
7th Annual Value Investing Congress

Conducive Environment for Corporate Action, Activism & Takeovers

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ATLANTIC
INVESTMENT MANAGEMENT

Agenda

Conducive Environment for Corporate Action, Activism & Takeovers

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Introduction

Overview

- \$1.5 billion value-oriented equity investment firm
- Founded in 1988 by Alexander Roepers
- SEC registered since 2006
- New York and Tokyo offices with 26 employees; 12 senior equity analysts

Approach

- Concentrated on highest conviction ideas
- Bottom-up, hands-on due diligence
- Focus on predictability of cash flows

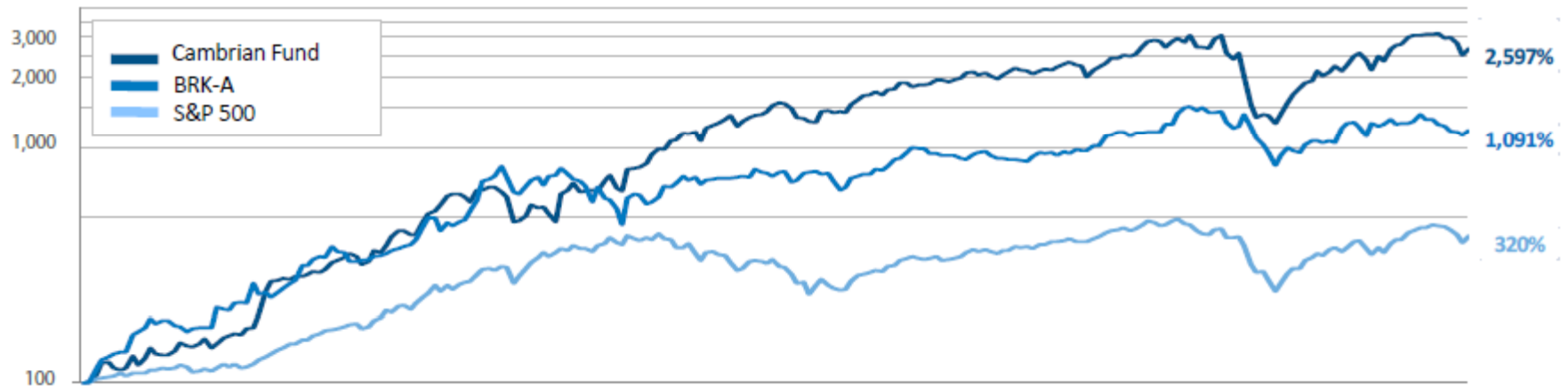
Alex Roepers' Background:

- 1980-1988 Corporate Development at Dover Corporation and Thyssen-Bornemisza Group
- Harvard Business School, 1984 MBA
- Nijenrode University, 1980 BBA

Funds

- U.S. Funds - \$1.1 billion
- International Funds - \$0.4 billion

Cambrian Fund Performance – (US Long Only)



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (YTD)	Annualized Return
Cambrian Fund	21.6%	12.7%	23.2%	72.7%	42.2%	48.6%	-10.3%	38.1%	52.4%	19.4%	4.6%	31.1%	12.1%	2.3%	11.4%	25.3%	-54.4%	62.2%	32.6%	-9.7%	18.8%
BRK - A	25.0%	38.9%	25.0%	57.4%	6.2%	34.9%	52.2%	-19.9%	26.6%	6.5%	-3.8%	15.8%	4.3%	0.8%	24.1%	28.7%	-31.8%	2.7%	21.4%	-7.1%	13.9%
S&P 500	5.0%	10.1%	1.3%	37.6%	23.0%	33.4%	28.6%	21.0%	-9.1%	-11.9%	-22.1%	28.7%	10.9%	4.9%	15.8%	5.5%	-37.0%	26.5%	15.1%	-2.5%	7.8%

Note: Figures are through October 12, 2011. Cambrian Fund returns are net of all fees and represent class A Series 1 shares of the offshore funds. S&P 500 Index includes the reinvestment of dividends. Inception of Cambrian Fund is October 1992. Prior to June 1, 1996, performance is based on the audited record of a managed account with a similar strategy and fee structure as Cambrian Fund. Information has been prepared solely for informational purposes and does not constitute an offer or solicitation. Any such offer will be made only by means of Private Placement Memorandum. Past performance may not be indicative of future results.

I. What has Created a Conducive Environment

Promising Signs

Attractive Valuations

- 2008/9 stock market crash and recession as well as renewed macro fears have depressed valuations

Strong Corporate Balance Sheets

- 2008 crash, curtailed capital expenditures and strong working capital management has left many companies cash rich
- Large unused pools of private equity capital

