SouthernSun Asset Management - 4th Quarter 2009 Conference Call
January 20, 2010, 11:00 AM EST
Chairperson: Michael Cook (CEO/CIO)

Operator: Ladies and gentlemen, welcome to the SouthernSun Asset Management Fourth Quarter 2009 Conference Call on the 20th of January, 2010. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press the star followed by the zero on your telephone for operator assistance.

I will now hand the conference over to our host, Michael W. Cook, Founder, CEO and Chief Investment Officer. Please go ahead, sir.

Michael Cook: Thank you, David, and good morning to everyone. Again, we want to welcome you to the SouthernSun Fourth quarter conference call for 2009 and portfolio update. We appreciate your attendance and hope that this will be helpful.

As noted on the second introductory slide, this morning's agenda will proceed as follows: we'll begin with my making comments with respect to the business and activity in the fourth quarter along with a discussion on our market outlook point, followed by my Mike Cross, our Managing Director and Analyst, followed then by Rebecca Smith, and Phillip Cook will conclude. Then, we will come back to me for a question-and-answer time.

By way of introduction, if you look on page 1 of the presentation, we ended the quarter with just under $1.34 billion in total assets under management at the firm. I will note, however, that as of the close of business yesterday, we were over $1.4 billion as a firm. Our client mix remains very stable and has not changed appreciably from past years.

From an organizational standpoint, we had no changes during the quarter; however, I am happy to note that we did add two new members to the SouthernSun family. Jim was married during the quarter and Peter is a proud new father. Congratulations to them. I also would like to remind consultants, you can now access all of the standard current and historical information on our firm and our small and mid cap strategies through the major databases.

Moving on to slide 2. Over the course of 2009, you may recall that we regularly espoused the view that the market was a general reflection that most assets were worth zero. You may even recall our interim commentary back in March of '09 and a specific illustration that we gave to help communicate that notion. We also, on a number of occasions, throughout the course of the year, suggested that we would begin to have a greater confidence in valuations when businesses began to make multiple strategic, predominantly bolt-on acquisitions. As illustrated on slide 2, it appears we may be in the early stages of such a shift to fundamental valuation. As you can see in the diagram, prior to October of 2008, there were multiple buyers and sellers in the marketplace. Our view was that as management teams managed their businesses for cash, they became more concerned with the accumulation of cash, and, as a result, bids in the marketplace for assets literally dried up as we saw deleveraging in the system.

During this period, with many of our companies, we saw expense cuts, restructuring and new technology innovations put into place over the course of the following nine months. As we entered the last quarter of 2009, what we began to see, and this diagram shows, is exactly what we had expected, and that is, with the cash gains that had been made over the course of the year, the deleveraging and/or restructuring of debt that took place amongst many of our businesses, coupled with a new sense of fundamental valuation confidence in the marketplace, we began to see merger and acquisition activity pick up. I think it's interesting to note, while recently, there have been several large scale acquisitions, a few of which are noted on the left side of the page, most acquisition activity really began in the small and the mid-sized business space, which is not a surprise to us knowing these businesses as we have for the past 21 years. I think there are three reasons why we began to see this activity pick up, particularly in the last quarter of the year.

First, there was a higher degree of confidence in the financials that businesses were evaluating as they went out and looked at potential acquisitions. Second, our businesses established more clarity regarding their own business models. I think that it took at least nine months, if not longer, for most businesses to understand their own position as a result of the downturn, and then begin to make plans for the future. And third, and probably as important as any, opportunities are still out there in the marketplace to leverage the skills and the capabilities of our businesses without adding debt. As you will see on this slide, nine of our companies made acquisitions over the last several months - many of which were product oriented or distribution oriented, and we all believe are very nice additions in the long run.

I would also note that, over time, over the last 21 years, I can't probably recount the number of times that I've been asked whether or not we have many of our businesses bought out, simply because we do buy businesses that are overlooked, under-invested in and typically generate quite a bit of cash, it might seem reasonable that that occurs. My response for the past 21 years has simply been that that has occurred from time to time, but generally speaking if you look at our businesses over the last 20 years, one of the key elements has been that we typically, because we spend a lot of time on the front end with this, we typically buy management teams that know how to buy businesses, and this enables us to keep your portfolio concentrated, and yet allow the businesses within that portfolio to leverage the capacity that we have within those particular portfolio positions.

