MOI Global had the distinct pleasure of sitting down for a wide-ranging conversation with David Marcus, co-founder, chief executive officer and chief investment officer of Evermore Global Advisors, in mid-2017. Shai Dardashti visited David at Evermore's headquarters in Summit, New Jersey.

David has more than two decades years of experience in the investment management business. He began his career at Mutual Series Funds, mentored by renowned value investor Michael Price, and rose to manage the Mutual European Fund and co-manage the Mutual Shares and Mutual Discovery Funds. He also served as director of European Investments for Franklin Mutual Advisors. After leaving Franklin Mutual, David founded Marcstone Capital Management, a long-short Europe-focused equity manager, largely funded by Swedish financier Jan Stenbeck. When Mr. Stenbeck passed away in 2002, David closed Marcstone and then co-founded a family office for the Stenbeck family; as an advisor to the family, he advised on the restructuring of a number of the public and private companies the family controlled.

David has shared profound insights into catalyst-driven investing and owner-operated businesses, particularly in Europe, with the MOI Global community on multiple occasions over the years. We are fortunate to benefit from David's wisdom. Enjoy!

*The following transcript has been edited for space and clarity.*

**MOI Global:** You spent fourteen years working with Michael Price, one of the great value investors. Share a bit about this background experience.

**David Marcus:** It was a phenomenal experience. I started working for Michael as an intern while at Northeastern in Boston, just before the crash of 1987, so it was quite some time ago. I began answering the phones as a customer service representative. I had always wanted to work in the environment of picking stocks and being around investing. That internship gave me my shot to do that, and being in the room while they were doing their thing was a transformative learning experience, and my first exposure to the trading floor. It stuck with me, so when they offered to hire me full time after graduation I accepted without considering any other opportunities. I came back after I graduated in 1988, and stayed all the way through to 2000. I went from answering the phones to being an assistant on the trading desk, getting screamed at all the time, and eventually getting my shot as a junior analyst. I learned pretty early that Michael respected one thing: "You're here to make money for the clients, if you do that, you will do well here." To Michael, everything else was noise. My focus became picking stocks that made money for the clients.

I worked on the desk, I became a junior analyst, I worked my way up by working on ideas for Michael and other senior analysts in the firm, learning from a variety of people, and eventually finding my own ideas and getting portfolio management responsibilities. In 1996 he sold the firm to Franklin Templeton – I stayed until 2000. When Michael left he anointed people into different roles; I became head of all European investments. I was given my own fund to run when I was named the sole manager of the Mutual European Fund. I was also named co-manager of the global fund, Mutual Discovery, and the flagship domestic fund, Mutual Shares. At the time that I left I was managing or co-managing more than half the firm's assets – about $14 billion.

In the years that I was there I learned so much. Michael wasn't there to be a teacher; you had to sort of absorb it. We all sat in one big room. He sat on the trading desk, he had an office – he was rarely in it, he was on the desk. If you did well, you didn't hear much; if you made a mistake, you sure heard about it and so did everybody else, because you were all in one big room, there was no place to hide. You learned how to develop a thicker skin, and to get ahead you had to always pick yourself up after your knockdown, dust yourself off and come back the next day looking for another idea, or continuing to work on the idea that you thought was a good idea and just keep pushing forth, always learning. Michael brought out the best in those who were willing to work at it.

**MOI Global:** You said 'absorb it' – could you elaborate what you absorbed?

**Marcus:** Michael had a distinct style of investing, which wasn't just focused on finding cheap stocks. He would simply ask, "Great, it's cheap, what's going to make it go up?" Which, to me, means what are the catalysts? I was always trying to figure out what is going to make this stock go up. Because there are so many stocks out there, especially back in those days, that were cheap. Some of them were perennially cheap stocks, and some were value traps. This focus on catalysts, what is going to make it go up, what is going to make the stock do well and become less cheap, first and foremost, was absorbed. But it was about digging through the footnotes, digging through the balance sheet and understanding hidden assets.

Even Seth Klarman in the foreword or the introduction to his book *Margin of Safety* writes about the two years that he worked with Michael Price and Max Heine. He wrote about the concept of digging deeper, and that is truly what Michael pushed us to do. What is in that "other" category on the balance sheet, what are those other assets, are they on the books at cost and they are real estate assets in midtown Manhattan? Is it a fantastic property that's priced at the level of a hundred years ago; what is it? Or, is it a portfolio of securities? That has been an area where we've historically found a lot of gems, where companies bought something many years ago or two CEOs ago. Current management does not think about it. I have seen cases where management didn't even realize they owned all the land around their building; crazy things happen. This concept of digging deeper, and then after you dig deeper – go even deeper, and find where the trail takes you. That tenacity is invaluable. We do that to this day. Even though that was decades ago, many of those lessons and methods are the foundation of everything that I do today here at Evermore.

**MOI Global:** Could we learn a bit more about your operating experience, private companies, public companies, company board seats?

**Marcus:** As I said, the foundation was what I learned working for Michael Price at Mutual Series. After I left the firm in 2000, I started my own business. I partnered with a Swedish industrialist, a man named Jan Stenbeck, who was the chairman of seven public companies in Europe, including telecom, media, and forestry businesses. I had gotten to know him when I was at Mutual Series, because I was fixated on getting to know who runs the businesses, meaning it's not just meeting the CEO or the CFO or the Chairman, it was who's the main shareholder? Ultimately, as I got further along in my process and I was investing outside the US, I realized there's so many families that control businesses. I'd call on those families, anyone that would say 'no' to a meeting, I'd keep calling them. Of course, they would say 'no' the next time, but I wouldn't take no for an answer. I'd call, call, call, and eventually get a meeting. Some of those meetings turned into relationships and I continue to this day to talk to them. Get together, talk about ideas, pick their brains, share thoughts on what we're seeing here in the US.

One of those was Jan Stenbeck. He and I partnered in 2000. He seeded the business with one hundred million dollars, then I grew a fund around that. But, what he also did was, he invited me into his inner circle, with the CEOs of all his public and private businesses. Once I partnered with him I didn't invest in any of his companies. Instead, I would sit in the kitchen at his farm in Luxembourg, where it could be two o'clock in the morning, and it's me and Jan and the CEOs of all these other companies, and we're talking about strategy, like how they're going to attack telecom in Germany. I started to be on the inside, getting first-hand experience for how these guys were running their businesses in developed markets, in emerging markets. It was an eye-opener. Getting this exposure was invaluable. As a stock picker, you don't usually get the insider's perspective. I ended up going on boards; the board of a bank, the board of a media company.

Unfortunately, Jan died two years into our partnership. When he died I closed the fund, returned the capital, and helped his family build their family office. As part of that, I became the chairman of their US holding company, which was a private equity business and had wholly-owned operating units as well. I found myself getting immersed into helping fix companies: it was a turnaround situation, restructuring businesses. Then, I went on the board of their media conglomerate, which is a three billion market cap in Sweden, and became an advisor for their telecom business for emerging markets. I reported to the board, and I helped them restructure the balance sheet. Once again, going from the one side of the desk where you're picking a stock, to the other side where you're helping make decisions – should we keep this CEO, should we keep these board members, should we change out the old guard, put in more aggressive and progressive board members and managers? That experience has been invaluable — and then helping management review strategy, business lines, and push them to consider if we should keep a business unit or not, for example. In the long-run, it has helped me become a better investor because I have the insider's perspective, not just the outsider's perspective.

