global has been a typical core holding for Roepers, thanks in part to the predictability of its revenue (simply servicing the $20 million shovels accounts for nearly two thirds of the company's revenue). This spring, after the stock took off on a huge energy- and commodities-inspired run that lifted it smartly to Atlantic Investment's target price of $73 a share, Roepers sold. Parting with Joy was a bit of sweet sorrow for him — "I love the story, and I love the guys," he says — but he found more than a little solace in the 80 percent appreciation the shares racked up in the 18 months he owned them.

For Roepers, being willing to leave something on the table is a necessary part of strictly adhering to buy-and-sell price targets. And chasing a stock already in flight is anathema to him. Says analyst Peter Hanford, who covers several core holdings, including Del Monte Foods and aerospace parts supplier Goodrich Corp., "If we had a nickel for every time we got close to a name we liked only to see it get away, we'd all be far wealthier."

To make the critical decision on whether a price is right, Roepers puts his faith in a yardstick that more and

more pros lean on: EV/ebitda. That alphabetic jumble is Wall Street lingo for enterprise value — the sum of a company's capitalization and its debt — divided by its earnings before interest, taxes, depreciation and amortization. Investment bankers and corporate finance types use this "enterprise multiple" to evaluate acquisition candidates. Unlike the more familiar and commonly used price-earnings ratio, it focuses on cash flow and is not subject to the devices used by managements to inflate earnings. When the shares of a company Roepers favors can be had for an enterprise multiple of five to seven times, he is a buyer.

In 2004, Roepers turned his attention to TNT, which in addition to its express mail business has a home mail delivery service and whose bright-orange logo adorns mailboxes, vehicles and planes in Australia, Brazil, China, Europe and India. TNT came into being when the Netherlands' national postal service was privatized in 1995. Roepers began buying its stock at about €20 (then worth $25.89) a share in November 2004, and by the following year, Atlantic Investment was TNT's second-largest shareholder.

After a year of watching the stock price go nowhere, Roepers got in touch with TNT CEO Bakker and recommended that he take advantage of the company's weak stock price and buy back €1 billion in shares. When rumors surfaced that a private equity firm wanted to buy TNT, a worried Roepers contacted Bakker again to suggest that he increase the buyback program to €3.5 billion.

"I based my argument on a clear and present danger: 'There are people looking to buy your company at what I would consider to be a ridiculously low price. Why don't you start buying back your own shares and keep the upside embedded in the company for existing shareholders?'"

In December 2005, TNT initiated a share buyback plan. Since then it has spent €3.5 billion on the repurchase and on dividend increases. Bakker says enhancing shareholder value has long been a priority at the company but credits Roepers with being his most vocal investor.

Because of wage demands in Germany and issues relating to Dutch postal laws, TNT's stock, which accounts for 15 percent of Rodinia and 24 percent of Cambrian Europe, has drifted back to less than €25 a share from its peak of €36 in 2006, weighing down Atlantic Investment's performance. Still, Roepers expects FedEx or United Parcel Service to make a bid for TNT by next year.

There's no better tribute to the effectiveness of Roepers's activist strategy than that a surprising number of the CEOs he has nudged over the years have nice things to say about him. Precision Castparts' chief executive, Mark Donegan, is one of them. In the aftermath of the September 11 terrorist attacks, airline travel plummeted and the stock prices of aerospace suppliers nose-dived. When Precision Castparts' shares lost some 30 percent of their value virtually overnight, Roepers was an eager buyer.

"After 9/11 nothing had changed in terms of who we were as a company, but we got clocked along with the rest of the industry," recalls Donegan, who had just settled in as CEO when Roepers contacted him. "Alex and his team were very astute and very thorough."

Roepers initially thought that Precision Castparts should put itself up for sale, but he eventually came around to Donegan's view that the company should do the acquiring. A year later operations were on the rebound, the stock price had doubled and Roepers sold. In March of this year, when Precision Castparts fell below $100 a share, down from $155 five months earlier, Roepers snapped it up again as one of his core holdings.

> *"There are a lot of people who think they can do what Alex does — it doesn't look very complicated — but it's not that easy."*
>
> — JOHN STEFFENS, FOUNDER, SPRING MOUNTAIN CAPITAL

ALEX ROEPERS'S single-minded approach to business is rooted in his childhood. He and his brother, Jack, grew up in The Hague, the sons of a Dutch father and a German mother who as a teenager during World War II left the border city of Aachen. Roepers's father and uncle bought a failing printing business and produced children's games, political mailers and advertising inserts for Sunday newspapers. Dinner conversation at the Roepers house often focused on his father's frustration over trying to compete with 15 printing companies that routinely won government contracts by promising to keep employees on their payrolls.

"All the healthy companies would get in trouble because of the unfair competitive landscape that the government was creating," Roepers recalls. "It was not fair. I saw it clearly in a household where it was a struggle every day just to get the business in."