You'll also note that two of our businesses were acquired in recent days. One actually being announced on Monday, this week, CFL, which was Brink’s Home Security, now known as Broadview Security, was purchased by Tyco / ADT for a price of $42.50. Earlier, at the end of last year, Chattem was purchased by Sanofi-Aventis, and you'll hear more about that in a bit, for $93.50.

For 2010, I'd like to make three statements. One, we see domestic and international regulation taking center stage in the areas of finance, energy, healthcare and labor. We believe that all of these areas will see substantial battles with respect to the regulatory environment in which they operate. Two, governments are not blind to the corporate return to profitability. Three, thus, this leads to, in our view, a tug of war which may will make for a very, very uneven year from a performance standpoint.

Things that we would look for are really twofold. One, regulation may push more business out of the United States, and even out of the EU, and head towards developing markets. This, we believe, would favor those companies with current capacity in alternative locations with a history of local experience. And second, the energy discussion will take on meaningful shifts. We don't believe that the discussion, as we've seen it over the past two or three years, will be the same, but there will be some significant shifts.

Just as a note, I'll be in San Francisco later this week meeting the chairman and CEO of one of our portfolio companies, and in several weeks I'll be travelling to London, Istanbul, Hong Kong, and several locations in China to visit with facilities and managers of facilities of many of our portfolio companies.

I'll now pass the presentation to Mike Cross.

Michael Cross: Thanks, Michael, and good morning. As most of you know, our investment team has frequent conversations with the management of our portfolio companies and we visit their plants and facilities regularly. We use these conversations to probe on business issues that we're concerned about and to better understand their opportunities for growth and profit improvement. We also use these discussions to take their pulse and assess the health of their businesses and the economy in general. We ask about order patterns in different parts of the world; we ask about the different components of their cost structures, their hiring plans and margins going forward, and we ask about plans for capital expenditures and whether they are in the hunt for acquisitions. Then our investment team comes together to review the different points of view that we've heard, and today, we thought it'd be helpful to share with you some of what we have been hearing.

So let's start on page 3 of your material, with what we've been hearing about demand. In general, our companies tell us that demand is still depressed, but orders probably bottomed in the second or third quarter of last year. And, what we're hearing has some clear regional themes.

North America seems to have bottomed last summer, and a lot of channel and customer inventory adjustments have already occurred, though both AGCO and Polaris would still like to get their dealer inventories a bit lower. Cash for Clunkers gave a few of our companies a little bump in demand in the third quarter, but, as we expected, the increase in demand was not sustainable. Both Darling and Smithfield confirmed that livestock volumes are not showing any signs of improvement, and while there's chatter in the press about growing food exports to China and other emerging markets, those export orders have yet to show up at Smithfield. Rail car demand is very low, with industry wide lease-fleet utilization rates in the low 80s, and without much sign of improving unless the government comes out with some new safety regulations driving some changes in specifications. And the North American consumer, though not dead, is far from healthy. December retail sales data supported that view. Until we see meaningful job growth, less consumer debt deleveraging and a recovery in home values, we don't believe that we're likely to see consumer spending rebound in a meaningful way. With consumer spending driving 70% of the U.S. economy, we are not optimistic about a consumer led economic recovery. In addition, Jim Wright, the CEO of Tractor Supply Company, thinks the US consumer's spending behavior will be different going forward. He believes consumers will be more prudent shoppers; they will be more cost conscious, and this belief has driven Tractor to focus more floor and shelf space on consumable and edible products as opposed to big ticket items.

The weakest region in the world seems to be Western Europe. Cascade saw sales in Europe fall by 57% through October, and they don't see a meaningful European order rebound in the near future. A slightly more favorable perspective comes from conversations that Phillip and Elliott had with AGCO management last quarter. Remember, AGCO is our tractor manufacturer that's a market share leader in Europe; they at least reported the demand in Europe was no longer dropping. The brighter data on demand is from companies that have exposure to emerging markets. Cascade's business is up in China and Arch Chemical’s business in China has also held up well. The companies that have relatively rosy outlooks are those that have more exposure outside of the US and Western Europe, and those that see demand from the government.