Having all these perspectives and viewpoints, from running a business, it makes us more cynical to challenge these managers when they talk about their restructuring or plans going forward.

**MOI Global:** What do you aim to do at Evermore Global that capitalizes on what you've learned throughout your career, to date?

**Marcus:** We started Evermore with the launch of our '40 Act fund, the Evermore Global Value Fund, in 2010. To me Evermore is the culmination of everything that I've done prior to this. The foundation is the investment approach that I learned from Michael Price, cheap stocks with catalysts; it is engrained in my DNA, a successful transfer of knowledge. We add the operating experience. We've also developed an unbelievably extensive network of individuals, capitalists, families that control businesses, Chairmen and CEOs. We're not looking for secrets when we talk to these people in the network, we're looking for perspective and interesting ideas we hadn't considered. Or, they're helping us vet and triangulate investments or people that we're looking at. There are also certain investment bankers around the world who understand the kinds of things that we are looking for. The network is invaluable to our research process.

At Evermore we're focused on creating value for our investors. That's all we're here to do, make money for our clients. To do that, our approach is to look for cheap stocks, where there are catalysts, and we leverage everything that we've come to know over the years. It's the hedge fund knowledge, it's private equity knowledge, it's operating experience, and bringing it all into a mutual fund, charge a mutual fund price, and deliver things that you don't normally find in a mutual fund. We have a mutual fund as our flagship, and then, for certain institutional investors, we manage separate accounts that invest similarly. Not everybody can invest in a mutual fund.

Even though we're in a world of 70,000 mutual funds, our view when we put the business together was, "Does the world need one more mutual fund?" The answer was yes, but only if you bring something differentiated to the table. You can't go into an investor meeting and say, "Hey, here's why I'm different." That's what everybody does. You're no different if you start off by saying that. What makes you different should come out of you when you talk about how you invest. People should say, "That guy is different, and he makes money. We have seen the gamut of investors, and we try to associate with the best of breed that are able to pick up on these nuances." My thought is, we are not here to serve everybody, we are here to serve those investors whose worldview and investment perspectives match our own. Opportunistic investors, investors who could care less about what the benchmark is doing, and, investors who don't impose artificial handcuffs to an investment approach, will benefit the most from partnering with us.

**MOI Global:** I once heard you detail how the world of traditional value approaches has changed…

**Marcus:** Simply, there are two camps in value investing. There's the 'Buy and Hold' guy who wants to buy a dollar for 50 cents, and who generally doesn't care what's happening. In the old days they'd say, "Well, over time there is reversion to the mean, or, my 10 P/E stock is worth 13x and the market will wake up one day." Buy and Hold is beholden to many more systemic factors today than ever before. I have no interest in that camp. Zero. I don't want to be anywhere near it. I believe that the best way to be a successful value investor is to focus on situations whose outcomes are less reliant on market sentiment and more the result of strategic change. That's the other camp. That's my camp. I do have a cheap stock, yes, but, I also have a catalyst that will get the value in the hands of shareholders. They're breaking up the company, they're spinning off non-core assets, they're run by a C-quality management team who is leaving and we now have a B+ or an A management team. There's change at hand, real strategic change. The cheapness is there, the multiples are compelling, but now I have events or special situations that will get the value out of the stock and into an investor's hands.

Where in the Buy and Hold camp, in many cases you see value traps, you see wishful thinking. "Oh, if the company would do this, oh, if they would do that, how great would it be…" – that's wishful thinking. A lot of the money that used to go into this bucket, it's not going into this bucket anymore, because the world has changed over the years. What I mean by that is you have value ETFs and you have value index vehicles. So much of the money that was normally going into these cheap-for-cheap's sake stocks is getting siphoned away from active value managers using such a method. It goes into the value index, it goes into the value ETF, and those value vehicles don't always invest in these stocks. They invest in different value stocks, and usually only the largest companies. In the near term, that money is not coming back to those traditional value managers; maybe it never will again. That's why there are so many value investors who are having a tough time because they're doing it the same way they've always done it. But there's nothing that's going to make their stock prices go up. Where is the demand, and why should the market all-of-a-sudden revalue that stock? What is going to push the stock's price up, besides a bid for that company? I want to be over here, where at least I know that the management is working to get the value out. Dividends, buy backs, other things that they're doing that should get the value to the shareholders. I'd always prefer a plan to value creation over wondering when I'll ever see an investment return materialize.

Buy and Hold can also lead to longer periods of time where investors mentally accept a poor rate of return. I mentioned this before, but a lot of investors, when they talk about making returns on any single investment, they don't think about it in terms of how well they're compounding. Especially long-term Buy and Hold value investors. I'll talk to people who say, "Yeah, you know, I bought that stock at 12 and it's now at 18," and I will say, "Yeah, but you bought it in 1997." My point is your compounded rate of return is ridiculously low. Your opportunity cost was huge, because you could have invested in other things that compounded at a substantially higher rate. A stock being up isn't good enough, it has to be up enough, in a reasonable time, to generate real returns.

**MOI Global:** How do you think about active versus passive money management – as a headwind or a tailwind for what you're doing?

**Marcus:** I'm not a believer in passive, I'm a believer in active. To me, "passification" is a standardization of investments and a willful acceptance of average returns. To me, catalysts are the way forward, they allow an investor to tune out more market sentiments, and instead focus on specific means of unlocking shareholder value. You only get access to catalysts by being active. I get it, the world is shifting, investors are tired of the promise of active management, and it not delivering in many cases. But, what I don't think many Advisors and Consultants are considering, is that sameness can be a real business killer. If not aiming to beat the market, what value does a passive investor bring to their client, and how well prepared will they be to handle the inevitable downturn? At least when they own an Active manager, they have a scapegoat if that manager doesn't deliver!

**MOI Global:** More eyeballs focusing on passive, also means less eyeballs looking for catalysts?

**Marcus:** Absolutely. As active management is shrinking and consolidating, firms are laying off people, and fewer active management eyes and dollars are finding their way to traditional value strategies.

**MOI Global:** Have you been seeing that?

**Marcus:** Yes. Speaking of history, look at the typical investor in the market today, versus the 1960’s when I was born. Back then, the individual investor made up something like 40% of the daily market volume in the US. Today, 99% of market volumes are from institutional investors. What is missed in this reality, is that these huge institutions, they cannot own anything other than the largest cap names that are generally owned by everyone. I mean, Amazon, is owned by something like 350 ETFs. They can only own the big fish in the pond, and by number, there are many, many more small fish that they must ignore. Smaller businesses are also generally more ripe for change than are most mega caps. At Evermore, being smaller and nimble, we have an opportunity set that is so much more vast and robust. We’ve seen a significant inflow of capital into our fund and into our firm, and it’s because we do something different. Our strategy is so complementary to so many asset allocation plans, and investors see the benefit quite clearly. We do hone in on special situations, and that focus is so critical, as it leads us to participate in parts of the market that so many other investors have to overlook. By focusing on mid- and small cap opportunities, the environment is so much less competitive.

**MOI Global:** You’ve shared the phrase, “What is going to make it go up?” Are there patterns, or perhaps categories, to catalysts?