His father and uncle sold the company in the early 1980s, and his parents moved to southern France, where they live today. But those discussions, and the fact that most of the other Dutch printing companies eventually failed, stayed with Roepers. As a hedge fund manager responsible for billions of dollars, Roepers's first priority is to make money for his clients. But the route he has chosen — investing in companies and acting as if he were a member of their management teams — seems tied to a desire to correct the inefficiencies he heard about as a child. No surprise, perhaps, that he is deeply involved with printing companies like R.R. Donnelley in the U.S. and Japan's Dai Nippon.

"He is a bit of a coach," affirms his friend and fellow shareholder activist Richard Grubman, co-manager of Highfields Capital Management in Boston.

Growing up, Roepers skied, sailed, played tennis and competed in field hockey, the second-most-popular sport in the Netherlands after soccer. Following his 1980 graduation from Nijenrode University, the country's top business college, Roepers won admission to Harvard Business School with the stipulation that he defer his acceptance for two years to work in the corporate world. He took a job

Kenichiro Yamada joined Atlantic Investment four years ago to head up its Asian analyst team.

with Universal Instruments, a subsidiary of Dover Corp., and moved to Binghamton in upstate New York. There he absorbed Dover's business strategy, which takes a page from General Electric Co.'s well-thumbed playbook — demand that all divisions be first or a strong second in their markets, make acquisitions to strengthen those positions and sell underperformers.

Arriving at Harvard in 1982, Roepers befriended other foreign students and began building what would become a powerful network of Europe's top managers and investors. One friend was Alberto Tazartes, who teamed with Roepers in a three-month stock-picking contest sponsored by a Wall Street brokerage firm. Despite being considered underdogs — unlike many classmates who had experience on Wall Street, Tazartes had worked for Buitoni, the Italian food giant, and Roepers had been at Dover — the pair won.

"Alex was already analyzing stocks by asking, 'Why is this company No. 1 in this product? Why is it increasing market share and making money?'" recalls Tazartes, who now lives in Milan and is a retired partner of European private equity firm BC Partners.

After getting his MBA in 1984, Roepers moved to New York to join Thyssen-Bornemisza, a privately held European conglomerate that owned a smorgasbord of businesses in the glass, plastics, automobile parts, trading and container leasing industries. He spent the next two years visiting subsidiaries, deciding which to sell or shutter. One of his favorite tools: the enterprise multiple.

Roepers founded Atlantic Investment in 1988 and launched his first fund, Atlantic, in 1989 with $5 million from individual investors. Although his portfolio was technically a hedge fund, he managed it more like a mutual fund — the portfolio was always 100 percent invested, had no shorts and used no leverage. But the investment climate turned chilly, especially for the type of medium-cap value stocks that Roepers owned, and at the end of 1990, with only $750,000 left, he realized that his fund was unmarketable.

"I learned a lot," he says. "It was like being a soldier and going to war and not having been trained properly. I was lucky the bullets went straight by my head."

Roepers started over, but he decided he needed more flexibility, including the options of moving heavily into cash and shorting stocks. He also needed clients. After he spent a year and a half cold-calling, a family office based in Monaco — one that shared his Dutch heritage — gave him $5 million to manage in a private account in October 1992. A few months later, in early 1993, Roepers converted Atlantic into the long-short AJR International. In 1996 he turned the managed account with the Monaco family office into the long-only Cambrian Fund. Even though AJR International showed positive returns four years in a row, its short positions dragged down performance and, once again, Roepers turned his analytic powers inward.

"You can blame a little on the environment, but at the end of the day, I lacked the experience that I have today," he notes. "So I analyzed what went wrong. Where were my big losses?"

Roepers put new restrictions on his short positions. If the price of a stock he was shorting rose 30 percent, he covered and got out — no debate. Under his new guidelines, Atlantic Investment has made money on the short side in eight of the past 12 years in its U.S. hedge fund. During the past year the firm has profited handsomely on its shorts, which include companies in many of the highly leveraged or cyclical industries Roepers has long avoided on the long side: automobiles, banking, brokerage, housing, insurance and retail.

But there was still one more lesson the market was waiting to teach him, this one about leverage. By 1998, Roepers had begun to attract institutional investors like Permal. James Hodge, who runs Permal's alternative-asset management business, had heard about Roepers from Soros Fund Management. Hodge gave Roepers $5 million to manage in Cambrian, the long-only fund that is a pure play on Roepers's six best investment ideas.

But in August 1998 the effects of the near-collapse of Long-Term Capital Management panicked the financial markets. Atlantic Investment's portfolio, with about $105 million in assets, was short 60 percent, but it was also leveraged 40 percent. When redemption requests hit, Roepers was forced to sell one of his major positions, the only time in 15 years that a core long lost money.

"It was like throwing one of your children overboard," Roepers says, shaking his head at the memory. "After that I said, 'No more. I've got enough excitement in my life. I can compound at a pretty good rate without this stuff, so let's not do it.'"

AJR International and Cambrian were down 13.5 percent and 10.3 percent, respectively, for 1998, a year that saw the S&P 500 rise 28.6 percent. One client who redeemed was Hodge. "It was Alex's worst period ever, and

we got out," he recalls. But Roepers kept calling Hodge and telling him to reinvest.