Moving on to slide 4, one of the things that we really like about our portfolio is that, even though this is a U.S. equity strategy, many of our companies have exposure outside of the US, and particularly in emerging markets. On average, 27% of our portfolio companies' revenue comes from outside of the US, and compare that to 18% of the revenue of the companies that make up the Russell 2000. Six out of 21 holdings in our small cap portfolio have more than 50% of their revenues generated outside of the US. And a few of these companies are shown in the pie charts on this slide, you can see how sales break out geographically for AGCO, for Nordson, Chicago Bridge and Iron, Newport and Arch Chemicals.

In addition to demand in emerging markets, the other bright spots are demand for goods and services bought by the federal government and for projects relating to national security or energy security. Chicago Bridge and Iron won several new awards during the second half of the year, and they left the year with a higher backlog than they had at the end of 2008. In the UK, we've seen investments in the LNG infrastructure to reduce reliance on natural gas from Russia. Similarly, Chile has been building LNG facilities to reduce reliance on Argentina. URS has consistently told us that demand from the federal government is strong, both from the Department of Energy and the Department of Defense. They're seeing projects related to base realignments, projects related to Afghanistan, and nuclear power, and even though state budgets are in bad shape, there are a lot of project specific bond issuances and taxes that are driving demand and allowing projects to be funded.

So, in summary, in terms of demand, six months ago, most companies didn't know where the bottom was. Now, most are seeing some stability in order patterns, and some are seeing quarter over quarter growth. Those that have exposure to emerging markets and those that have sales driven by federal spending, national security or energy security, are in relatively better spots.

It's in these sorts of economic conditions, that is, when the economy itself won't provide huge opportunities for top line growth, that it is even more important to have companies in our portfolio that are staying on offense, and management teams that are going to deliver performance even in these difficult environments by finding ways to grow, and finding ways to improve profitability, finding ways to position themselves for the eventual recovery. And we really like the way many of companies have the balance sheet flexibility to remain on offense.

Moving on to slide 5, I'll give you a few examples of companies that have discussed significant top line growth initiatives. One of our newer holdings, Jo-Ann Stores, which Phillip will talk about more later in the call, has seen same store sales increase by 4%, and by getting the right mix of products in their stores and by targeting new stores near Walmarts that are exiting the fabric business, they're executing a plan that should grow both the top line and their gross margin percentage. Middleby, another recent addition to the portfolio, continues to make opportunistic acquisitions to broaden their product line of leading brands for the hot side of commercial and institutional kitchens. AGCO is expanding Fendt capacity in Europe. OGE has expanded their regulatory base on which they can generate revenue, and they're making changes to make their natural gas processing business less volatile. And Tractor Supply Company has said that they'll continue with their plans to open 70 to 90 stores this year.

In summary, general economic conditions may not drive dramatic top line growth in 2010, and that's why it's important to invest in companies with capable management teams that are executing sound strategies for growth and for improving their financial returns.

Moving on to slide 6. Another bright spot on the horizon is that we believe we will see higher gross margins and operating margins from our companies in 2010 versus 2009, and even better operating leverage when sustainable demand does return. Almost all of our companies took fixed cost out of their business in 2009. Just to name a few: Nordson, Polaris, AGCO, Smithfield, Cascade, Arch, Newport and Koppers. All these companies reduced headcount or rationalized facilities or exited unprofitable products or customer relationships. Most of these actions were taken in 2009, and some were accompanied by significant restructuring charges to their P&Ls. In 2010, they will not have to take these restructuring hits, and, they'll have a full year run-rate on their cost savings. In addition, when volumes return, they'll have lower fixed costs to cover.