**Marcus:** There’s a whole host of things that we would consider to be catalysts. Some are hard catalysts, like they’re breaking up, they’re taking a little conglomerate and de-conglomerating. There’s softer catalysts – it’s an operational restructuring, it’s a financial restructuring. Catalysts are break ups, spin-offs, restructurings, stock buy backs, bonus dividends, new management, changed and upgraded management. A company that is driven by an aggressive chairman, who is not just a talker, he’s a capable doer. We do make the distinction between talkers and doers. There’s a lot of talkers out there, they tell you what they’re going to do, they tell you how much value they’re going to create, they tell you how they’re going to increase margins, and their 5-year target is X, and then they never hit them. The fact is we want to see that the people who are running the companies are doers not just talkers. But to find them you have to meet a lot of different kinds of corporate managers and investment situations. That’s the one thing I haven’t talked about today, but it’s a critical component; it’s the people running the businesses. We’re not just buying companies, were investing in people. Sometimes people are the best catalysts.

**MOI Global:** I have a copy of *Barron’s* from December 23, 2016, with a headline ‘Follow Buffett of France for a Three-Year Double.’ You’re quoted extensively discussing Mr. Bolloré; how did you come across this owner-operator and how did you realized the situation you found was so unique?

**Marcus:** I started meeting Vincent Bolloré in the 1990s. Once I discovered that there were other countries out there besides the United States, I got a passport when I was 26. Sweden was the first country I ever traveled to. I started calling on the families that controlled businesses to learn from them about the value they were creating, or destroying. I would not only seek out the value creators, but also the value destroyers. You could learn a lot from both. When I worked my way to France for the first time, I asked simple questions to myself, like who are the value creators in this market, who the value destroyers? I'd make a list of both and call on them until they'd meet me. Vincent Bolloré – at the time his market cap was nothing; a few hundred million I believe, at best, and that was French francs, that's before the euro. Even back then it was hard to get a meeting with him. I got my first meeting, and I said, "Okay, this is a guy who has reclaimed the family's conglomerate, which was almost bust when he came in to take over from his brother." And over time, he was slowly cleaning it up, slowly turning it around, but what I loved was while he was cleaning it up and turning it around he would see other undervalued situations and he'd find ways to get the fulcrum security; just enough shares to take control of it. He was slowly building an empire with little capital, and then as cash flow came in they would consolidate these assets.

And so I tracked him, I started buying the shares a couple years later after I realized that, at the time there were a number of publicly traded holding companies that were all intertwined with him, and slowly they were collapsing their structures into one another. He was unlocking the discount on the discount on the discount on the discount, as they were slowly getting rid of the layers of public corporate entities. It's funny, I've been an investor in some of the different parts of his empire for 20 years now, and today the market cap of Bolloré is about 10 billion euros, and it is still cheap. He is the largest shareholder, he and his family. They are ridiculously aggressive value creators. It is still an undervalued stock, it's grossly undervalued in our view, because over the years they've acquired different businesses. That is part of his plan, to build the business with minimal cash initially, and then future different entities would buy shares in each other whenever they had cash. The extent of this cross ownership, a sub owning shares of the parent, was something different. Then, the parent would buy a stake in another company, then they'd buy the whole company outright. Along the way, the Bolloré-acquired company might have also bought shares in the parent. In the end, there are a lot of self-owned shares and a lot of treasury stock in a tangled web. The punch line is, when you consolidate all the treasury stock, the shares outstanding would shrink precipitously, by more than half. Your net asset value per share would gap up without them earning another nickel. There's a potential huge revaluation. Along the way, the company itself is compounding and growing. He does this a lot.

Bolloré bought Vivendi when it was an absolute loser. Vivendi was a value trap for a decade before he got involved, and it sucked in a lot of great value investors. We were never interested in Vivendi until Bolloré went in, because once he was involved, my view was, "Okay, now they have somebody there who will bring in discipline and brains and do things that will create value, and not the aimlessness that they were doing before."

**MOI Global:** In your experience, how many Bolloré-type value creators are out there?

**Marcus:** There are a number of them out there. We call these compounders. Everybody has a different definition of a compounder for some reason. Ours is that it's generally a family-controlled conglomerate that's been around for a long period of time. A business that's cranked out a huge total return, and yet it still trades at a discount, and, it's led by a dynamic value creator who's continuing to create value. Bolloré is one. Exor is one. Exor is the Agnelli family in Italy, the patriarch of the family today is a 40-year-old named John Elkann, who's been transforming it. Exor is Chrysler, Ferrari, PartnerRe, Fiat, and other businesses. They sold Cushman and Wakefield a couple of years ago, they bought PartnerRe, they're restructuring the family's base of assets, which will change the trajectory of the compounding going forward. He is a great investor — unknown or lesser-known. The products are known, he's not really known, and he is out there chugging along creating value.

There's a company in Belgium called Ackermans & van Haaren, run by Luc Bertrand. It is also a 110-year-old family-controlled conglomerate. We've owned it since we started the Evermore Global Value Fund, but I've known these guys a long time. They are great compounders, mid- to high-teens compounding over many, many years. I love watching these types of compounder investors. There have been several times where we've had great ideas out of watching their movements. When they go after a new idea, it's generally an undervalued situation and they think there is something fixable within. That will give us an idea – we still have to do our own homework on it, understand what's going on, but it does happen in a variety of cases. Look, from Ackermans, they went after a company called CFE, which is a dredging business that was in need of a restructuring. We ended up buying CFE, which had been a value trap for years, because we saw them come in. It's less than three years later the stock has gone from 50 to 140 and they have transformed it. Sometimes, paying attention to what these great investors are doing can lead to more ideas being born of our existing ideas. Over the course of decades, I've met all of these guys, they are part of my network, and I respect the work that they do to create value.

**MOI Global:** I'm hearing a pattern of building long-term relationships, establishing deep relationship networks.

**Marcus:** It is important to not just crunch numbers but to get to know the people. We are not just buying horses, we are also buying jockeys. We need to know who is the jockey, or the captain of the ship, whatever analogy you want to use. The bottom line is we're betting on people, and I spend a lot of time trying to get to know who they are, what's their history, what's their background, what's their track record. I tell our investors, just like you are vetting managers, we're doing the same thing – our managers are the CEOs or the main shareholders in companies. We want to know their background, what have they done, their successes, their failures. Sometimes it is quirky because a CEO of a company will come in here to our office and we will force them to get rid of the 'going to pitch' mode. The last thing we want to do in a meeting is look at a pitch book. We don't care since we've already read their pitch book; instead, we like to ask probing questions. Again, we're not looking for secrets, we're trying to understand their business, and much more importantly, how they think about their business and creating shareholder value, or if that's not part of what they think. I'll ask a simple question: "This is a company going through a transition, you came in two years ago, why would you want to come into this business? Tell me who you are, what's your background, where did you come from, and how did your trajectory get you from there to here?"

