

THE ACTIVIST REPORT

13D Monitor

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DISSECTING ACTIVIST 13F'S

45 days after the end of each quarter, 13F filings are made by investors who have more than \$100 million of qualifying assets under management. We examined the 13F filings made on March 31 by the top activist investors and assembled a chart of the increases, decreases and new positions for each activist and whether the activist requested confidentiality with respect to certain positions (See Pages 5-12). On Pages 12-14 you will find a brief commentary on noteworthy new positions and you will see a list of situations where multiple activists are involved.

continued on page 5

10 Questions with James Mitarotonda

Mr. Mitarotonda, is the Chairman of the Board, President and CEO of Barington Capital Group, L.P., a fundamental, value-oriented activist investment firm. Mr. Mitarotonda currently serves as a director of A. Schulman Inc., OMNOVA Solutions Inc. and Barington/Hilco Acquisition Corp. He is also a director and Chairman of the Board of The Eastern Company. Mr. Mitarotonda is a former director of The Jones Group Inc., The Pep Boys – Manny, Moe & Jack, Register.com, Inc., Gerber Scientific, Inc., Griffon Corporation, Ameron International Corporation, Ebix, Inc. and Sielox, Inc., among other companies. Mr. Mitarotonda received an M.B.A. from New York University's Graduate School of Business Administration (now known as the Stern School of Business) and a B.A. in economics from Queens College, where he is currently a member of the Board of Trustees.



13DM: Barington is a long-time activist that is respected in the activist world but not as well-
continued on page 2

Under the Threshold



Chico's FAS Inc. (CHS): Barington Capital; Advance Auto Parts (AAP): Starboard Value; Ambac Financial Group (AMBC): Canyon Capital; Altisource Residential Corp. (RESI): RESI Shareholders Group; Boingo Wireless Inc. (WIFI): Ides Capital; Chipotle Mexican Grill (CMG): CtW Investment Group; NorthStar Asset Management (NSAM): Land & Buildings; Viacom Inc (VIAB): SpringOwl Asset Management

NEW

chico's

On May 24, 2016, **Barington Capital** (1.4%) announced that it nominated the following two director candidates for election to **Chico's FAS Inc.'s (CHS)** Board at the 2016 Annual Meeting: (i) Jim Mitarotonda, Chairman, President and CEO of Barington Capital and (ii) Janet Grove, former Vice Chairman of Macy's Inc. Barington stated that it has been communicating privately with the Company since March 2016 and has shared its views that the Company should do the following: (i) reduce its sub-

continued on page 16



Around the World



Entertainment One Ltd: Livermore Partners; NH Hotel Group: Oceanwood Capital Management; Stada Arzneimittel AG: Active Ownership Fund; Volkswagen AG: TCI Fund Management

NEW

eOne

On May 17, 2016, **Livermore Partners** announced that it wants **Entertainment One Ltd** to add directors with more industry and financial expertise to its Board.



In January 2016, Livermore demanded that the Company slow down the pace of acquisitions and improve cash flow and recently stated that if the Company does not follow these demands, it may push for a share buyback.

continued on page 18

IN THIS Issue	
Item	Pg.
10 Questions with James Mitarotonda	1
Dissecting Activist 13F's	1
Under the Threshold	1
Around the World	1
Monthly Activist Activity	15
One to Watch	15
Activist Directory	22

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JAMES MITAROTONDA (cont'd. from pg. 1)

known outside of followers of activism. Tell us a little about your fund and how you approach activism.

JM: I started our Fund in January 2000. The core of our strategy has always been 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. Our approach is in many ways similar to that of private equity – we seek to partner with the management teams and boards of the companies we invest in to assist them in implementing the changes we believe are necessary. Our desire is to be supportive, long-term investors, and our preference is to collaborate privately with companies.

If we feel that the CEO and the Board of a company are not truly open to constructive input, we will take our ideas directly to shareholders and may nominate directors for election to the board if we think it is necessary. That was the case, for example, at The Children's Place, The Eastern Company, and most recently at Chico's, where we felt that we had made insufficient progress through private engagement. Given our reputation and track record, this infrequently happens. To date, we have only had to run six proxy contests in our 16-year history.