Low Interest Rates

- Investment grade companies benefit from borrowing costs near historic lows

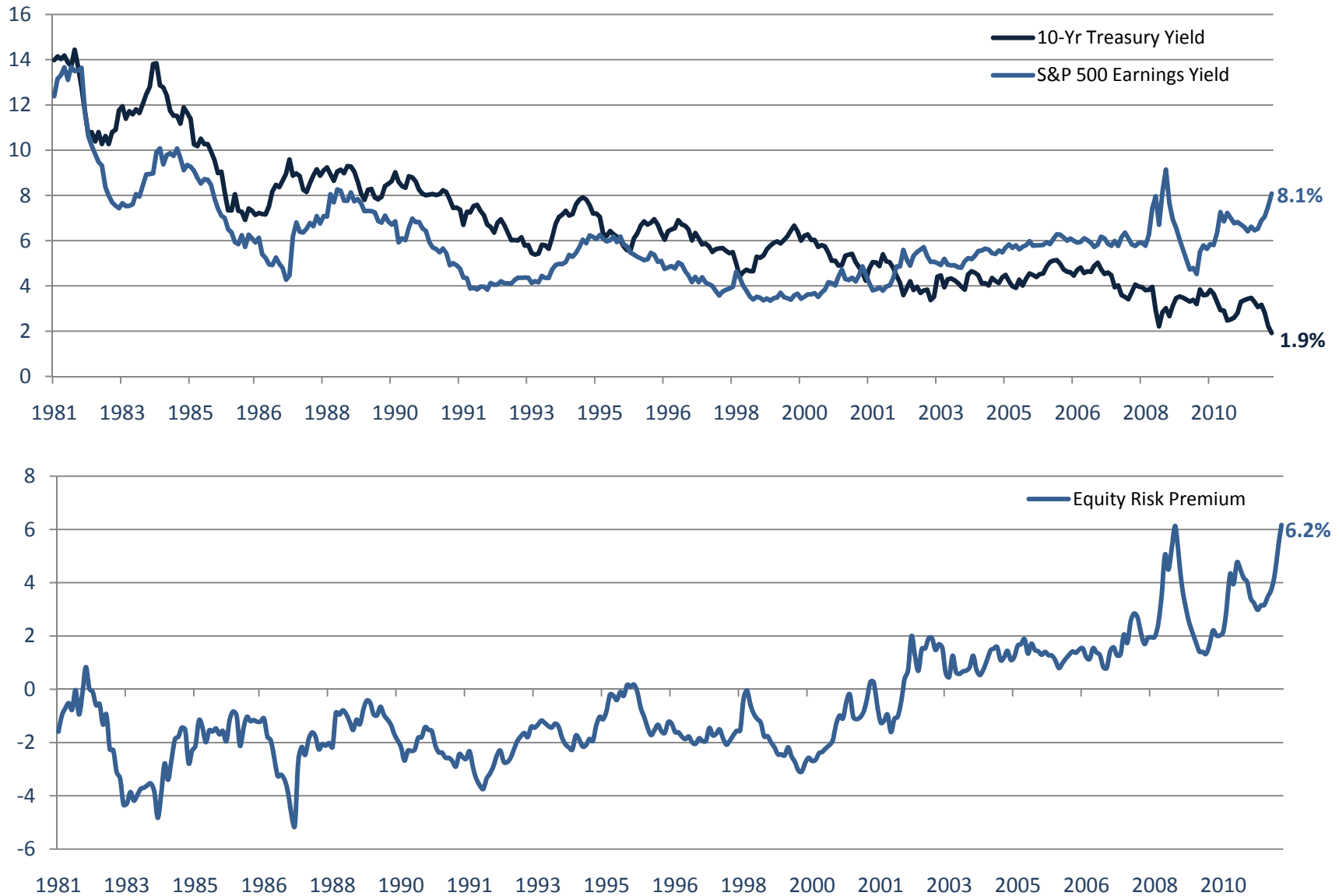
More Moderate Organic Growth in Developed Markets Prompts M&A pursuit

- Excess consumer and fiscal leverage weighing on economic growth in many developed markets
- Companies likely to rely more on M&A to achieve growth and strengthen positions in emerging economies

