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News

# This 'Barbarian' Banker Has Turned Into a Friendly Activist

Cliff Robbins used to be a barbarian — one of those private-equity dealmakers at KKR & Co. who ended up in the book that defined the Wall Street of the 1980s.

Today he is making a mark as the practitioner of friendly shareholder activism.

Robbins doesn't publicly deride his targeted companies or file lawsuits to force changes and has yet to wage a proxy war for board seats — all sticks activists typically use when confronting recalcitrant corporations. Instead, he buys into companies that are willing to listen to him.

Make no mistake: Robbins, 57, is still in it for the money. But his strategy seems a departure from KKR's epoch-defining buyout of RJR Nabisco, the $25 billion megadeal chronicled in the book "Barbarians at the Gate: The Fall of RJR Nabisco."

"We're a friendly activist, that's been a key to our success," said Robbins, referring to the hedge fund he founded in 2004, Blue Harbour Group. "We don't invest if we don't like the management team, we don't invest where we're not welcome."

Robbins calls it a private-equity approach to activism and he has a very different view of KKR's dealings than that barbarian title implies. Still, his goal is the same: to convince management to enrich stockholders through dividends, stock buybacks, spinoffs and other measures.

Critics argue this brand of investing often puts short-term rewards for shareholders ahead of the long-term health of companies.

## POISON PENS

Since the days of the corporate raiders of the 80s, shareholder activism has evolved into a formidable asset class, with an estimated $200 billion to invest. Carl Icahn has rebranded himself as an outspoken shareholder advocate. Latter-day activists including Dan Loeb, Bill Ackman and Jeff Smith often wield poison pens and take advantage of invitations to criticize portfolio companies on business television.

Blue Harbour, which manages about $3.8 billion, has taken active stakes in about 50 companies as diverse as burger chain Jack in the Box Inc., women's clothing retailer Chicos FAS Inc., oil driller Nabors Industries Ltd., and Internet performance improver Akamai Technologies Inc.

Blue Harbour typically buys 5 percent to 10 percent of enterprises with market capitalizations between $2 billion and $10 billion, a size often neglected by bankers pitching strategic and capital ideas. His approach can achieve the same results buyout firms shoot for, without having to pay the takeover premium for absolute control, he said.

## 'NASTY LETTER'

So far, Robbins's strategy is working for investors, including pensions like the California State Teachers' Retirement System, university endowments and sovereign wealth funds. Blue Harbour returned 15 percent net annualized over the past five years with its flagship activist Strategic Value Partners fund, which hedges risk by also shorting some correlated securities.

Compare that to 8 percent from the HFRX Activist Index, which tracks fund performance. Blue Harbour's long-only activist fund Active Ownership Partners is up 45 percent since starting in 2013.

"The number of transactions that Cliff and Blue Harbour have achieved relative to most others is fairly significant, and yet you don't really see him out there in the headlines," said Gregg Hymowitz, whose $12 billion Entrust Capital Management invests with Blue Harbour and other activists. "The fight is the exciting thing, the nasty letter to the board. No one wants to read about a bunch of thoughtful guys sitting in a room figuring out the tax advantage of a unit spinoff."

Blue Harbour Group CEO Cliff Robbins. Photographer: Chris Goodney/Bloomberg

With Blue Harbour's backing, for example, Babcock & Wilcox Co. is spinning off its power generation business, Investors Bancorp Inc. just authorized a second buyback and Conversant Inc. sold itself to Alliance Data Systems Corp.

## RACKSPACE HOSTING

Last year, Blue Harbour bought a stake in Rackspace Hosting Inc., an investment that was greeted with some "leeriness," said Chief Executive Officer Taylor Rhodes. Shares of the provider of managed cloud storage were battered by a misstep into competing with Amazon.com Inc. in cheaper cloud offerings. Rackspace hired bankers after buyers circled. Then the activist arrived.

"Blue Harbour began a very constructive conversation with us," Rhodes said. "It was clear that the team had done their homework. They said, 'We're here for longer, we're not going to get nasty in the press, but in return' — there's always an in return — 'we do have a point of view on capital structure, and we want you to listen to us.'"

Rackspace re-focused on its premium cloud offerings, abandoned sale efforts and authorized its first $500 million buyback. The stock has gained about 25 percent since Blue Harbour first disclosed a stake.

**DOMINO'S PIZZA**

Blue Harbour's biggest mistake, Robbins said, became a lesson in knowing when to sell. The firm persuaded Domino's Pizza Inc. to borrow against its franchisee royalties and pay a fat dividend. Instead of selling high, Blue Harbour stayed invested and lost most of those gains in the financial crisis.

Robbins, a graduate of Harvard University and Stanford Business School, joined KKR from Morgan Stanley as an associate just 18 months before the PE firm entered the October 1988 bidding war to take Nabisco private.

Robbins worked for years with Nabisco, serving on the snack maker's board during KKR's ownership, and even met his wife while she was working in the public relations department. Robbins left KKR as a general partner at the end of 1999 for PE firm General Atlantic Partners, and four years later decided to try his idea.

**'CATCHY TITLE'**

He disagrees with the "barbarian" label coined by authors Bryan Burrough and John Helyar, insisting KKR bought Nabisco in a fair auction and worked profitably alongside management.

"While it was a catchy title, 'Barbarians at the Gate' was not at all an accurate characterization of private equity's style and approach," Robbins said. "PE taught me the importance of finding good, open-minded management teams and the skills to work in partnership with them. If you back a smart manager who is hard-working and has high integrity, they know how to create a lot of value when things go well — and protect your capital when things don't go so well."

*By Beth Jinks*