In terms of capital spending, in general, our companies remain cautious with their spending plans. Strong projects are getting approved, especially those that have quick paybacks or those that are safety related or driven by regulations - though most of our companies continue to invest in their important strategic initiatives. For example, as I mentioned earlier, AGCO is spending 200 million euros to expand Fendt production capacity, and Chicago Bridge and Iron is investing in the capacity to build modules centrally and ship them to more dangerous parts of the world where their customers have projects versus staffing up to build modules on site in less desirable locales.

From a cash flow perspective, in 2009, many companies were able to generate cash by reducing accounts receivable and inventory. These kinds of reductions will be much harder to replicate in 2010, and actually, as sales begin to come back, working capital will have to increase and will be a drain on cash.

Most of our companies, or many of them, have continued to strengthen their balance sheets. Middleby and URS both continued to pay down debt. Several have negotiated or renegotiated maturity dates on lines of credit or notes. Trinity raised cash by borrowing against their relatively under-levered rail car fleet. Koppers tendered their high rate notes. AGCO has a strong cash balance. And Jo-Ann Stores, Columbia, Tractor Supply Company and Darling have no net debt. Several of our companies that have strong balance sheets and continue to generate discretionary cash flow are hunting for opportunistic acquisitions, and as Michael discussed, we've had nine of our portfolio companies announce acquisitions and others have indicated that they're in the hunt. As Michael said, by and large, these aren't big deals, they're typically bolt-on acquisitions that will improve their market position and niche dominance.

On slide 7, you'll see that we still believe that there are macroeconomic headwinds that could make this a more modest and even a shakier economic recovery. The key issues on our minds are consumers, banks, and government actions. As mentioned before, high unemployment, higher personal saving rates, personal debt deleveraging, increasing gasoline prices and weak home values, all make for a weakened consumer, and without a strong consumer, a recovery cannot be very strong. Banks are likely to continue to struggle with commercial real estate losses, and the uncertainty of new regulations. And, until those issues are behind them, lending may not be as robust as is needed for a strong recovery. And as our government continues to expand its influence over more and more private enterprise activity, and until the costs associated with healthcare programs, energy policies and employment policies are more clear, businesses are going to be slow to hire. Despite these concerns, we are in much better economic shape than we were one year ago. But more important than the macroeconomic forces, for SouthernSun, we have confidence in the management teams and the business models of the companies that we own. And that gives us confidence going forward and for the long run.

And now, I'm going to turn it over to Rebecca to review the performance of the portfolio.

Rebecca Smith: Thanks, Mike. As you can see by the chart on page 8, we ended fourth quarter up 7.2% which was ahead of the Russell 2000, which returned 3.9%, and the Russell 2000 Value, which returned 3.6%. We therefore closed out 2009 ahead of both benchmarks and are outperforming the Russell 2000 and Russell 2000 Value over all standard time periods and since inception. We've also been leading both indices in January as of yesterday's close. If you turn to slide 9, we detailed our attribution for you. From this perspective, we were well positioned from a sector allocation standpoint during the quarter, as financials, technology and healthcare all lagged, and we are currently substantially underweight in these sectors. More importantly though, our stock selection for the quarter was quite strong, and was positive in every sector except for materials, which you can see in the rightmost column in the attribution table. Specifically, stock selection was strong in the consumer staples and consumer discretionary sectors, led by our position in Chattem, which announced that it would be acquired by Sanofi-Aventis in December, and Phillip will go into that more later in the call. On the negative front, our zero weightings in energy did hurt the portfolio, as did our cash position, which continues to be about 7 or 8%. Our stock selection in materials, as I'd mentioned, was also disappointing, primarily due to James River Coal being down modestly during the quarter and general weakness in the coal markets.

Given this is a year-end call, we also wanted to look back at our performance throughout 2009. As I'd mentioned earlier, we outperformed both of our indices on a relative basis for the year. Given we faced a few significant headwinds though for 2009, we are quite pleased with our final results. If you turn to slide 10, you'll see that some of our heaviest portfolio concentrations were in the worst performing sectors for 2009. Of course, we're purely bottom up stock pickers who pay little attention to trying to guess which sectors will be in and out favor at any given time. But the dispersion of returns across sectors was pretty notable in 2009. As you can see on chart 1 on the left, consumer discretionary, technology, materials and energy handily beat the Russell 2000's Average Index return of 27%, and we maintained nearly zero exposure to energy and a 15% underweight to technology throughout all of 2009. Looking at it another way, over 60% of our portfolio was concentrated in the five worst performing sectors, all of which led the Russell's overall return.