Increased Cross Border M&A Activity

- Japanese and BRIC companies showing more appetite for cross border M&A

Attractive Valuations: Equity Risk Premium near Peak

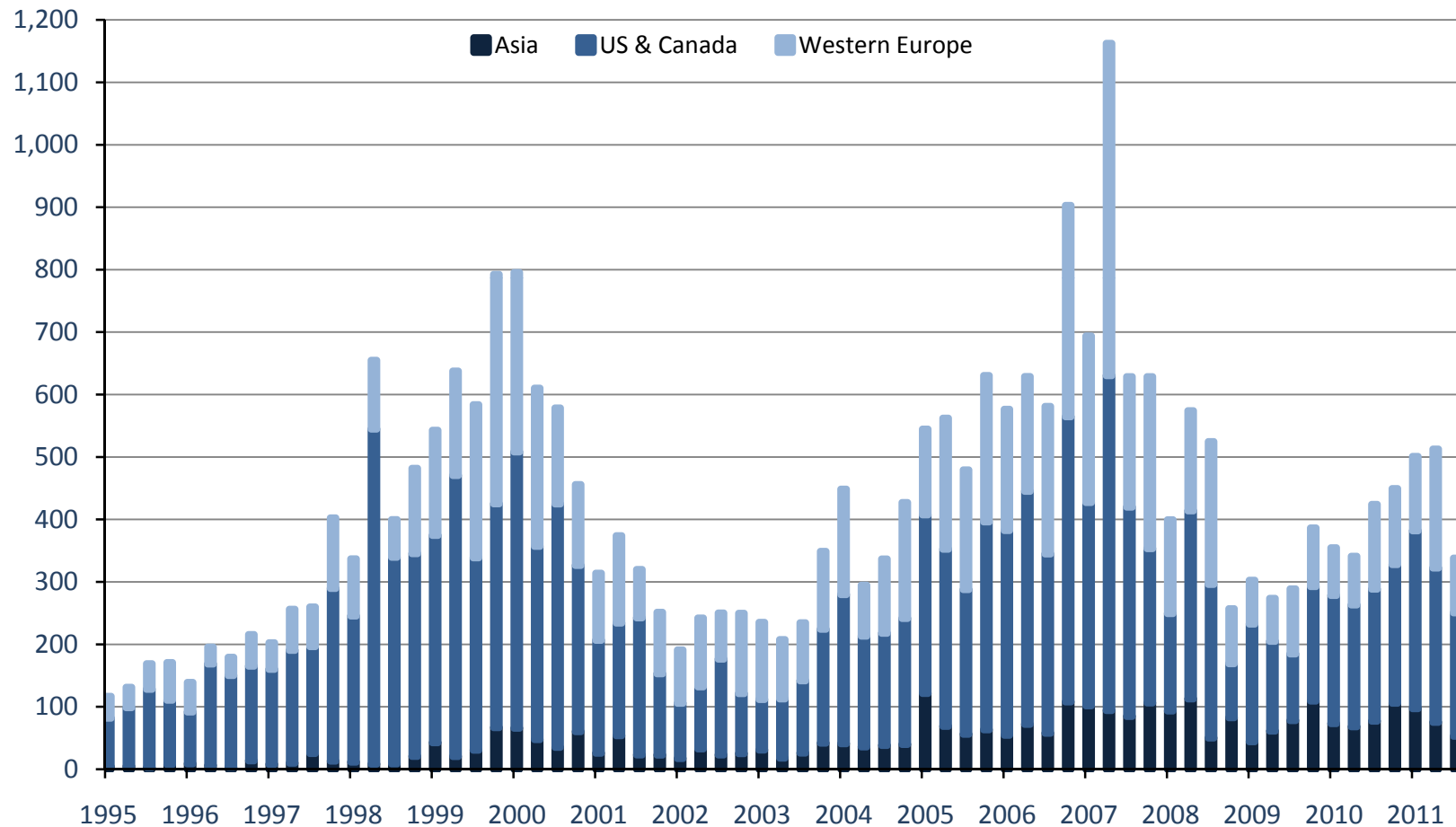


Source: Bloomberg.

Note: Equity Risk Premium defined as the difference between S&P 500 Earnings Yield and 10-Yr Treasury Yield.

Corporate Activity: M&A Activity Re-emerging?

Quarterly Volumes by Region (\$ billions)

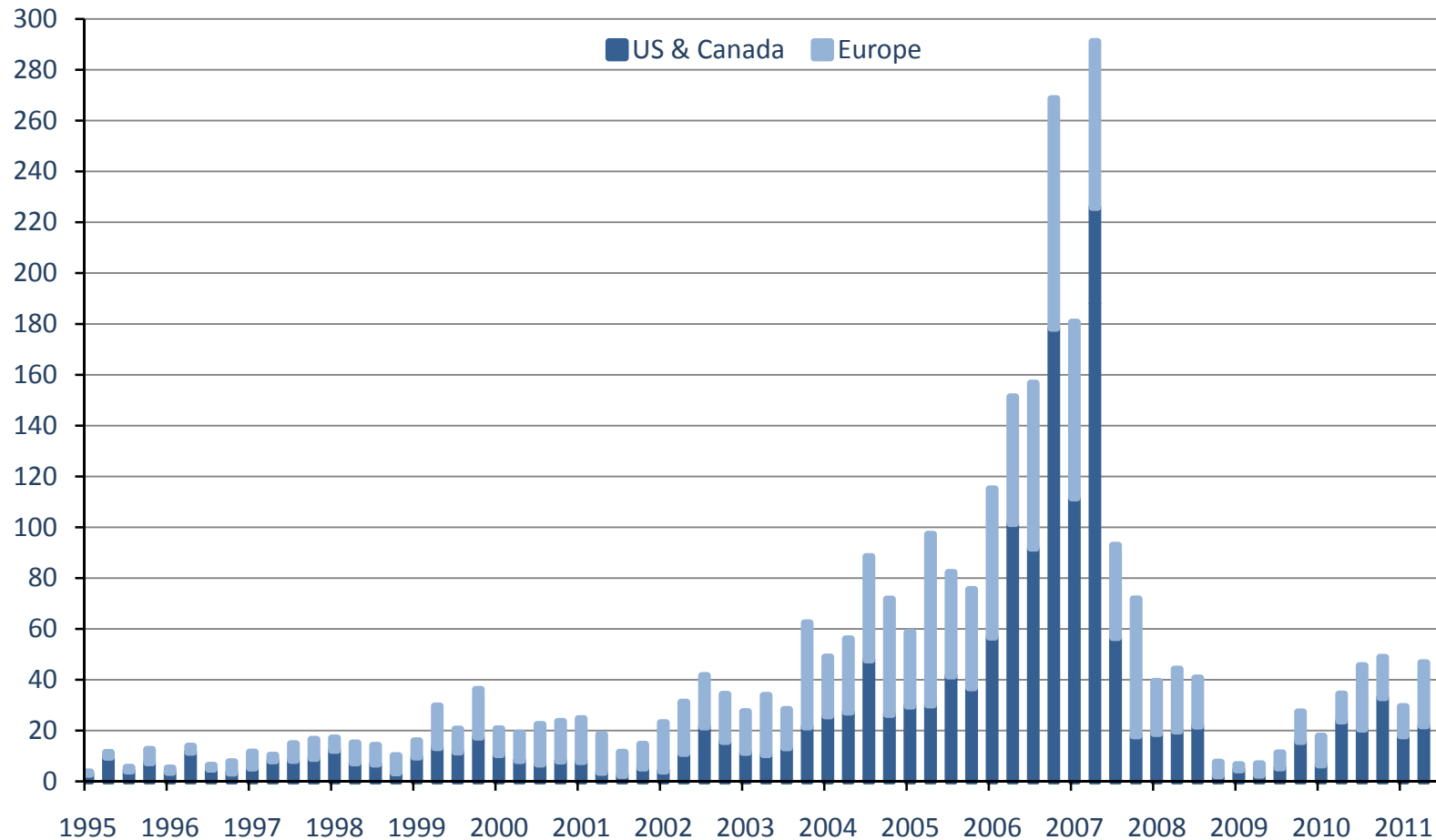


Source: Dealogic. Includes deals with final stake >20%.