I can tell you, it's always interesting, especially when it's a company from Europe or parts of Asia. People are not used to being asked to talk about their own background. They're used to investors coming in and saying, "Okay, let's talk about your quarter and how things are going." The minute you change the environment to, "I don't even care about the quarter, I want to know all about who you are…" you have a different meeting, the whole meeting changes. If nothing more, they'll remember that meeting because you're the only one that asked different questions. If we like it, we want to go see them, or invite them back here again, talk to them on the phone. I'm not a big believer in a lot of phone calls. I like to meet in person, talk to people, look them in the eye, do they know what they're talking about, are they shuffling? On the phone, 3,000 miles away, you don't know if somebody's sticking them notes with all the answers to the questions, or do they know their stuff? We simply want to know them as well as we can.

But for me it's the network. After we talk to them, or before we've even talked to them, we ask who in our network do we think knows that person, that company, that industry, that sector, so we can start triangulating. We're reading, we're crunching numbers, we're printing out fifteen years of Chairmen's letters from the annual reports. Forget the numbers, I take the letters, turn the stack over, slowly read from the old ones to the new ones. We binge read these letters. By doing it this way, you'll learn all about the company, all about the people. If that CEO was somebody who had worked his way up at the company you might see him mentioned years earlier somewhere along the way. If it's a new person where did he come from?

There's so much information out there; people don't read it. They say they've seen a report, not that they've read it. That's a big difference. We read it. You have to do it the old-fashioned way, you have to use your brain. This concept of getting to know who they are, it's helped to build a network because you do connect on a better level. We're legitimately interested to knowing more, because in the long-run we are investing with these guys, and if they're good at running that business, maybe one day they get a new job running a much bigger company and we'll have great access because they'll remember that we were there when they were at the smaller business. Over time your network can expand. If you get to know a lot of CFOs well, if they're good, a lot of them become CEOs. I mean there's a time element here. Their time compounds, your network compounds, just by growing it. I push my team to build their network too. If I have a big network and they have good networks, the leverage effect on the total network is huge. The value we should be able to bring to our investors should compound as well. I don't want the whole network to be my network, I want my team to have their own, and I push them to get the hell out of here sometimes and go to meetings.

We're in New Jersey, we're not in Manhattan, but we're not far away. There's always a meeting – you can get a nice lunch, but make sure you sit next to the CFO of a company that's somehow connected to something that we're looking at or that we own. It could be a competitor, it could be somebody in a related industry. Fill your brain with more knowledge, but make sure you've introduced yourself to the CEO or the CFO and get to know them.

Again, it's not for secrets, it's to know who the players are and increase your knowledge.

**MOI Global:** David, I want to respect your intellectual property, at the same time I understand you have invested in Germany, Monaco, Norway, Netherlands, Spain, Italy, France, United States. Please help us understand the recurring pattern in these international investments and also the scalability and the capacity in what you are building.

**Marcus:** We are driven from the bottom up, one at a time we're building a portfolio of unique names, unique situations. It's a global portfolio, we have no preconceived notions; we can go anywhere. For example, four years ago we had high 30% in the U.S., today as we speak we're at about 15%; it's the lowest we've ever had. Europe is about 72% up from 40% four years ago. Asia is about 9% up from zero, and then there's some cash. The point is we are driven from the bottom up. We look for keywords, we look for certain characteristics. Today, you now have a lot of one-offs throughout Asia bubbling up… a break up, a spin, a family fight. Go to Singapore you'll see hostile bids for companies. This is a bit new, you never had that before. In Japan, they're changing rules and regulations for spin-offs. Companies aren't doing them yet, but the framework has changed, and that's going to create real opportunity over time. And then, Europe, post-financial-crisis is still slowly coming out of it. The rules and regulations have changed so much which has allowed companies to sell non-core assets, close factories, and restructure the headcount. Companies are now understanding that they must become more competitive. There's so much fat and blubber in a lot of these companies that once they start the process of restructuring, of cleaning up their balance sheet, of refocusing their businesses, there's so much that can come out. Our process, being so nomadic, there is a real repeatability element to it. That's the pattern, being able to wander to where there are misunderstood situations and businesses going through change.

**MOI Global:** That part of the pattern is quite interesting, could you give us an example of a recent business that went through strategic change?

**Marcus:** You know, it's when you will see a situation, and this has absolutely happened, where a company may announce, "We're considering selling off non-core assets," or, "We plan to take a strategic review over the next six months." I'll say, "Great, what are your non-core assets?" I've had some CEO's say to me, "Oh, we don't know yet, that's part of the review process." These are conglomerates and holding companies that are in so many disparate businesses, they're going to debate and discuss internally what they should keep and what should they get rid of. Hearing this perks my ears up. It gives us time to do our own work. We work to identify for ourselves, what we think their core will be, and then we start valuing all the pieces. That way, when their plan is announced, we'll be able to have our own perspective and see if we agree, and, importantly, if we believe there is an opportunity for compelling value to be created. Too many investors race to a sum of the parts analysis pretty quickly. If they're not breaking up the company or not likely to sell assets, the sum of the parts can give you a sense for value, but it might be value that's never going to be achieved. The market may not ever value that company at that level, because investors look at the company on an operating basis. Where in other cases they are, let's say, de-conglomerating.

There's all kinds of nuance to it. To simplify it: the market will always value you at your weakest business. Meaning, if you have a solid business that generates strong margins, good profits, is run well, and that's the bulk of your business; but, also have a mediocre business that has weak margins and it's meandering – even if that mediocre business is 15% of the whole pie, the market needle will go to that weak business. It will; that's the way it is. It will always tend to move toward a company's Achilles heel in valuation. We like to see a company that is planning to excise that out, spin it off, sell it outright, or in extreme cases, even shut it down. However they plan to do it, the weak segment is coming out. After that, the business becomes more of a pure play; you see the market tend to revalue the whole company.

So, as an example, I mentioned before, we own a company called CFE. We followed our holding, Ackermans into it. Well, when they bought 60% of CFE, it was dredging, their core business, and the balance was in construction. European construction companies, if they're good, maybe trade at five times cash flow. These guys weren't good, they had all kinds of issues and they were trading at a little over four times. The dredging business, it turns out, is one of the great businesses in the world today. Why? Because most of the ports are too shallow for the new modern ships that are being built. At CFE, these guys worked on widening the Suez Canal and the Panama Canal, for example. In any case, the market was valuing the whole thing at the construction multiple, so four times cash flow, where dredging companies were trading at over seven times. Ackermans took a 60% stake by trading their 50% ownership of the dredging unit to the parent for stock. They then bought shares from the largest shareholder. At that point, they started restructuring, selling off non-core assets, fixing it, and all of a sudden we see the revalue. The stock went from less than 50 to more than 130, and it's 140 now, give or take. It's still undervalued in our view. It's out there.

People ask me all the time, how can there still be value out there given where we are in the cycle, where the markets are? We find value less here in the US, more in other markets, and feel there's plenty of value out there. You have to be willing to look for it before a successful restructuring becomes front page news.

**MOI Global:** How do you think about the question of capacity?

**Marcus:** We're not asset gatherers, nor do we aspire to be. Today our total assets in the firm are around a billion. Once we get closer to two billion, I'm beginning to think about walking towards the door and starting to nudge it closed. I like focusing on small and mid-sized companies, and to maintain our ability to own the portfolio that I want to own. This is a sweet spot of opportunity that's less competitive, so I don't want to give that up. The way to preserve that is to cap the size of the pool of assets. We will be disciplined on that, and along the way continue to ask simply, how well are we digesting? Are we buying our A names or have we shifted to consider our B names? The minute you even consider going to your B names, you have to stop taking new money. Because we're not trying to manage a mountain of assets and perform mediocre, we want to have real returns. We want to have real, compelling total returns over time. We have our own money in the fund. Look, there are a lot of factors, liquidity is another, but what I can tell you is that we certainly don't think you can do what we do with $5 or $10 billion.

