Active Ownership

whyte corporate affairs

De Tijd (September 23): ‘Me a pit bull? That’s not how I work’

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‘Me a pit bull? That’s not how I work’

Austrian shareholder activist Klaus Röhrig, who has been dogging Agfa-Gevaert for two years, has not yet taken much pleasure in his investment. The investor is not discouraged for all that. ‘We will stick with it as long as value can be gained.”

Two years. That’s how long it has taken to draw a response from Agfa’s largest shareholder. Our first request for an interview dates from the end of August 2018. All this time, Klaus Röhrig has been holding off, preferring to spend his time and focus attention on a small dozen companies active, inter alia, in renewable energy, gaming and medical software.

But given the prevailing sense of disbelief about his departure as chairman of the imaging group Agfa-Gevaert, the 43-year-old investor has taken an hour to talk to De Tijd via Zoom.
Frank Aranzana, Agfa’s new chairman, joins us.

The term ‘activist’ brings immediately to mind the loud and bold Americans Carl Icahn and Bill Ackman who use a minority stake to force companies to merge, sell or buy back their own shares in order to increase the share price.

Röhrig comes across as anything but loud. He answers calmly and thoughtfully. The Austrian cut his activism teeth at Paul Singer’s Elliott investment fund, where he worked for six years.

Singer is one of the most notorious activists in the world. By way of example, the billionaire made beer giant AB InBev cough up an extra $2 billion when it took over its competitor SABMiller in 2016.

Elliott manages $41 billion. Active Ownership of Röhrig and his partner Florian Schuhbauer has had to make do with €1 billion from wealthy European entrepreneurial families. The two investors more than doubled their investment in the German pharmaceutical company Stada after just one year and a half by selling to private equity players Bain and Cinven – after first helping to overthrow Stada’s CEO.

Röhrig says quick exits are more the exception than the rule. His fund’s horizon is three to five to seven years. At Agfa, it looks like it’s going to be the high end. The €1 billion pension costs are a burden and the printing activities are shrinking rapidly. The forty-something year old says that he has ‘all the time’ to expose the value of Mortsel’s purveyor to printers and hospitals.

Röhrig built up a stake of almost 15% in Agfa. He has not yet made profit. However, Healthcare IT, the group’s crown jewel, was sold for €975 million. A new CEO was appointed and Röhrig changed the board of directors to his liking with new appointments.

A big surprise was in store when, last month, after barely a year, Röhrig exchanged the chair for an ordinary seat on the board.

Observers do not believe that the coronavirus is the real reason why you stepped aside.
Klaus Röhrig: 'Agfa is headquartered in Mortsel, in a region that is considered a red zone by Austria. Of course I can travel, but it takes a lot more time than before, and I have to combine that with managing Active Ownership.'
'In addition, it soon became clear that Frank Aranzana *(who became director in May last year, ed.)* has the required skills, experience and personality to lead the board of directors. We had to wait until he got to know Agfa better and quit his two other jobs – director at Allmex [sic] and partner at Advent – to have more time for this company.'

So even without Covid-19, Aranzana would have taken over the reins?
Röhrig: 'Yes, we had already discussed that last year. The coronavirus crisis has accelerated the transition.'

> My departure as chairman was discussed last year.
> The coronavirus crisis has accelerated the transition.
> **Klaus Röhrig**
> Shareholder and director at Agfa-Gevaert

Does your resignation change anything legally?
Röhrig: 'No, the same reporting rules for shareholder transactions apply to the directors and the chairman. We don't have a hidden agenda. We don't want to sell our stake. There is no exit plan.'

It's easier for a director to be a pit bull than for the chairman.
Röhrig: 'The atmosphere in the board of directors is very good. There are no egos who want to prove that they are the biggest, strongest and wisest. Nobody behaves like a pit bull. That's not how the board works, and that's not how I work.'

A director has more flexibility to make his point than the chairman who strives for consensus at all times.
Röhrig: 'I see no problems in having a discussion, irrespective of my position. And I don't think anyone feels inhibited to discuss anything.'