13DM: You have been an activist well before the strategy was in vogue. Tell us about how activism has changed over the past 15 years.

JM: I believe that activism, as practiced

by experienced investors, has changed little over the past 15 years. While the term "activist investor" was not widely used when I started Barington 16 years ago, we said back then the same thing we say now: that our goal is to invest in undervalued companies and become actively involved with these companies – whether through board service or private engagement with management.

There have always been undervalued companies that would benefit from thoughtful insight and suggestions, and as a "part owner" of a company, we have always felt that we have the right to share our views with management and

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the board. What 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 we can make.

13DM: Unlike many activists, you seem to do fewer engagements but with a very high success rate. Is this a concerted decision? How does your process work?

JM: We are highly selective in our investment targets. We frequently spend six to nine months researching a new opportunity before we invest. We also spend a considerable period of time working with our advisory board members and network of industry experts to design a plan to unlock a company's value potential.

Over our sixteen-year history, we have invested in over 100 companies and pursued activist campaigns at almost sixty of them. That's three to four campaigns each year. Given our lengthy holding period and our concentrated portfolio of approximately twelve positions, each year we expect to monetize several investments and initiate several new ones.

13DM: You have had success where many other activists have failed – in the small cap arena. What are the pros and cons of small cap activism?

JM: We have invested in companies ranging in market capitalization from \$100

million to \$6.5 billion – the largest one being Darden Restaurants. One of the key advantages of investing in small to mid-cap companies is that they can at times trade well below their

intrinsic value due to a wide variety of factors, including smaller institutional ownership and less sell-side coverage. On the negative side, small cap companies are less likely to have multi-segment structures or excessive corporate overhead that tends to build up at larger companies. Some larger companies have a greater opportunity to sell or spin-off non-core assets or businesses and to eliminate bloated infrastructure.

13DM: You have also had great success without having to acquire a large percentage of the company's common stock. Is this something that was possible 10 years ago?

JM: Over our history, we have accumu-

continued on page 3

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JAMES MITAROTONDA (cont'd. from pg. 2)

lated stakes that have averaged approximately 2.5% in size. We have always believed that if we have a thoughtful, well-researched plan, we can be successful in persuading a board to adopt it regardless of the size of our stake. It has been our experience that institutional investors and the market as a whole are more influenced by well-conceived ideas than the “brawn” of an activist investor.

13DM: While activism has become much more accepted by institutional investors over the past ten years, corporate America is still not that accepting. In fact, the U.S. Chamber of Commerce recently formed an anti-activist coalition. What is your experience with directors and CEOs when you take a board seat at a company?

JM: The vast majority of corporate board elections are uncontested. When a board is looking to add one or more new directors, the nominating committee conducts a search, interviews the top candidates as if it were a job interview, and selects their favorites. The CEO often plays a key role in the selection process, as we have seen recently in the case of Chico’s. Can you imagine if our political system operated this way? The current members of Congress would be selecting new representatives for us – subject to the President’s input – and voters would then have the opportunity to rubber stamp the decision. Clearly that is not a democratic system that we should accept.

We find that when we propose new directors for a company, we spark a healthy debate about what is best for the shareholders. We are not reluctant to challenge the current board or the current CEO. The relationship may appear to be confrontational at times, but we are solely focused on improving shareholder value, and we usually find that we can reach a common ground. We also find that once we get on a board, we are able to build bridges

quickly. Directors and members of senior management respect our focus on the issues, and we are experienced at finding ways to work together to determine the best path forward. The proof is the large number of former CEOs and directors that originally sat “across the table” from us that are now part of our network of industry experts.

13DM: Activists are often accused of being short term investors and sacrificing the long term benefit of companies for their short term interests. What is your view on this and the short-term, long-term debate?

JM: We have a two to five-year investment time horizon because we believe that it generally takes several years to improve a company and to realize its long-term value potential for shareholders. At times, it is possible to realize this value over a shorter period of time, and in other cases it takes longer. Many activists, including Barington, have longer holding periods and lower portfolio turnover than the average managed mutual fund.