Secondly, as many of you know, micro caps led much of last year, particularly in the back half of the year, as the economy began to recover and lower quality stocks tended to lead. If you look at chart 2, on the right, we've taken the Russell 2000 and divided it by market cap ranges. We show the significant dispersion in small cap stock returns, depending on whether you were invested in micro caps or more heavily on the top end of the Russell 2000 in stocks with market caps of $1 billion or greater. This, again, presented an uphill battle for our portfolio in 2009. As you can see on the bar chart from left to right, we were significantly underweight stocks under $1 billion in market cap relative to the Russell 2000 allocation to those sized stocks. These smaller stocks really outperformed those above $1 billion and $2 billion in market cap, where much of our portfolio is currently concentrated. So despite a pretty difficult environment for our portfolio in terms of sector positioning and market cap exposure, we are really pleased that we were able to outperform for the year. In the end, our strong stock selection was what really carried the portfolio in 2009.

Turning to page 11, I just want to quickly touch on our smid cap strategy for those of you invested in that product. Much of the same performance attribution themes that I'd mentioned for the small cap strategy, held for the smid cap strategy during the quarter. Again, we handily beat both benchmarks for the fourth quarter and rounded out 2009 well ahead of the Russell 2500 and Russell Mid Cap indices, as you can see in the bar chart on the right. In January, we're also up relative to both benchmarks as of the close yesterday. And on slide 12 from an attribution perspective, you'll see that our stock selection was positive in every sector in the benchmark during the quarter and really accounted for the majority of our outperformance, which is highlighted again in the right hand column of the attribution table. Our underweight to financials was also a big help in the fourth quarter, as it was through much of 2009. As in our small cap strategy, our cash position and zero weighting to technology were really the primary negative drivers for our performance. And at the stock level, Flowserve and Columbia Sportswear were also down 3 to 4% during the quarter, which also detracted modestly from our portfolio performance.

And with that, I'll hand it over to Phillip to go through stock level specifics for the portfolio.

Phillip Cook: Thanks, Rebecca, and good morning, everyone. Slide 13 gives you a list of our top contributors and detractors for the fourth quarter and I'll spend just a few minutes describing a couple from each category. So turning to slide 14, you will see that our top two contributors for the quarter were Chattem and AGCO. Chattem is not your normal long term SouthernSun holding, as it entered the portfolio in early October, and subsequently made an announcement in late December that it had agreed to a sale with Sanofi-Aventis for $93.50. This news was certainly a positive way to end the year, but somewhat bittersweet at the same time. As you know, we don't typically have high turnover and don't find a whole lot of companies that meet both our qualitative and quantitative criteria. So after following Chattem, literally for years, and finally becoming comfortable with the upside in the stock, it was taken away from us less than three months later. But I guess that's a good problem to have.

Just to provide a bit of background before moving on, Chattem manufacturers and markets a portfolio of over-the-counter healthcare products, including market leading brands, such as Icy Hot, Gold Bond, Cortisone-10, Selsun Blue and ACT Mouthwash, to name a few. This company has an experienced management team that, in our opinion, has done a nice job in integrating multiple acquisitions over the past five years, and has industry leading gross margins. We believe their strong cash flows have allowed them to spend more than their competitors on advertising and promotion, thus, steadily improving their market share in a number of key product segments. Apparently, French pharmaceutical giant, Sanofi-Aventis, saw the same thing, and offered to pay a 34% premium over the previous day's closing price, which we see as a fair price at this time.

Moving on to AGCO, unlike Chattem, AGCO has been a part of the portfolio for years and continues to be a high conviction name for us. Third quarter results were weak as demand across the globe continued to be sluggish. However, we are confident that working capital management and cost controls should help to generate around 200 million in discretionary cash flow for 2009. Management has been diligent in reducing inventory at both the company and dealer levels for the past couple of years, and has continued to improve the cost structure while leveraging their scale.