Note: Figures are as of September 30, 2011.

Corporate Activity: Large Cash Pools Harbinger for More Deals?

Quarterly LBO Volumes by Region (\$ billions)

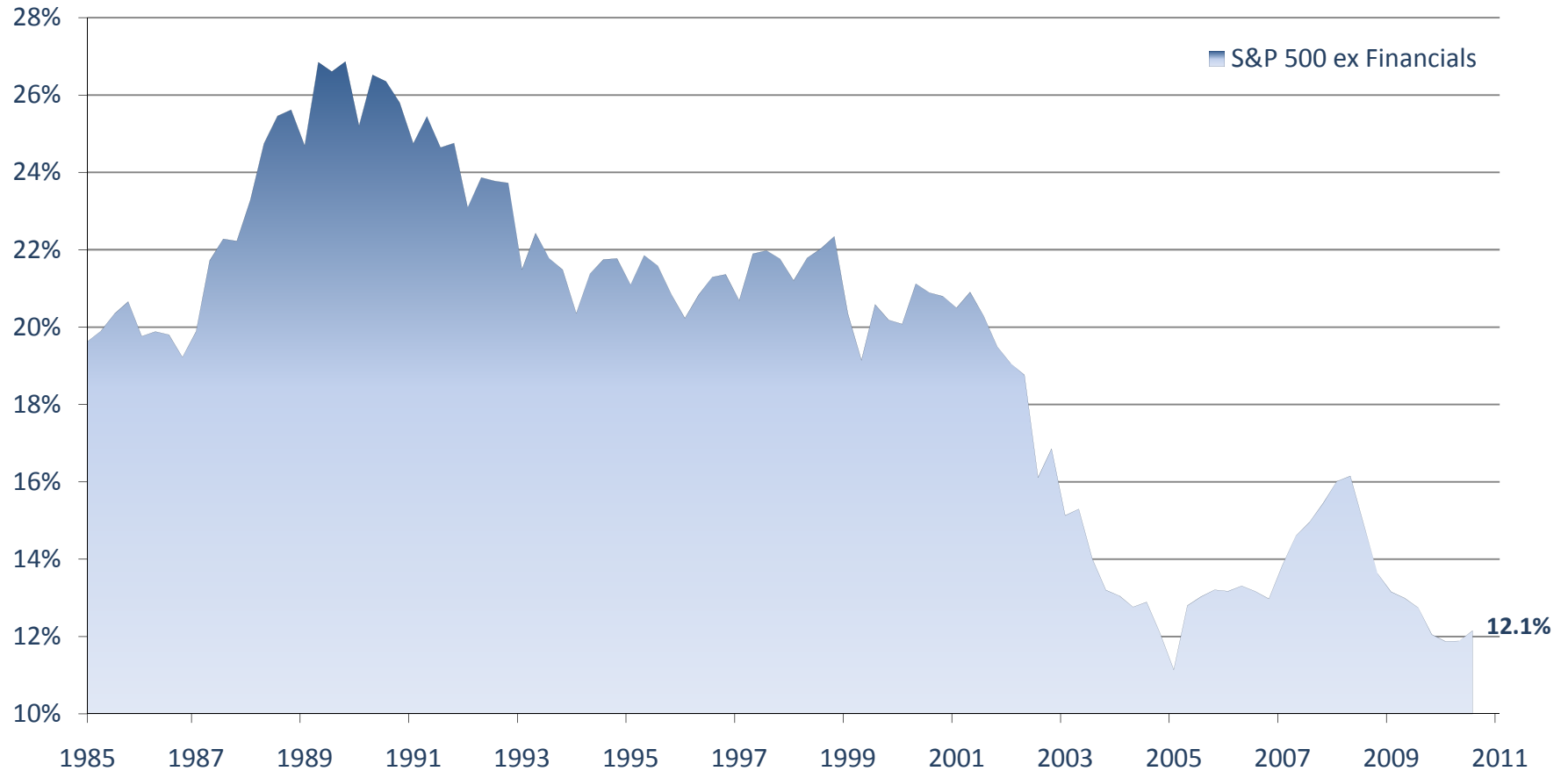


Source: Dealogic. Includes deals with final stake >20%.

Note: Figures are as of September 30, 2011.