**MOI Global:** I have some comments I'd like to read and also get your perspective on – in your own words: "We believe it is essential to identify the prospects for turnaround well before the results are becoming evident, because once a turnaround becomes widely recognized, most of a robust discount could vanish." How do you identify these results before they happen?

**Marcus:** In most cases the company has announced that change is at hand, or, there could be an activist attacking them. It's better when the company is its own activist, they're doing it themselves. Like when a new CEO comes in, or a company announces that they're embarking on a process of change…they're going to spin off assets, they're going to buy back stock, something like that. It doesn't happen overnight, but what we found is that most investors don't have any interest during this period because investors like to buy after it's cleaned up, it's refocused, or it is restructured and the corporate changes are understood to have worked. We don't need to be there before, I mean it's nice to be there before, but you want to be there early, you want to be there in the midst of the change. The world in which we live is rapidly changing and with change comes opportunity for smart early movers. It is also worth saying, being involved in the midst of change does allow an investor to have better control, maybe even legitimate influence on a situation. We suggest ideas to management from time to time, and in a few cases, have helped them set new goals or find alternate means of accomplishing their goals.

Look, you asked earlier about lessons. One of the great lessons that I learned from Michael Price was how to read the newspaper. It sounds ridiculous, but if you read the newspaper and the first story is about North Korea doing another missile test, you say, I can't make money with that… I'll read that tonight when I get home. Next story. Then the next story is about a hostile bid, PPG is making a hostile bid for Akzo Nobel in the Netherlands, that's interesting. We should look to know more about it, because they've rejected three bids already. What's happening there? It could be a deal situation. You want to hone your brain to what's happening, and what could be a potential opportunity. The next one could be a story about a company that announced they're going to break up. The announcement is the start, these changes don't happen overnight, it could take months or even a couple of years. Once they announce they're going to break up, what you find is sometimes the stock will shoot up a bit on anticipation and then it will peter out. Then, once they start executing on their plan, they start taking charges, they write off old inventory, and with time the market gets fatigued and the price comes back down. We get a chance to do our work during this period.

The first question we ask ourselves is, I can see it is cheap, why is it cheap, what's going to make it more, or, less cheap? By less cheap, I mean the catalyst, how long might it take? In many cases, add even more time to those expectations because restructurings always take longer. It's like a home improvement project; they always take longer. On the other side, by being deliberate, sometimes we will miss an opportunity, but in many cases, we have time and we're still buying it when it's in the early phases. Remember, a lot of investors are going to come in after, they want the pure play. Like at CFE, they don't want the construction and dredging businesses together, they only want the dredging. I'll buy it when it's both on its way to one. Human nature is to come in after. People don't like stress, strain, all kinds of clouds at a company, they want to come in after it has all dissipated. But buying companies at this later stage usually means paying substantially more. Many times we are exiting at this point.

**MOI Global:** You touched on the interplay of uncertainty and the perceived risks an investor is or is not willing to take. Could you elaborate?

**Marcus:** Sure, a lot of investors think that a business with a lot of uncertainty translates to being high risk. I couldn't disagree more. I believe that when business outcomes are certain and widely known, they are the riskiest. I will give you an example. Imagine a good business, they are run well, a high multiple stock, we're not interested. I call these businesses "too good for us." In fact, something our investors find a little shocking to hear, one thing I generally hate, is earnings-driven stories.

What does that mean? I'll use AIG as an example, it's a US company, we don't own it, but we bought it almost day one when we started the firm. We first owned an obscure piece of pound sterling debt. It worked well, then we went into the equity. In 2010, what was going on at AIG? They were breaking up assets, breaking business lines up, spinning-off their Asian assets, IPO'ing other assets. There was a new management team, you had an extensive financial and operational restructuring. It seemed like every bell was being rung that we talk about. Most investors were looking backwards to what it was, a bailed out company that almost took down the entire financial system. We were looking forward saying, okay, here's a company that has an enormous asset base and it's a solid business. We loved it, because it was trading cheap and it had a lot of catalysts. Over the years, the stock doubles and even when it got to trading into the low 60s, it's still trading at a discount to book value. Our view was, it's time to move on, because they did the spin off, they did the IPO, they did the buyback. Sure, they were still doing more buybacks but all the other catalysts were in the late innings. At that point it was the riskiest of all because it had evolved into being an earnings driven story where they needed to sell more policies going forward at higher premiums. We like it when earnings are just one piece of the story; not the whole story. Investors started to love the AIG story. It had become too good for us. The punch line is more recently, they started missing their numbers. We had already moved the capital forward to cash awaiting the next opportunity.

To me, when the catalysts work out, it is code word for "it's time to move on," because a pure earnings story means it has the most risk. They have no other cushion, they can't fall back on asset sales or all the other things that we had before, they only have earnings to hang their hat on. As I have touched on throughout this interview, we like to become involved during the time of the most robust change. That is when your risk is limited, it is the cheapest, and your biggest risk is execution risk, and your upside for value creation is sizable.

**MOI Global:** What I'm hearing, and again I might be misperceiving, you're buying balance sheets at distressed valuation levels, you're selling income statements at top dollar, and the cash flow statement gives you catalysts with asset sales and dividends, is that roughly correct?

**Marcus:** Yes, you're roughly correct. You're in the zone of what we're doing, and it's a repeatable process. Next time it might be an insurance company, it might be an industrial business, it might be a media company, but it's the same process that can be replicated over and over and over. You're changing the name of the company, the kind of business, and so forth, but it's conceptually something that you could keep doing.

**MOI Global:** How you think of the role of catalysts compared to the role of general market forces?

**Marcus:** We don't think about the market much; more often, we think about the situation at hand from the bottom up. The value and catalysts are first and most important. But, then we throw into the salad bowl, a whole host of other information. We do consider the macro more than we did in the past, specifically thinking about what is happening in the macro environment and how that might impact this company we are working on. Will currencies impact this company, will rates, will consumer spending, the political environment in their country, price of gold?

Every company has an Achilles heel, is my assumption. As part of our portfolio management process we go back and look at every single company and do an appraisal of what could hurt our company. Then, we aggregate all of that so that we can look through our portfolio and understand how much exposure we have to things that could be painful. Doesn't mean we have to change anything, but we want to know what our own true exposures are; we data-mine our own portfolio. We do the same on the other side, what are the things that could benefit our portfolio, what are the positives we want to be aware of that would hit a whole multitude of our companies?

But to specifically answer your question, whether you have headwinds or tailwinds it can impact multiples. If you have a company that's selling assets in a good environment, you're going to get higher multiples than in a not-so-good environment. In a bad market with these elements pushing stock prices down in the short run, ultimately these catalysts can push back aggressively against these headwinds. What we have found is that having the catalyst gives you a cushion, a real margin of safety.