Another thing we like about AGCO is management's focus on implementing a long term strategic plan even in the face of short term pressures. For example, as Elliott and I saw in our recent visit to the Fendt facility in Marktoberdorf, Germany, and the Massey-Ferguson facility in Beauvais, France, AGCO is investing in significant expansion at Fendt and in operational improvements at Massey, while implementing a company-wide manufacturing process so that the company is more productive, more cost competitive and is the technology leader coming out of this down cycle.

Now let's take a look at a couple of the detractors for the quarter on slide 15. First, looking at Middleby Corporation, which was down about 10% for the quarter, and is a fairly new name for the portfolio. As a reminder, Middleby is a market leading manufacturer of commercial cooking equipment on the hot side of the kitchen, with customers that include all of the top five pizza chains, Yum! Brands, Subway, Panera Bread, McDonalds, Quiznos, Starbucks and many other leading restaurant chains. Excluding the revenues of their three recent acquisitions, sales were down 20% in the third quarter, as continued difficult economic conditions caused more people to eat at home, and as a result, most restaurant chains saw same store sales decline in 2009. Gross margins were down in absolute dollar terms, but increased by 140 basis points to 40.3% in the third quarter, due to lower steel prices and cost reductions, which more than offset volume related headwinds. In December, Mike and Rebecca and I met with Middleby's senior management at their headquarters outside of Chicago, and toured one of their manufacturing facilities. Management communicated to us their optimism about new product development, strengthening customer relationships, operational improvements and their ability to continue to find acquisition targets that will further broaden their product offering for the hot side of the kitchen. In addition, we believe that they have growth opportunities as their customers expand in emerging markets, and as stimulus money begins to flow into institutions, such as schools, hospitals, nursing homes and correctional facilities.

I'd like to quickly point out one of the reasons we're confident in Middleby's strategy, and that's the fragmented nature of this industry as well as management's proven track record for making accretive acquisitions and integrating these businesses effectively and promptly. For example, in early 2009, the company acquired TurboChef Technologies for $197 million, and turned a negative cash flow business into a strong positive EBITDA generator in just three quarters and sees continued improvement as they complete the integration.

Lastly, we'll take a look at Columbia Sportswear. Columbia's also been in the portfolio for quite some time and wasn't so much a detractor for the quarter as it was a relative underperformer - finishing the quarter basically flat after the stock rose substantially in the third quarter. The stock traded in line with peers and clothing retailers, as most companies were fairly conservative in their holiday spending forecast, and retail sales figures for December were nothing to get too excited about. In addition, although Spring 2010 backlogs are showing some improvement over 2009 and Fall 2009 backlogs, we believe it will still be a soft first half of the year for them. We continue to be impressed with management's renewed focus on innovative products and marketing and their willingness to stick to their long term strategy, despite short term headwinds. They're making calculated investments in a number of areas, and we're excited about their opportunities for 2010 and beyond. In addition, the balance sheet remains rock solid with close to $200 million in cash and no debt as of the end of the third quarter.

Now, I believe the final slide is slide 16, so I just want to take a moment to walk through our newest position, Jo-Ann Stores, which has been referenced a couple of times earlier in the call, and I'll just take a minute to go into a little bit of detail on what attracted us to Jo-Ann and why we believe this is a good addition to our portfolio.

Jo-Ann is the nations' largest specialty retailer of fabrics, and one of the largest specialty retailers of crafts. The company's retail stores and website feature a variety of competitively priced merchandise used in sawing, crafting and home decorating projects. As much as I would like to say that this idea came about while Peter and Elliott were taking their scrapbooking class, the idea was actually generated through general market surveillance, and entered the portfolio early in 4Q after meeting our investment criteria of niche dominance, financial strength and management adaptability, as well as what we believe to be a significantly undervalued stock price. Historically, Jo-Ann was a fabric-only retailer that was not completely reaching its full potential in many ways. New leadership came in four years ago, and has consistently and methodically carried out and refined a strategic plan to improve both the product offering as well as right-sizing stores and cutting costs. We had spent significant time talking with management and visited their state-of-the-art distribution facility in Alabama, and have become comfortable with, not only their plan, but also the people carrying out the plan and the operational structure to do so successfully.