Strong Corporate Balance Sheets Fuel Appetite to “Buy” Growth

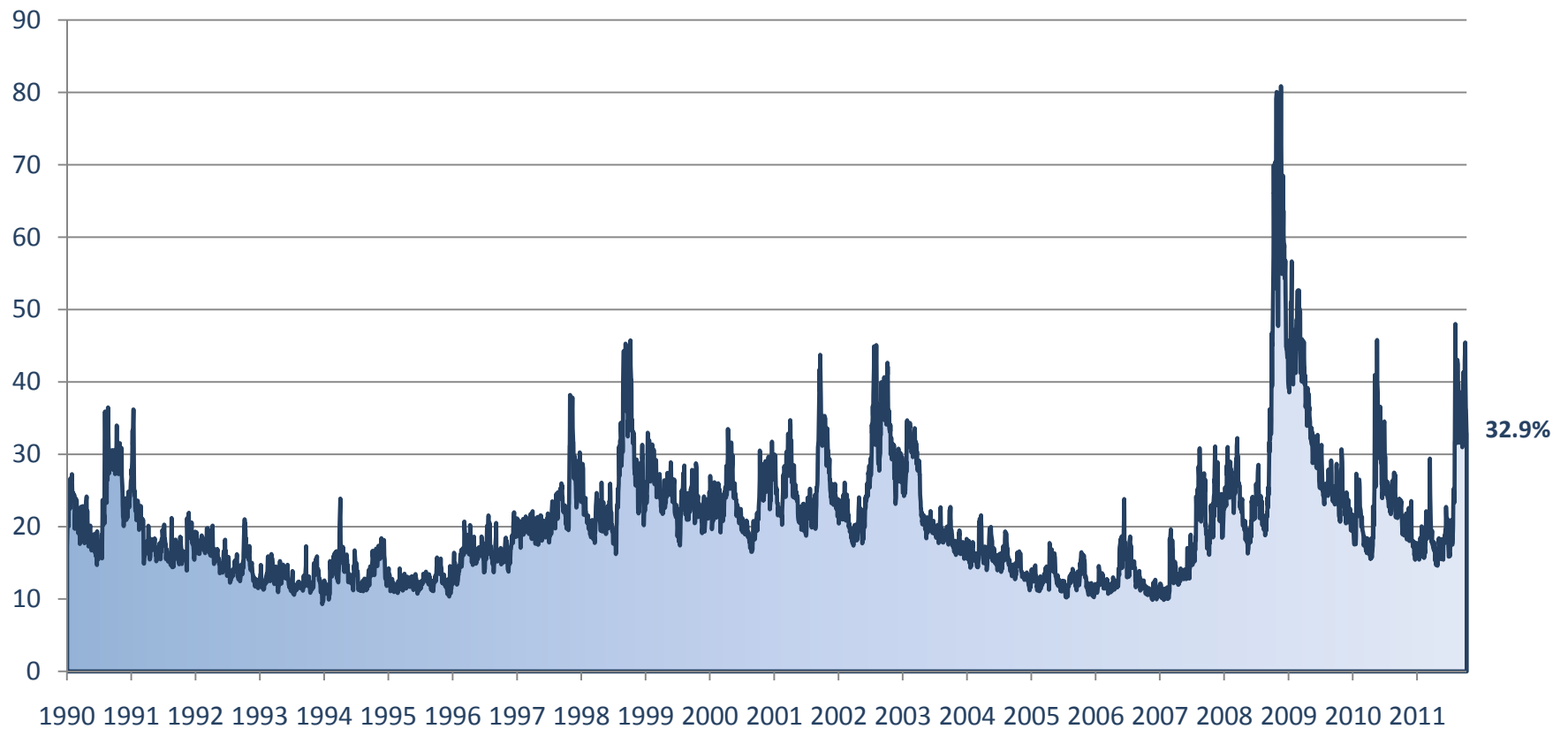
S&P 500 (ex-Financials) Net Debt as % of Assets



Source: Compustat, Morgan Stanley Research.

Equity Market Volatility Near Historic Highs

Watch for a decline in this “fear” index to below 25 to see increased M&A activity



Source: Bloomberg.

Note: Figures are as of October 11, 2011.

II. Recent Examples

Examples in our Investment Universe

Company	Business	Announced Date	Action	Description	Activist Involvement	Recent Atlantic Position
Bucyrus	Mining Machinery	11/15/2010	Takeover	Acquired by Caterpillar		✓
Del Monte Foods	Packaged Food	11/25/2010	Takeover	Bought by KKR -led private equity group		✓
Fortune Brands	Consumer Discretionary	12/8/2010	De-merger	Sold golf business, spinning hardware and keeping spirits	✓	
ITT	Defense/Flow Control	1/12/2011	De-merger	Split into three divisions	✓	✓
JC Penney	Retail	1/24/2011	Management Change	Management and Board changes	✓	
Lubrizol	Specialty Chemicals	3/14/2011	Takeover	Acquired by Berkshire Hathaway		✓
Rhodia	Specialty Chemicals	4/4/2011	Takeover	Acquired by Solvay		✓
Temple Inland	Paper/Packaging	6/6/2011	Takeover	Acquired by International Paper		
Nalco	Specialty Chemicals	7/20/2011	Takeover	Acquired by Ecolab		✓
McGraw-Hill	Business Services	9/12/2011	De-merger	Split bond rating and book publishing	✓	
Tyco	Industrial Conglomerate	9/19/2011	De-merger	Will split into three businesses		
Goodrich	Aero/Defense	9/21/2011	Takeover	Acquired by United Technologies		
Iron Mountain	Business Services	10/3/2011	De-merger/ Mgmt Change	Sold digital storage business, changed CEO, added board members, evaluating conversion to REIT	✓	

Note: Where activist involvement is publicly known.