What is your average investment horizon?
Röhrig: 'It's hard to get business done in less than three to five years. Active Ownership is a perpetual fund, not a private equity company that raises fresh funds every three to five years, presents its realised return and seeks for exits for that purpose. The longer you are in a company, the better you know it and the smaller the risk. As long as we see potential to create value, we stay. And that is certainly the case with Agfa.'

The pension obligations of €1 billion cost €80 million cash annually.
Röhrig: 'We're working hard on that. We are now pumping €350 million into the pension funds. It will help to reduce the burden over the next two years. If the timing is right, other interventions will follow.'

When will Agfa get rid of that millstone?
Röhrig: 'There is no magic solution. 'Slice and dice' is a good approach. You can take a part of the liabilities off the balance sheet by making deals with pension funds or directly with the retirees.'

Why don't you invest more so that Agfa can start over with a clean slate?
Röhrig: 'It would be absurd and stupid to eliminate all pension commitments in one big bang. That is not an efficient use of cash. We have time.'

How much time?
Röhrig: 'As I said, Active Ownership is a perpetual fund. We have all the time.'

The pension funds get hundreds of millions. The shareholders are left out in the cold.
Röhrig: 'A distribution to the shareholders can be made later. The cash won't run away. We first need to know how Agfa will get through this crisis. There's nothing to be gained from deciding something now that you can also decide in six to nine months' time. With pension liabilities, on the other hand, we clearly have a lot to gain from a quick approach.'
Frank Aranzana: 'It's not because we've sold a line of business that we have to distribute the proceeds immediately. We are cautious and we think about the future of the company.'

What does the future look like? A sale of the remaining software for hospitals and a transfer of the printing plates to the Chinese partner Lucky?
Röhrig: 'We have to consider whether we buy, sell or partner, as with Lucky. The first plan is to get through the winter and the crisis. We can resume strategic discussions once a coronavirus vaccine is available. We are looking into many lines of business, but there is certainly nothing for sale today.'

CEO Pascal Juéry has high ambitions for the hospital software. It sounds like the line of business is being prepared for a sale.
Röhrig: 'No decision has been made about that at all. It's far too early.'

Agfa sold the hospital software in France and Germany. Why shouldn't it be sold to generate cash in the US and the UK?
Röhrig: 'Two reasons. Agfa needed money to tackle the pension problem. Thanks to the proceeds of €975 million, Agfa will have a strong balance sheet in the coming years. A sale is no longer necessary.'
'In addition, the business in France and Germany was relatively mature. With a market share of more than 30%, there was little growth potential left in the German-speaking countries. Margins were already quite high, which resulted in a high sales price.
'In the US, on the other hand, we have been on a growth trajectory for many years. More and more hospitals are merging, and the larger the merged group, the more it invests in IT.'

Is there a chance that Active Ownership will turn up in another Belgian company?
Röhrig: 'That is very likely in the coming years. We have a concentrated portfolio with an average of three to four new investments per year.'

No profit on Agfa shares yet

Active Ownership started buying Agfa shares at the end of 2016 and first surfaced two years ago with a stake of more than 5%. It has since grown to nearly 15%, representing an investment of €94 million.

At €3.56, the closing price on Tuesday, the investment fund recorded a loss of some €300,000. The Agfa share fell by almost a quarter this year, evaporating €180 million in market capitalization to €613 million. The Bel20 has dropped by 20% since New Year's day.

Klaus Röhrig attributes the fall in prices to investors' uncertainty about the printing activities. 'Which turnover loss is temporary and which is permanent? And to what extent has the trend towards digitization accelerated?'

Klaus Röhrig (43)

> Economist.
> Worked at Credit Suisse First Boston and Elliott Associates.
> Lives in Vienna.

Active Ownership

> Founded at the end of 2015 by Klaus Röhrig and Florian Schuhbauer
> Manages €1 billion from unknown European entrepreneurial families.
> Investments: Agfa-Gevaert, Francotyp-Postalia (franking machines), Shaltbau (engineering), Exceet (medical software), umbilical cord blood banks PBKM and Vita 34, MTG (gaming), PNE (renewable energy), NFON (cloud telephony).

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