"Alex is not a quitter," says Hodge, who returned as an investor in 2005 with an initial $20 million and now has $44 million in the Cambrian Fund.

Roepers's ability to navigate the dot-com debacle sent assets under management soaring, from $150 million in 2000 to nearly $1 billion by the middle of 2003. In 2004, Roepers created the long-short Rodinia Fund to take advantage of what he saw as increased opportunities in Europe and Asia; the fund quickly attracted more than $1 billion in assets. In the past 18 months, he has launched the long-only Cambrian Europe and Cambrian Asia funds, which between them manage about $400 million.

ON AN UNSEASONABLY WARM day late last autumn, Roepers was sitting in a dimly lit conference room in Atlantic Investment's New York office, as images from a laptop computer were displayed on a wall screen. He holds such sessions with his analysts a couple of times a week to share insights about some of the 1,200 stocks they cover.

Kristian Gevert, Guy Hardwick and David Brenner, three 30-something analysts who follow European equities for Atlantic Investment, were at the table as Roepers clicked through colorful screens filled with information about U.S., European and Asian equities. Blinking lights signal that a stock has moved up or down more than 3 percent that day. The screens contain a vast amount of corporate intelligence that Roepers has gathered over the years, noting the last time an Atlantic Investment analyst visited a company, as well as any unusual factors, like a reserve on its balance sheet for asbestos-related lawsuits.

With each click the analyst who covers the company gave a quick profile. When Groupe Zodiac — a French manufacturer that invented inflatable boats in the 1930s — popped up, it was Gevert's turn. Located in a suburb of Paris, Zodiac is a $2 billion-in-revenues company that makes aeronautical equipment, including air safety devices, telemetry instruments and cabin interiors.

"They have very high U.S. dollar exposure, and that is something that has hit the entire sector and especially these guys because they are not hedged at all," Gevert said. "For them it translates directly into lower earnings." (Roepers has long liked Zodiac, but its stock has always been too expensive for his strict buying discipline.)

Roepers continued to click through the computer screens until he found a photograph of Yoshitoshi Kitajima, the 73-year-old chairman, president and CEO of Dai Nippon, the huge Japanese printing company. Roepers says Kitajima — whose family owns just 1 percent of Dai Nippon — is running the company almost as his private business. His father was chairman and CEO too, and he's planning to appoint one of his sons to succeed him. Of Dai Nippon's 25 board members, 24 work for the company.

By almost every measure, Dai Nippon operates in a way destined to spark Roepers's brand of constructive activism. The company gets 80 percent of its revenue from printing and packaging and the rest from products it makes for semiconductors and LCD monitors. Dai Nippon owns several one-story factories located within a mile of Tokyo's Imperial Palace and carries the property on its balance sheet at a fraction of the $1.5 billion appraised value. It also has more than $1.3 billion in cash and bank deposits and a valuable 51 percent stake in Hokkaido Coca-Cola Bottling Co.

Roepers began investing in Dai Nippon in the fall of 2004. He had already realized he needed help navigating Japan's culture and language, and in July 2004 hired Yamada to head up Atlantic Investment's Asia coverage. Raised in Japan and a graduate of prestigious Tokyo University, Yamada understands the market. "Although they are getting better, business managers tend to be very conservative in Japan," he says. "They fear giving up the cash."

> *"If we had a nickel for every time we got close to a name we liked only to see it get away, we'd all be far wealthier."*
>
> — PETER HANFORD, ANALYST, ATLANTIC INVESTMENT

At a meeting with Kitajima in May 2005, Roepers and Yamada suggested that Dai Nippon buy back 100 million of its 700 million shares and double its dividend. During the next 18 months, Dai Nippon repurchased a token 20 million shares as part of a previously announced plan but refused to meet again with Roepers or Yamada.

Roepers hired a top Tokyo law firm, Nishimura & Asahi, to prepare shareholder proposals that, if passed at Dai Nippon's annual meeting in June 2007, would have required the company to buy back 50 million shares that year, cancel its treasury stock, hike the dividend, sell noncore assets and improve corporate governance. The fact that a top Japanese law firm agreed to represent Atlantic Investment was a victory in itself. Roepers says he doubts that an elite Japanese law firm would have represented a more confrontational activist fund like TCI because, as he puts it, "they would have been reputationally unacceptable." In May 2007, a week before the filing deadline, Dai Nippon agreed to most of Roepers's demands.

Still, progress is slow. In February, Roepers stood in Dai Nippon's boardroom, armed with a white board and markers, and walked the company's management through his analysis. He asked if they thought they could achieve a 7.5 percent operating margin in a specific division. He told them to forget about setting higher sales goals for noncore, faltering units. His remedy: Sell the losers, use the cash to buy back shares, and watch earnings per share take off.

"They need to make hard decisions about where they can excel, and do it nonstop to get earnings up," explains Roepers, who is fond of saying that the best thing that can happen to a company is that it never hears from him. Alas, that's not the case with Dai Nippon. "It still needs all kinds of encouragement," he says.