III. Ways to Identify Candidates

Characteristics of Potential Candidates

Sufficient Size & Liquidity

- > \$1Bln: Big enough to move the needle for a strategic buyer or private equity fund; a size that should also offer public equity market investors sufficient trading liquidity
- < \$10Bln: Small enough to get deal done

Strong Strategic Franchises With High Barriers to Entry

- Hard to replace assets and market positions
- Know-how and patents

Attractive Valuations

- < 8x forward EBIT preferred

Strong Balance Sheets

Predictable and Recurring Cash Flows

- Repeatable product and service revenues; high MRO content

Low Insider Ownership

- <10% held by management, family or potential blocking shareholders

Noticeable Activity in the Sector

- E.g. specialty chemicals, aerospace components, packaging, oil services

IV. Investment Ideas

Energizer Holdings, Inc (ENR, \$66.44)

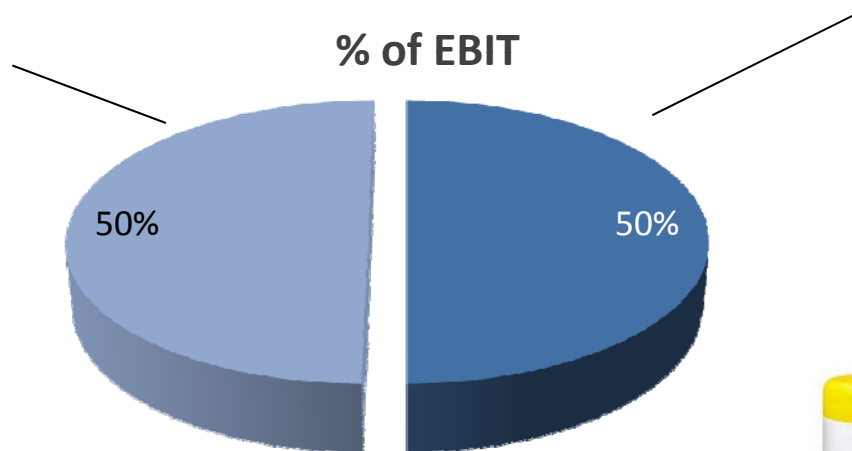


Sales	\$4.6Bln
Market cap	\$4.7Bln
EV	\$6.5Bln
EBIT	\$0.7Bln

Battery & Lighting Products



Personal Care Products



Note: Share price and Market cap are as of September 30, 2011. Sales, EV, EBIT are based on 2012 estimates.

Strategic Franchise

- Energizer holds the #1 or #2 market share position in batteries, shaving, suncare, and baby products
- Market shares are stable with limited entry/exit of competitors
- Strong brand recognition driven by years of advertising support and consumer preference

Attractive Valuation

- Trades at 8.2x EBIT and 10x EPS on FY2012 estimates

Predictable Cash Flows

- Globally diversified revenue base with 50% from outside the U.S.
- Broad and defensive product portfolio limits risk from any individual product

Recent Industry Activity & Trends

- Significant M&A activity in staples universe from strategic and financial buyers
- UBS reported a 3.6 million (5.2% of shares) share position, perhaps as a hedge for a large call option sale
- ENR's results are set to accelerate due to: battery pack size reduction, battery price increase, battery footprint rationalization, lower launch costs for new razor systems, positive mix shift from razor handles to blades, accretion from American Safety Razor acquisition and buybacks
- Potential for portfolio rationalization
- Potential for smart tuck-in acquisitions similar to the recent Edge/Skintimate shaving gel or American Safety Razor purchases
- Management becoming more shareholder friendly by: initiating conference calls, doing non-deal roadshows, ramping up buybacks, increasing management incentive targets for FY2012, etc.

Target Price

- **\$102/share** in 12-18 months based on 11x FY2012e EBIT, representing **54%** cap appreciation potential

Note: Fiscal year ends September.

Sales	\$8.3Bln
Market cap	\$3.5Bln
EV	\$6.6Bln
EBITA	\$1.2Bln

Performance Materials



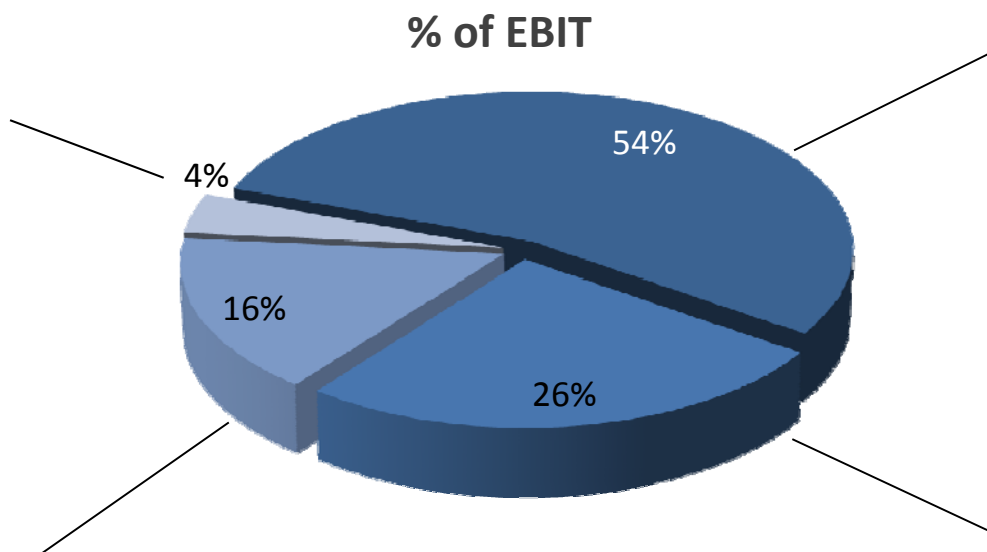
Aqualon Functional Ingredients



Hercules Water Technologies



Consumer Markets (Valvoline)



Note: Share price and Market cap are as of September 30, 2011. Sales, EV, EBIT are based on 2012 estimates.