As for niche dominance, Jo-Ann is number one in the US in fabric and very close to the top in crafts. Big retailers, like Walmart are getting out of the fabrics business because their opportunity cost for that floor space. Other small retailers either lack scale, like Hancock, are more specialized, like Calico Corners, are not committed to the product's categories, like Hobby Lobby, or still only crafts, like Michael's. Mixing fabrics, which has 40% plus margin in crafts, which was 50% plus margin, allows Jo-Ann Stores to get a satisfactory gross and operating margin. Ongoing investment in new stores should provide improvement in operating performance despite very little net increase in retail floor space due to other store closures. From a financial strength perspective, the company is in a position to call the remaining amount of debt of $48 million in March of this year, and is capable of generating significant discretionary cash flow which gives management the ability to allocate significant capital toward store expansion, dividends and share repurchases.

In addition, debt is not required in their capital structure to justify further investment in the business because of a solid cash return on assets. Finally, we believe current management has a proven track record of allocating capital. They have delivered the balance sheet and begun the process of right-sizing stores. They also intend to build around these Walmart stores as Walmart exits the fabric business, which we believe is a meaningful opportunity. We are confident that this management team and board of directors with significant retail experience, will take full advantage of both top line and operating cash flow opportunities, which we believe have not been fully recognized by the marketplace.

With that, I will now turn the call back over to Michael.

Michael Cook: Thank you, Phillip, very much. Before we turn the call back over to David for questions and then hopefully answers from us, I would like to give you some insight into something that is going to be a part of our investment team over the course of 2010. As you know, we've now been together for a good deal of time as a team. I have been amazed at how quickly the chemistry has melded together and the amount of productivity that we get working with one another. But as we proceed on towards our ultimate objectives as an investment team, we believe that it's important to take time away to really drill down and begin to deal with ways that we can continue to encourage discipline and hold one another accountable that allows us to maintain the philosophy and process that the firm prides itself in as having very carefully implemented over the last 21 years. We think that the way to do that is to take several opportunities to get out of the office as a team where we have limited, if any distractions, and really spend a concentrated period of time. Our first trip will be in a couple of weeks, and then we'll have several others over the course of the year. I think it's important for you to understand our clients and those who assist our end clients to know that our long term objective as a team is one where we become more and more in tune with each other's strengths and weaknesses, and we find effective ways to hold each other accountable so that we might be the best that we can possibly be on your behalf.

So at this point, I will turn the call back over to David to give you instructions on how you might ask a question.

Operator: Thank you, sir. If any participant would like to ask a question, please press the star, followed by the one on your telephone. If you wish to cancel this request, please press the star, followed by the two. Your questions will be polled in the order they are received, and there'll be a short pause whilst participants register for a question.

The first question comes from Angelo Barr. Please go ahead.

Angelo Barr: Just a quick question. Can you please tell us what the overlap is between the small and mid cap product in terms of position?

Michael Cook: It's about 50%.

Angelo Barr: Do you have roughly the same number of the number of holdings in each strategy?

Michael Cook: It's very close. I mean there may be one or two names off, but, so it's not exactly 50% but it's close.

Angelo Barr: Thank you.

Operator: Thank you. And once again, if you would like to ask a question, please press the star, followed by the one on your telephone. To cancel this request, please press the star, followed by the two.

And we appear to have no further questions at this time, sir.

Michael Cook: Thank you so much, David, I thank all of you who have participated and listened in on this call. We hope that if you have any questions, you'll feel free to contact our client relations and business development department. If you have any questions about our mutual fund that you would contact Cliff Sulcer. We hope you have a great Wednesday and a wonderful and prosperous 2010. Thank you and we look forward to speaking with you in April.

Operator: Ladies and gentlemen, this concludes the SouthernSun Asset Management Fourth Quarter 2009 conference call. Thank you for participating. You may now disconnect.

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