Also, it means we are less correlated to the market because the catalysts do drive a lot of the value out. Every month there's news in one of our names, if not more than one, and so our method is robust. That company is selling an asset, that company's buying back stock, this company just kicked out their CEO and brought in a higher caliber team. Another may have announced a year ago they were selling something, and now with the deal closed they got higher proceeds than they expected for selling it. Over time you get a lot of company specific events happening. They don't work on my timeline, sadly. They don't work when I want them to work, they work on their own agenda. Each company is unique and is different, but when you get 30 or 40 special situations in a portfolio, you start to have events popping quite often.

**MOI Global:** You've spent decades looking at the nuances of turnarounds and restructurings. Are there patterns you've learned to avoid, elements of turnarounds that don't turn?

**Marcus:** Or worse, turnarounds that are complete turnarounds, so they're "360s".

**MOI Global:** What do you stay away from, given your experience?

**Marcus:** I don't have an absolute rule of thumb to avoid any one particular business or sector. You never know where opportunity could turn up. Socially responsible investing has become a trend too, and while we don't manage to it I guess I have made a conscious effort to avoid things like cigarettes. We'll stay away from biotech, we'll stay away from pure venture cap stuff. There are certain areas that are not what we do. I like to think of us as being aware of the pendulum and knowing that, at extremes, there may come a time to make an exception.

To give you a more recent example, we will generally stay away from extremely heavy commodity and cyclical businesses until we believe we're at a point of unbelievable valuation, I'll say death and carnage valuations. At that point we will start picking over the carnage and may find something to do. Among that carnage, there are some industries that to me are sort of non-starters. Pulp and paper is an area that is always in restructuring mode. Talk to somebody in the paper industry and these guys always like to talk about the size of their machines, their throughput, how much they can process, whatever. They never talk about profits, they never talk about making money for their investors, they talk about tonnage and how many trees they are killing this month. Not interested. We'll stay away from that.

But, back to carnage, we generally will not have any interest until our perception is that it's death. For example, in the shipping sector, specifically dry bulk. It's an area that before 18 months ago we never looked at because the volatility, the vagaries of how this business works were not appealing to us. But once we saw the industry dying, we rolled up our sleeves and did a lot of work. This is a classic situation where you have a lot of ship owners that over-extended themselves. Business started booming as China was growing, hundreds of shipyards started to spring up in Korea and in China. These companies couldn't order new ships fast enough. Just as a huge amount of ships are coming into the system, then China starts to slow down, and the whole industry implodes. What we quickly realized after the implosion, after seeing some stocks down 70, 80, 90, 95%, was the market was valuing assets incorrectly. Whether it was a young fleet with strong management and good cost controls, or, an older fleet of ships, weak controls and weak managers, the market was valuing both those vessels at about the same percent of their net asset value. Our view was, this is interesting, they can't all be losers, they can't all be going into oblivion, all these ships can't sink.

It was right about then we realized shipping was an industry that for some reason has more conferences than maybe any other industry. There's always a shipping conference. We started going. We were the only guys smiling. There were CFO's there almost in tears, because their stock was down 95%, they were almost blabbering to themselves. You could smell opportunity because there was such distress. We came back and spent a lot of time getting to know as many players as we could. We started calling on some public ones, some private ones, just to pick their brains about how they ran their businesses. We asked each one about their competitors, some were willing to share their thoughts, some not. We realized there were some compelling opportunities and we started buying them when they were recapping. In our mind, the key and the real secret was not to go in the market and buy their stock, but to identify the best of those who were likely going to raise capital so they could push out their liquidity runway of their balance sheet for a few years. We found a few that fit the bill and could survive the sort of low level of pricing for day rates until the carnage settled out. We felt the business pick-up could be minuscule, but the leverage on these equities was so atypically huge, these were like levered stubs. Then, when we met some managements who were personally investing substantial capital during an equity raise, well that was when we decided to act.

The first company was Scorpio Bulkers, and they had raised money a number of times, before. But when the insiders we respected were putting a lot of money to work, that's when we invested. We had time to do our work and pick our spots. Ultimately the stock has more than doubled since that time, and we still think it's undervalued. Since then, we've identified a few others, Safe Bulkers is one, and it was the same concept of waiting until they were raising money.

In the case of Safe Bulkers, they were raising money to buy ships from distressed sellers. Interesting. I mean there was one company we considered, the market cap had collapsed from $800 million to about $150 million. They wanted to raise $20 million dollars, and they couldn't even raise $20 million, nobody was interested. At the bottom of the carnage, at the depths, the traditional players had tight liquidity and were not interested. They all got burned, and many of them were out of capital. The banks didn't want to lend to these guys, and rather than raising debt they were doing it via equity offerings. Equity offerings that were diluting the pre-existing shareholders. As a source of investment capital, we helped price deals. There were times where we would say, at a certain price we're interested, and anything above that we're not. We were very disciplined, because our view was that at our price, it's going to be hard to lose money. Interestingly, we told them if they would do the deal for even one cent less than that price, we had no interest. My thinking was, if Safe Bulkers did it for less than our number, it would show me they themselves have no discipline on price. If they're buying ships with the money, it's not just the dollar cost of the ships, it's how much equity they had to sell to get that money to buy the ships. Their actions had better match their claims of being a knowledgeable buyer!

To make another quick analogy, Buffett always talks about Dexter Shoes. It wasn't how much money he paid to buy Dexter Shoes, it's he used Berkshire stock to do it. I don't know what the price was, $100 million, $150 million, whatever, but over the last 25 years since the deal was done, that decision has cost him billions of dollars. All because he used Berkshire stock instead of cash. I told the CEO of this particular company in the dry bulk area the same story. We needed to know and see if this company had any discipline, or if they would do it at any price, because you're creating a higher cost for those ships. It's not the millions of dollars you'll spend, it's the equity that will forever be out there you're giving up to buy those ships. They were disciplined, so they stopped at that particular level, and ultimately, the investment has been a positive one for us, and one we remain confident in. Now, if I had a hard and fast rule avoiding any one specific industry, this is a situation we would have otherwise missed. We don't aim to handicap ourselves by forbidding any corner of the market, we want to be flexible to go anywhere.

**MOI Global:** I've heard you say the markets had the same NAV value across-the-board, regardless of asset age and management quality; how do you think about pair trades, if at all?

**Marcus:** We generally have not done too much shorting. We have structured our portfolio where we can short stocks, but my view has generally been let's focus on the businesses we want to own instead of the ones we don't want to own. We've stayed away from pairs, it's a different business. We're investors we're not traders. We will do an arbitrage situation if we think there's a compelling spread on a deal, but we're generally not doing pairs, it's not our game. There's nothing wrong with it, it's not what we do.

**MOI Global:** How do you think about regulatory regime change and tax policy change, within the catalyst playbook?

**Marcus:** In my mind, regulatory and tax changes mean there are more moving parts that companies can take advantage of today. Look, there's talk about all kinds of tax cuts here in the U.S. That would be great for the system. You'd have all kinds of capital sloshing around out there. Consumer spending would increase, you would imagine, corporates would have a higher ability to pay out more dividends, you might see a wave of M&A because there's more capital sloshing around out there that's not going back to the government in taxes. I do think cuts could be robust for the economy here, but they would have to be long term. Not just one time hits.