Strategic Franchise

- Large specialty chemicals business focused on raw materials for use in consumer and industrial applications
- Valvoline is one of the leading motor oil companies in the U.S.
- A leading global water chemicals business

Attractive Valuation

- Trades at 5.0x EBITDA, 6.3x EBITA, 7.5x EPS on FY2012 estimates
- Cash EPS \$1/share higher than GAAP EPS due to intangible amortization from M&A

Predictable Cash Flows

- 70% of EBITDA will be derived from specialty Functional Ingredients and Water Chemicals businesses
- Valvoline EBITDA has shown resiliency as concentrated market enables strong margins

Corporate Development

- Sold commoditized distribution business in early 2011 for 8-9x LTM EBITDA in an auction process to private equity
- Purchased International Specialty Materials from family owners in negotiated transaction for a little over 6x pro forma forward EBITDA
 - Fits well with existing Functional Ingredients business
 - All debt, paying approximately 3.5% interest rate
 - Comparables such as Croda trade at > 9x EBITDA

Note: Fiscal year ends September.

Potential Ways Management May Unlock Value

- Spin off of Valvoline business
 - Low tax basis
 - Strong earnings recovery expected in 2012 as raw materials stabilize
- Sale of Adhesives Business
 - 'Jewel' business hidden in Performance Materials division, to which the Street applies a low multiple
 - 10x EBITDA potential, over \$200mln in after tax proceeds
 - Potential strategic buyers include H.B. Fuller, 3M, Henkel
- Sale of Water Business
 - Potential strategic buyers include Kurita and BASF
 - High tax basis; consolidating industry
 - Ecolab purchased Nalco for over 10x EBITDA

Target Price

- **\$105**/share in 12-18 months based on 10x FY2012e EBIT; representing **138%** capital appreciation potential

Note: Fiscal year ends September.

Flowserve Corporation (FLS, \$74.00)

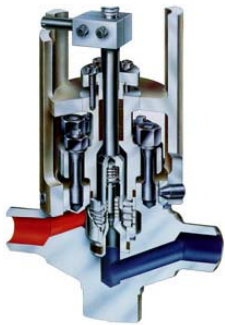


Sales	\$4.8Bln
Market cap	\$4.2Bln
EV	\$4.0Bln
EBIT	\$0.7Bln

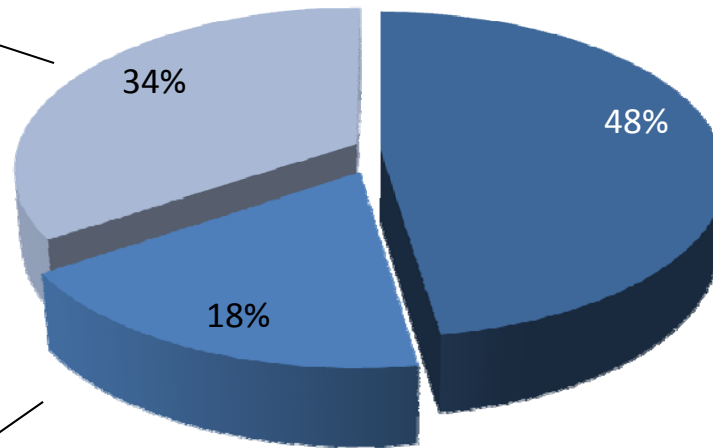
Flow Control



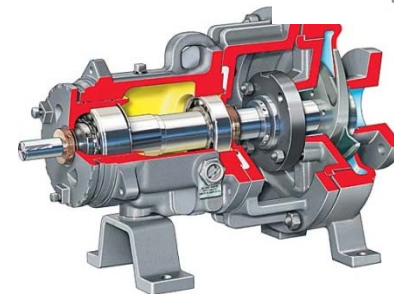
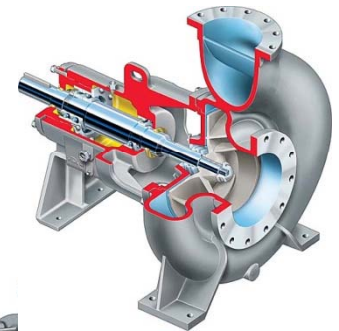
Industrial Products



% of EBIT



Engineered Products



Note: Share price and Market cap are as of September 30, 2011. Sales, EV, EBIT are based on 2012 estimates. Segment EBIT includes pro rata allocation of corporate/unallocated expense.

Strategic Franchise

- Premier provider of pumps, valves, seals and other flow control solutions
- Diversified end markets and geographies
- 40% of sales come from maintenance repair and overhaul

Attractive Valuation

- Trades at 5.7x EBIT, 8.6x EPS on 2012 estimates

Predictable Cash Flows

- High margin service and replacement parts sales account for more than 50% of profits

Solid Balance Sheet

- Company has net cash position
- EBITDA/net interest = 20x

Recent Industry Activity & Trends

- SPX Corporation bought privately held FLS competitor for \$1.5B and 12x 2010 EBITDA
- Acquired a small U.S. company for \$89M that adds to its product offerings
- TYC International's valve business, a FLS comparable, is being spun out

Management's Strategy to Create Value

- Growth of service network, which helps drive original equipment sales
- Operational improvements and growth market penetration
- Bolt on acquisitions

Target Price

- **\$135**/share in 12-18 months based on 11x 2012e EBIT; representing **80%** capital appreciation potential

MTU Aero Engines (MTX GY, €47.15)

