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SPOTLIGHT Blue Harbour's Robbins on M&A, Cyber-Security Companies, Consumer Stocks

Clifton S. Robbins, founder and chief executive officer of **Blue Harbour Group LP**, spoke to Kelly Bit about his expectations for M&A, the firm's approach to activist investing and some of its current holdings. The Greenwich, Connecticut-based fund, with $1.6 billion in assets, is up 11 percent this year through May 31 after returning 16 percent in 2012. It has returned an annualized 15 percent since 2009.

Q: How did Blue Harbour start?

A: Blue Harbour was founded in 2004. I had been in the private equity business for 17 years at KKR and General Atlantic. As I reflected on all the transactions I'd been involved in, I saw that the key to creating value wasn't so much leverage as it was backing the right management teams that were open to change. By 2004, in the wake of the Enron-era scandals, there was an emerging change in the attitudes of boards and managements of public companies about listening to their large stockholders. So I thought if I could apply my private equity experience to public markets it would be an interesting business.

Q: How is your strategy different from other activists'?

A: First, we're exclusively collaborative. Over nine years we've never done a proxy contest, we've never sued a company, we've never taken a publicly adverse position to our management teams. Our approach is only to invest in companies where we like and respect the management team, where we think they're clever and seem open to finding ways to unlock value and listen to new ideas. The other thing that differentiates us is we focus mainly on companies in the $1 billion to $5 billion range. This is where we think the best opportunities lie. Companies of that size don't often have the resources to come up with or fully analyze all possible alpha-generating ideas, and they're not so large that investment banks are thinking about how these companies can unlock value. We have roughly 20 employees and there are seven senior members of our investment team, so we are able to contribute a lot of valuable experience and analytical resources to these companies.

Q: How many positions do you hold?

A: We always have between seven and 10 core positions at any one time, investing between 6 percent and 10 percent of our capital in each, for a 5 percent to 10 percent stake of the company. We typically also have a handful of smaller "farm team" positions — the companies we're still getting to know or still finishing our research to see if they can become a core position.

Q: What opportunities are you seeing?

A: There are three major tailwinds at the moment. One is the sea change in corporate governance. The second thing is optimizing balance sheets. In 2008, most companies were caught unaware and were overleveraged. Companies spent the next two years stopping cap-ex, raising debt, selling equity, raising cash. Now you have trillions of dollars of cash on corporate balance sheets earning nothing at these low interest rates. This is a very fertile opportunity for active investors to help companies create value by doing clever things with that cash, such as buying back stock, paying a special dividend or making an accretive acquisition. The third thing is M&A — the seeds are sown for huge M&A. You've got cash on corporate balance sheets, low rates, incredibly accommodative financing markets where high-yield and bank debt is being done without covenants at very low rates. You have the accretive nature of most strategic deals. You have private equity funds that have about $300 billion of unfunded capital commitments in their hands. The only thing that's been missing is confidence in the board room. As the economy is healing, confidence is increasing in board rooms.

Q: What's in the portfolio now?

A: Our major positions include CACI, a large defense company in the cyber-security and antiterrorism business that does software, consulting and intelligence reconnaissance. It generates lots of cash, since it doesn't manufacture anything. The company has bought back about a third of it stock since we've been involved. We have a new core position in Akamai, a technology company, and it really touches 20 percent to 30 percent of all the web traffic in the world every day. Their specialty is in video. They're also big in cyber-security, the cloud and mobile web applications. This is a company that has significant mega trends supporting its business, a debt free balance sheet and $1 billion of cash, all in the U.S. Our other core positions include Jack in the Box, Employers Holdings, Progressive Waste, and Chico's. They have four divisions at Chico's: one called Chico's, which is a misses business that has a loyal customer base; White House/Black Market, which is much more fashion forward; Boston Proper, which is a catalog business; and Soma, which is an intimate apparels business. The stock market is valuing Chico's today at about six times Ebitda. We've been working with Chico's on two things: we urged them and they announced about three weeks ago a big $300 million share buyback at the current low valuation.

AT A GLANCE

Age: 55

Hometown: Short Hills, New Jersey

Residence: Greenwich, Connecticut

Education: Harvard College, Stanford Graduate School of Business

Professional Background: General partner, KKR; managing member, General Atlantic Partners

Family: Married with three sons **Favorite Hobby:** Golf

Charitable Work: Overseer, Memorial Sloan Kettering Cancer Center