Look, even in Japan there are interesting tax and regulatory changes. Amazingly, recently they changed the tax rules, allowing conglomerates to spin off divisions tax free to shareholders. What is fascinating, is that in the last few years, they have implemented a variety of tax changes. The government is changing the game, trying to get things to move. This doesn't mean things will move, because it is still not an equity driven environment, but the tools are changing.

We are in a decent environment for investing, but we are in a fantastic environment for our investing in special situations. No matter where you are in the cycle there's always special situations opportunities. Every day when we're looking for ideas we're willing to go wherever the value takes us, but we don't have to go to the more extreme markets, we're not looking to go to frontier markets, we're not looking to go to emerging markets. I'd rather be in a developed market situation that sneaks into those markets… can I look at a German company that has Eastern Europe assets that are being mispriced rather than just going straight to Eastern Europe? The shareholder protections are better doing it that way. We own Bolloré, I mentioned it before, they own more ports in Africa than any other public company. You get high-growth Africa at a cheaply valued European stock price. If you and I go to invest in Africa, those ports companies are not cheap stocks. But, through Bolloré, we can get them on the cheap by sneaking in through a different vehicle in a different jurisdiction.

**MOI Global:** What are Evermore's competitive advantages that allow you to capitalize on this catalyst brand of value investing?

**Marcus:** It goes back to background and experience. The training I got working for Michael Price was invaluable, and I do try to stay true to many of his methods. As I said earlier, it's the core foundation of what we do today. I've been doing this for a long time, so even though Evermore is about eight years old, I've been investing in cheap stocks with catalysts for about thirty years. The network we have developed, I would put it against anybody's network. We have one of the best networks out there, period. It helps with idea generation too, which is another advantage. A real part of our idea generation process comes from our work screening on key words, not financial ratios.

The operating experience is another component we have that you might see in private equity firms where a partner has experience and he's parachuted in to a situation before. I believe these two elements surely give us an advantage to assess the viability and profitability of a new or recently proposed corporate strategic change. Also, like I said when you asked about capacity, the fact we are a more modest-sized firm, with a desire to stay that way, is another competitive advantage. It allows us to focus on smaller and midsize companies that many competitors can't do. I talk to friends running larger funds, and they tell me if a market cap is smaller than $12 billion, stop talking, because they can't even look at that stock. Meanwhile I have to stop talking because there's not much more to say.

Also, we have built a nice culture here of like-minded individuals who at the core have a similar philosophy. But around that core, people have different backgrounds and different experiences; that's how you leverage your team. You don't want everybody who thinks exactly the same, if you do have that, you don't need anybody else. This is a powerful team we have and it's a deep bench of thoughtful investment professionals. Our internal staff, the backbone of our robust infrastructure is my operating partner, Eric LeGoff, who has 30 years of compliance and operating experience. Eric being in place allows my team and me to focus on one thing only -investing.

**MOI Global:** How do you establish alignment?

**Marcus:** The employees are all partners with us, and so they're not just employees. Myself and Eric LeGoff, we are the largest owners. We want everybody who works here to be partners with us through profits interests, and so everybody's an owner in the firm, everybody. It's critical to do that. I want real partners, I want people who are helping us grow the firm, manage the capital, run the business, and I want them to know they're owners with us, they're not just employees who could be here today and gone tomorrow. They have to deliver, but we all have to deliver. I've been in firms where you had what we used to call plastic handcuffs, because if you had half a brain you could get the same offer elsewhere, it wasn't something that locked you in. That's a game, we're not interested in that. We want people who want to be here, and those that have been here since the beginning and helped us kick it off from the foundation, yeah, we want our team to prosper with us and with the firm as we grow.

**MOI Global:** Years ago you mentioned Evermore hosts research and investment team retreats, which is an interesting business-building process. Can you elaborate on what you're doing and why you're doing it?

**Marcus:** We do a quarterly off-site, and it's not some sort of a boondoggle. The team and I do quirky things like go to the Jersey Shore in the winter when there's nothing going on. Even those restaurants that say, "open year-round," it turns out that means Memorial Day to Labor Day, that's their year. Sometimes it's sparse, there's nobody around, but that accomplishes our goal to get away. We take the investment team, we go out of the office for three days, take everybody's phones away. We take a clean sheet of paper, we rebuild the portfolio, we go through every name. What was our thesis? What has happened? Looking ahead, everything. That's one session that takes almost the whole day. We have a real agenda, it's comprehensive, but at the top of the agenda we have lessons learned from previous meetings. Because if you don't track them, if you don't talk about them, if you don't think about them, they diminish over time and you forget about them. It's lessons learned from mistakes, but it's also lessons learned from successes; you can learn from both. We want to replicate the successes and obviously learn from the mistakes. We'll never eliminate mistakes; the key is the next mistake should be a different one that is less costly.

We also go through missed opportunities. Did we look at a stock, not buy it, and then they did well, why didn't we buy them? And so it's this learning process. It's a collaborative two-way street, I challenge the analysts, they can challenge me, we're debating. I usually assign a topic area because of something that's going on in the world or with one of our companies. We're in an age of disruption, so at the last off-site, we spent a long time talking about the whole auto industry and how that's being disrupted, so our team had to do a lot of homework. What's happening out there that may impact us anywhere today or tomorrow. It's an educational process as well.

Then, as I said earlier, we're data mining, we go back and we look at the characteristics of our portfolio, what's going on, where are things working, what's not working, and we call ourselves out. I get challenged all the time, the things that are not working. We ask ourselves the question, "at the last off-site was I making an excuse for why it wasn't working, am I making the same excuse again?" I do the same to the team and we go through it and we try to build a list of take away action points and decisions.

But one of the most critical things is the lessons learned. And it could be lessons or rules of thumb that are here to remind us. One of the rules of thumb that we've learned over time is, when a new CEO comes into a company, in the old days we were attracted to this like a magnet, but what we've learned over time is we should be attracted to do the work and nothing more. What you find is, even if you think an A-manager is coming into a previously C-managed company, well, the first thing the new CEO wants to do is blame the old CEO. The stock might have shot up because they finally hired a better caliber person or manager, but then they start taking charges, sales aren't materializing, and while the new team is getting settled in, they're trying to clean out everything and blame the old team for everything. The point is, you have time, the rule of thumb is you don't want to buy immediately. You need two to three quarters of the new guy being in there, minimum, before you should ever step in. Why? Because it always seems to happen, another shoe drops and the stock price suffers. Often, investors will then blame the new guy, and might say, oh, this guy couldn't turn it around either. Meanwhile he or she is probably doing a great job, it takes time to clean up these situations, especially if it's a conglomerate. And so patience is important. Other agenda items include a leverage analysis, where we aggregate how much debt is on different companies and we roll up how highly levered are our names in our portfolios. We also track the activists.

One of my favorite areas is old activist deals. What does that mean? An activist attacked a company, they didn't get anywhere fast, investors dumped the stock, moved on, but that activist is still lurking around, lying in wait. In those cases, we track it, we do our work, and sometimes a year or more later, an opportunity presents itself. We look at things that didn't happen eight, twelve, fifteen months ago. Has the stock sold-off since then, is it cheap, is there something likely to happen? Everybody wants such short-term gratification they don't think longer-term and because of this, you can sometimes find wonderful situations.