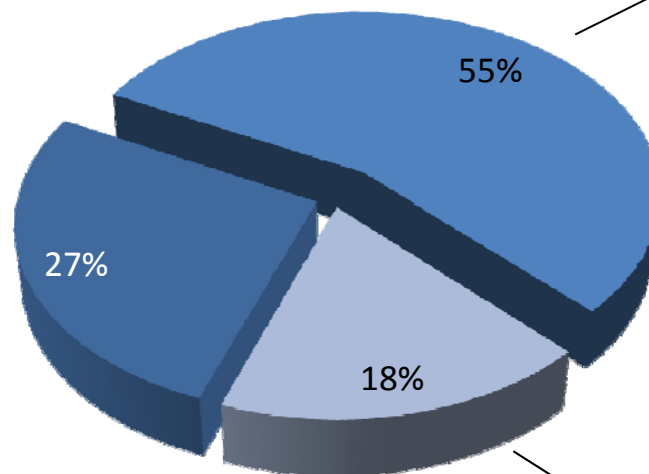


Sales	\$3.1Bln
Market cap	\$3.3Bln
EV	\$3.9Bln
EBIT	\$0.5Bln

MRO



% of EBIT



Commercial Engines



Military Engines



Note: Share price and Market cap are as of September 30, 2011. Sales, EV, EBIT are based on 2012 estimates.

Strategic Franchise

- Aero engine manufacturer with significant stakes in major engine programs for A380 (23% stake GP7000), A320 (15% stake V2500) and A320NEO (18% stake GTF), B787 (7% stake GEnX), C17, Eurofighter (30% stake EJ200), A400M (22% stake TP400)

Attractive Valuation

- Trades at 7.8x EBIT, 11.5x EPS on 2012 estimates

Predictable Cash Flows

- Cash flows driven by selling spare parts for large and growing installed base of aero engines, in which it has an unassailable position

Solid Balance Sheet

- Company has net cash position
- EBITDA / net interest = 13.6x

Recent Industry Activity & Trends

- Cinven announced intention to sell/IPO its holding in MTX competitor Fiat Avio, which could trigger industry consolidation
- United Technologies buying Goodrich
- Nascent Chinese aerospace industry forging international alliances
- Many defense companies with strong balance sheets, which may be tempted to increase their civil exposure

Target Price

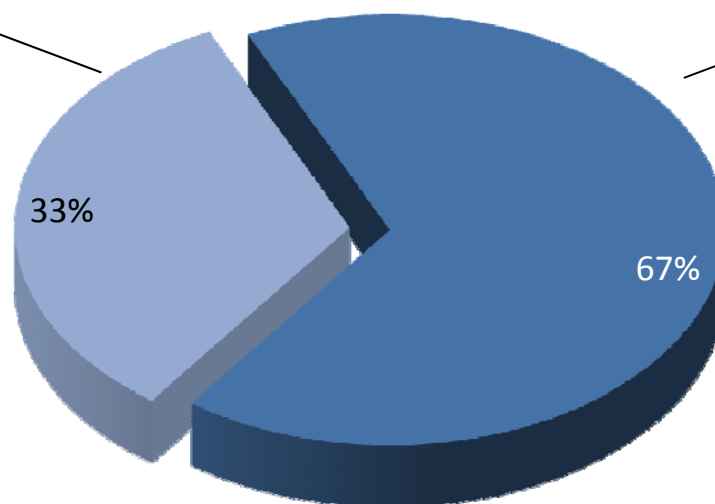
- **€70/share** in 12-18 months based on 11x 2012e EBIT, representing **48%** capital appreciation potential

Sales	\$11.7Bln
Market cap	\$3.7Bln
EV	\$4.3Bln
EBIT	\$0.7Bln

Hi-Tech Transactional Services (HTTS)



% of EBIT



Core IT Services



Note: Share price and Market cap are as of September 30, 2011. Sales, EV, EBIT are based on 2012 estimates.

Strategic Franchise

- Leading European IT Services franchise, providing consulting, systems integration and managed operations, as well as transactional processing services to a wide range of multinational corporations and governments

Attractive Valuation

- Trades at 6.2x EBIT, 7.7x EPS on 2012 estimates
- Current valuation deeply undervalues Atos' electronic transactions and payments processing business (Atos Worldline)

Predictable Cash Flows

- 74% of revenues generated from long-term contracts

Solid Balance Sheet

- Should achieve net cash position by 2012e

Industry Activity

- Payments Processing: RBS Worldpay sold to Bain/Advent consortium, Fifth Third Processing Solutions (FTPS) stake sold to Advent, First National Merchant Solutions (FNMS) stake sold to TSYS, Prosodie acquired by Cap Gemini

Potential Ways Management May Unlock Value

- Spin off of the HTTS division
 - Recent payment processing transactions imply a valuation for HTTS of >2x EV/Sales (>14x EV/EBIT), valuing the residual IT Services business between zero and 2x EV/EBIT.
 - Assuming no takeout premium, and applying a fair multiple of 12x EV/EBIT (~1.6x EV/Sales) for HTTS implies a value of 3x EBIT for the residual IT business

Target Price

- **€50/share** in 12-18 months based on SOTP using 12x EV/EBIT for HTTS and 6x EV/EBIT for the core IT business; representing **53%** capital appreciation potential

Note: EV includes equity market cap, net debt, preferred shares, after tax underfunded pension liabilities.

Payment Processing comparables include: FTPS JV with Advent, FNMS JV with TSYS, RBS Worldpay LBO to Advent/Bain consortium, Cap Gemini acquisition of Prosodie.



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