

## UNLOCKING POTENTIAL--THE ACTIVIST PERSPECTIVE

By Forbes Columnist/Skytop Strategies CEO and Founder Christopher P. Skroupa



James A. Mitarotonda is the Chairman and Chief Executive officer of Barington Capital Group, L.P., a fundamental, value-oriented activist investment firm. Since inception in January 2000, Barington has made approximately 60 activist investments in companies including Darden Restaurants, Avon Products, Ebix, The Children's Place, The Jones Group and Chico's FAS.

---

**Christopher P. Skroupa:** Tell us a little about Barington and your approach to investing.

**James A. Mitarotonda:** The core of our strategy is to invest in fundamentally undervalued companies that we are convinced can appreciate significantly in value as a result of improvements in their operations, corporate strategy, capital allocation and corporate governance. We focus on industries that we know and understand and conduct an extensive, "bottom-up" analysis of a company prior to investing.

We draw upon a network of industry experts with strong strategic, operating and boardroom experience to assist us in designing plans to unlock a company's value potential. We then seek to collaborate with the company's board and management team to assist them over a multi-year period in implementing measures to improve long-term performance. In many ways, we take a private equity approach to public company investing.

**Skroupa:** From your view, how has activism changed over the past ten years?

**Mitarotonda:** I believe that activism, as practiced by experienced investors, has changed little over the past ten years. At Barington, our goal has always been to invest in undervalued companies and become actively involved with these companies—whether through board service or private engagement with management. What I believe has changed is that institutional investors, as well as the marketplace as a whole, have become more receptive to the proposals of thoughtful activists and the positive contributions they can make.

**Skroupa:** Do you think that activists as a whole can deliver marketing-beating returns to investors?

**Mitarotonda:** I believe that activism is not an investment strategy in and of itself, but is rather an effective tool that can be used to help unlock the potential of soundly made investments. It is my belief that successful activist investing always starts with identifying and investing in undervalued companies. So long as there are undervalued companies to invest in, I am confident that a value-focused approach to activist investing can continue to create meaningful value for investors.

I hesitate to predict the future performance of activists in general. It appears to me, though, that the recent disappointing performance of a number of activists is primarily attributable to a handful of individual losses from investments in companies such as Valeant. I don't think there's an issue with activism as a whole, but there certainly have been some individual investments made by activists where the upside relied heavily on earnings momentum, commodity cycles or other exogenous factors that simply didn't prove to represent attractive value.

**Skroupa:** Do you agree (or disagree) that today, issuers are more inclined to seek a settlement as the primary outcome of an activist campaign?

**Mitarotonda:** Settlements are often the preferred outcome in the vast majority of campaigns – for the issuer, the activist and other shareholders. Our goal is always to find a way to collaborate with companies to implement new measures to improve long-term shareholder value. We find that most companies are willing to partner with us and carefully consider our recommendations.

We will typically commence a proxy contest only if we believe that an issuer is not willing to work with us, in which case we are prepared to take our ideas directly to shareholders and nominate directors for election to the board. Over our 16-year history, we have only found it necessary to run a proxy contest seven times.

**Skroupa:** What issues/topics will activists focus on in the upcoming season?

**Mitarotonda:** As in any proxy season, we see a number of recurring issues with public companies, including underperforming businesses that are in need of improved board oversight, a reconsideration of their strategic plans or better alignment of executive pay with firm performance.

**Skroupa:** How do you see activism shaping in the year ahead?

**Mitarotonda:** I don't foresee any significant change in activism in the near future. While over the years, the number of investors calling themselves "activists" may wax and wane, I believe that there will continue to be a role for experienced activist investors to drive positive changes at underperforming public companies.

Hopefully, there will be a day when the interests of shareholders will receive the attention and priority they deserve in the boardrooms of all publicly traded companies. Until then, I expect that there will be plenty of work to keep us busy.