By example, we owned Manitowoc; we don't own it anymore. Carl Icahn attacked them a couple of years ago, when they were a quirky conglomerate. They were in cranes and kitchens for fast food restaurants, and Carl Icahn was kicking them to break up into two companies. And of course they said, "no, not interested, there are synergies between cranes and kitchens." We did our work, we said we can't get more than low to mid-20s for the value, not far from where it was trading at the time. We couldn't see what they were attacking it for at that level. Well, over the next 15 months, the company missed their numbers consistently, and the stock collapses to around 13. We tracked it and watched it, and eventually, the company issued a press release saying, "you know what, there are no synergies between cranes and kitchens, we're going to break into two companies." Carl Icahn of course was still there, it just took a lot longer. With this news, the stock did not revalue quickly. Our view was it's still worth low to mid-20s, even though they were not delivering, and so we dusted off our work. The catalysts were in place, as was the upside we demand. We ended up buying it, and a few months later, they did indeed break into two companies. The cranes business went up to about $6 quickly from around $3.50 when it spun off, while the kitchens business went from mid-teens to high-teens. All in, we were getting low- to mid-20s. It wasn't quite a double, but we owned it only about a year and were happy with our return.

Tracking the activists, less what they're doing today, but more about what they did yesterday that hasn't worked, looking backward. As I say, there's a lot of information out there, it's thinking through it. Everybody's tracking what those guys are doing today, but in the cases where an activist has taken their foot off the gas, that's where value can be found.

**MOI Global:** You have said you screen 'for words, not for numbers' – what does that mean?

**Marcus:** If you call ten value investors into this room and ask them to do screens for you, you're going to get a lot of overlap. I'm number eleven, from our group, you'd get minimal if any overlap to those. Why? We look for keywords, we do searches for post-reorg equity, spin-off, breakup, restructuring. We'll cobble together phrases like 'patriarch + died + holding company.' Do that search, you'll get a bunch of Asia conglomerates that are transitioning to the next generation. Of course, there's many other phrases or words we use that I'm not going to tell you. We have proprietary searches. It's simple to triangulate on words, anybody can do it, but for whatever reason people don't do it, it's almost too easy. It's like the old miner who steps over the gold at the threshold of the mine, but he doesn't realize it's there. He's been going into the mine for 30 years, and every day he's been stepping over the gold at the entrance to go deeper to find the gold.

The opportunities are there, and I believe words find them faster than numbers. Why? Imagine a scenario where a company might announce at their annual meeting they are reviewing strategic options within their business. Let's say they've been a mediocre company forever, so the numbers show it's cheap perhaps, but there's no change, it's been a pattern of nothing, it's a flat line forever. Well, at their annual meeting they said, "we're taking a review of our businesses, we may refocus the business and spin off non-core assets or sell them, or, we'll make a determination by year end." It can be a two liner and that's all they need to say. That comment makes it into the press somewhere, or in a small analyst blurb somewhere, we get an alert, and that's all we need. We go get the information on that company, we review the annual report, the financials. One thing I like to do is gather the last fifteen years of the Chairman's letters, understand what's going on there, and how the narrative has changed over time. Even then, the next simple question is, is it cheap, as I said before, why is it cheap, what's going to make it less cheap? After that analysis we'll say, okay, this company will break up, there are no synergies in those divisions. And if they do it, that piece should get valued at this multiple and this at that, well that's substantially more than the stock price, we should own it. Importantly, word searches allow you to capitalize on an idea before the reported financial numbers ever show it. Then, once it breaks up, the two different disparate companies will have different numbers, new shareholders, and ultimately be revalued as pure play businesses.

We do a lot of work, and say "no" to ideas way more often than we say "yes." That is how it works, in the end, there may not be enough there to merit your eye looking at it, but you'll never have known there was change at hand without looking at the words, not just the numbers.

**MOI Global:** Your prior business operating experience, I would imagine, also creates a meaningful investment edge. Could you elaborate?

**Marcus:** Sure. Well first, it is clear to me the mindset of a business operator is different than that of a financial analyst. Operating experience helps you avoid situations I would call "change for change's sake". Changes that may or may not make sense to happen, but are not likely to create value. We may not always be correct, but I feel like operating experience gives us a good sense for a change that will be value generative, and those that will not, or worse, destructive! Operating experience helps us with a sort of quality control.

Managements are coming in to our offices all the time. There's a key, meeting them here when they come to you, and then seeing them when you can go to them, it's two different meetings. When they're here they're always on a pitch, some banker helped them do a pitch book. When you see them in their office you're hearing them talk about how they think about their business. You want to do both, you want to reconcile the two. But the operating experience kicks in because, especially if it's a company that's gone through change, I believe we are more cynical. Management will come in and start spouting goals and targets. They'll say, "hey, look at our five-year goals, we're going to go from 6% operating margin to 11%." Often, they throw out all kinds of crazy numbers for even their two-year goal. And we say, hold on a minute. We went through a similar restructuring, or I did when I was on the board of company ABC. It took a lot longer then, yet, you're saying you can do it in two years. There is no way you can do that, and here's why. Tell us how you're going to do it in two years? We come in with a little more cynical and quizzical mindset. We challenge them more, mostly because we've seen the movie before and we saw it from the inside out, how hard it is to change.

We made an investment in ThyssenKrupp, the German industrial conglomerate, which was in the steel, elevators and escalators business. The CEO and the CFO, who are fantastic, were excellent examples. When they were talking about the planned change, we sort of got it, we understood them better than some investors did because they kept talking about how long their planned changes would take. Remember, investors generally want instant gratification. They probably didn't believe a German company that has been the same for 75 years was capable of such drastic change. It was harder for them to imagine Thyssen would fire people, key people, and, then to be told it's going to take a while for it to gestate. Most said, not interested. But, four years later, that's exactly what's happened.

So the operating experience helps us understand managers better when they are going to take time to do it right. Operating experience helps us challenge them more, it helps us understand who is sandbagging us, when it's the other way too. They say, "oh, this is going to take three years," but we say, "hold on a minute, that shouldn't take three years, that should take about 12 to 18 months," this guy's sandbagging us. Because they want to beat their own numbers, they're putting the bar low, not high. You end up having a better perspective when they talk about their business, you get a better feel for do they understand what they're talking about, or are they just coming in and pitching some buzzwords some investor relations guy wrote on a card for them. The operating experience helps us when we look at their plan, their restructuring, and judging the people themselves. It's invaluable and it helps us understand the inner workings of how the boards work and the interaction between management boards and supervisory boards in places like Germany. It helps us sort of digest a little better.

**MOI Global:** David, it's wonderful to learn from you. Thank you very much.

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Evermore Global Value Fund – Top Ten Holdings as of June 30, 2017:

| Evermore Top 10 Holdings | | | |
|---|---|---|---|
| Security | % Net Assets | Security | % Net Assets |
| Enzo Biochem Inc. | 6.76 | Vivendi SA | 3.97 |
| Scorpio Bulkers, Inc. | 4.87 | Bollore SA | 3.91 |
| Ainmt AS | 4.84 | NN Group NV | 3.69 |
| Aurelius Equity Opportunities | 4.13 | MagnaChip Semiconductor Corp. | 3.55 |
| Codere SA | 4.08 | Ambac Financial Group, Inc. | 3.51 |