With that said, we find the “short-term vs. long-term” arguments that are traditionally made by companies that are the focus of an activist campaign to be little more than a red herring. These companies have usually underperformed their peers and the market as a whole for a significant period of time, so often all they can do is promise rosier performance sometime in the distant future. The issue isn’t one of short-term vs. long-term, but which alternative – the path the company is currently on or the one being proposed by the activist – will likely lead to a higher value for shareholders.

13DM: Many have questioned how much influence one activist director could have on a board of 10+ directors. How have you had so much success with one or two board seats? Is there a concern that as an

activist investor, the board will just “put you in a corner” and ignore your recommendations?

JM: We have always been able to be effective with only one or two board seats. I have sat on more than a dozen boards, and inevitably find that some of the incumbent directors already had concerns about the company, but for whatever reason were hesitant to speak up. It has been our experience that often all it takes is a new independent voice in the boardroom, willing to be appropriately outspoken if necessary, to create a catalyst for positive change.

13DM: Your most recent engagement is a proxy fight with Chico’s FAS Inc. Tell us a little bit about this situation.

JM: As frequent investors in retail and apparel companies, we have been following Chico’s for many years. We recently decided to begin making a sizable investment in the Company as we believe its common stock is significantly undervalued. The Company has three excellent brands – Chico’s, White House Black Market and Soma – and we are convinced that there is a lot that can be done to help the Company unlock its value potential. For starters, we noticed that while the Company has industry-leading store productivity and gross margins, it has below-average EBITDA margins due to excessive SG&A costs. We believe that the Company can easily address this by reducing its outsized corporate overhead by \$50 million and its unusually high advertising expenditures by \$50 million. We also think that the Company can improve its operating execution and profitability by decentralizing its operations, pushing management accountability to the brand level, improving its merchandising and accelerating the growth of its attractive Soma brand. With these and other changes, we believe the Company should be able to

continued on page 4

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JAMES MITAROTONDA (cont'd. from pg. 3)

double its EPS over the next three years.

The Company has underperformed the market and its peers over the past 1, 3, 5 and 10-year periods. Given our successful track record in the retail and apparel space, we had hoped that the Company would welcome our involvement on the board. Unfortunately, after several months of engaging privately with the Company, it was clear to us that they did not. The nominating committee failed to interview me for a position on the Board and the new CEO ignored my invitation to meet. The good news is that the Company has been implementing many of the suggestions we have shared with them to date, and has been making the case that under its new CEO it will be ushering in "a new era of profitable growth and value creation" for shareholders. We certainly hope that this is the case. However, after interacting with what we believe is a very insular board that has overseen such a prolonged period of underperformance, we believe that there is too much at stake for shareholders to trust that the Company is finally on the right path. We have therefore nominated two shareholder-focused representatives for election to the Board – Janet Grove, the former Vice Chairman of Macy's, and myself. Janet, who oversaw Macy's Merchandising Group for years, has excellent operating and merchandising skills. We are confident that together we can help the Company unlock its value potential while ensuring that shareholder interests remain paramount in the Chico's boardroom.

13DM: What do you think the biggest myth is about activist investing?

JM: I believe the greatest myth of activist investing is that it is an effective investment strategy in and of itself. We believe activism is an effective tool that can be used to help enhance long-term shareholder value. But successful activist investing always starts with identifying and investing in undervalued companies. It also requires a deep understanding of businesses and corporate strategy in order to develop effective plans to unlock a company's value potential.

13D Monitor

NEW FEATURES COMING SOON

- **Standstill Agreement Database**
 - o Library of activist Standstill Agreements
 - o Analysis of most commonly used provisions
 - o Searchable and sortable database
- **E-mail Alerts when stock price is 5%/10%/15%/etc. below activist cost**
- **Downloadable Template Reports**
 - o All live activist situations trading below activists' cost
 - o All live activist situations where activist has a board seat
 - o All live activist situations where activist is urging for sale of company
- **Robust Activist Profile section Including lesser known 13D filers**

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