THE ACTIVIST REPORT

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10 Questions with Kevin Oram

Kevin Oram is Co-Founder and Portfolio Manager of Praesidium Investment Management Company. Prior to co-founding Praesidium in 2003, Mr. Oram worked at Sanford C. Bernstein where he served as a Partner, Senior Vice-President, and sector head of global technology equity investments. Prior to covering technology he was a Senior Analyst in the start-up of the firm's Advanced Value hedge fund where he was responsible for the paper, hotels, gaming, restaurants and food industries.

13DM: Praesidium certainly engages publicly with management and Boards but you are not seen as the typical activist investor. Where do you sit on that spectrum and how has that approach worked for you?

KO: Praesidium's entire process is structured around approaching each investment as if we owned the entire company with a plan to own it for many years. It is truly a private equity approach to public investing – we act and think like owners. While we will deeply engage with the management teams and boards of our holdings, most of our active engagement is behind the scenes and out of the public eye.

We believe our ability to engage with companies is driven first and foremost by our deep understanding of their business, industry and the competitive landscape. We do an enormous amount of research on each company and industry we invest in and we look to become the most knowledgeable investor in each of our holdings. What makes us different is our ability to use all of that research to become a *resource* to companies, enabling us to constructively engage with the management teams.

In practice, this means that we share with them what we learned from talking to their competitors, customers and suppliers; we provide them our customer survey work, detailed models and benchmark analysis on all major costs compared to their competitors. In some cases, we write detailed letters to the boards showing our analysis and ways to enhance value, and in other cases we meet directly with board representatives to explain to them what we have found. When managements and boards see all of our research and are able to get a deeper understanding of their industry and their own company in this way, our ability to constructively influence them going forward significantly increases.

13DM: Talk about a few situations where you did put on your activist hat.

KO: We invested in JDA Software and after several years of owning the company, our research showed there was likely a sizable gap between the public and private market value and we felt that the best way to close this gap was for the board to fully explore strategic alternatives. We filed a Schedule 13D and tirelessly engaged the board behind the scenes. We presented an extensive analysis that detailed over 100 software M&A transactions and the valuations at which they were acquired, while also providing a likely valuation range that JDA could be acquired for – which was substantially higher than where the stock was trading at the time. The board took our advice and ran a thorough process. 14 companies actively engaged in the process and the company was acquired for a premium of close to 70% over the price it was selling for when we filed our Schedule 13D several months earlier.

Another example is an investment we made in Thor Industries, the leading RV manufacturer. Through our grass roots research, we were able to build out a network of contacts covering virtually every corner of the industry, including every major public and private competitor, RV dealers that we estimate represented over 50% of the industry volume, players that were active in the second-hand auction market, key suppliers, and all of the major wholesale and retail financing sources. Through all of this research, we were able to show management and the board that the company had an opportunity to take an unprecedented amount of market share because of all the changes that were occurring in the industry at that time, much of which they were unaware of. Armed with the information from our research they invested heavily while their

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competitors retrenched which drove their market share from 29% to 41% in just a few years.

As you might expect, our engagement with the vast majority of our companies over time has been highly collaborative and behind the scenes and this how we prefer it. However, there are times when we feel it is necessary to shine a public spotlight on a situation and, if needed, we take our analysis and value enhancing ideas directly to shareholders.

Tibco Software was a situation where the Founder/CEO was being distracted by outside interests after purchasing an NBA team, and the company was suffering as a result. We strongly believed that a management change was needed and as a result we presented at a town-hall meeting for shareholders where we gave an extensive presentation outlining our views as to why change was urgently needed, backed up by our detailed analysis, and what we thought the potential value could be if such changes were put into place. We owned approximately 3% of the shares outstanding, however over 70 investors attended the meeting, representing over 40% of the shares outstanding. At that point, the board knew that shareholders would overwhelmingly support our plan and shortly thereafter sold the business at a meaningful premium.

Late in 2017, after several years of owning Progress Software, we determined that there was a significant opportunity to unlock value by cutting out a massive amount of excess costs and moving the company away from its past acquisition strategy of buying *growth* software companies in favor of adopting a proven software consolidation strategy of buying slower growth software companies that sell software deeply imbedded with their customers. We enlisted two world class-software CEOs – Mark Fusco and John Shackleton – as advisors. We issued a public a letter and a 90 plus page presentation to the board detailing the changes we felt could lead to substantial value creation. The company responded publicly by adopting many of our cost cutting initiatives and announcing a dramatic shift to the capital allocation strategy we presented, which resulted in Progress' stock increasing over 50% in the months following our presentation. This was a great outcome for our investors and shareholders, and we believe that the new strategy the company adopted will drive very significant value moving forward.

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13DM: What is the decision process in deciding whether to go activist? What are some of the considerations? Time and resource commitment? Reputational risk?

KO: Praesidium runs a concentrated portfolio of 12 to 15 investments with an average holding period of over four years, so the firm is set up such that the research team has the time to conduct very deep research when we identify ideas we think are compelling. The strategies to unlock value are an output of our research on the company and the overall industry, so the incremental time investment to highlight those opportunities to management or the board is minimal because we're always doing that type of work. We also have the benefit of having a flexible research team made up of generalists so we can quickly add resources to a situation if it warrants it.

As for reputational risk, this is not something that we're concerned about. Any action we suggest a company take, regardless if it is behind the scenes or in a public forum, is 100% motivated by our goal of maximizing long-term shareholder value and is always backed up by extensive analysis that we provide the board and/or shareholders. We find the perception that activists are by nature short-term oriented ironic – in our case at least – in that all of our ideas and input to management teams and boards are entirely focused on helping them to make decisions that drive long-term shareholder value, even if it means suffering through some short-term pain. We try to shift management's focus to always think about the long-term. This is the reputation we have worked hard to build in the minds of companies, our investing peers and our clients.

13DM: Is it easier today to be activist than ten years ago? Why or why not?

KO: It's hard to generalize. However we'd say that for us, the fact that activism is much more prominent today than it was 10 years ago has created a situation where most companies are actually more open

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to listening to value-enhancing ideas from long-term oriented shareholders like Praesidium.

From our standpoint, the experience we've gained over the last decade through engaging with dozens of management teams and boards on a wide-range of issues has made us more effective than when we started out. Today, because of that experience, we have a much better understanding of what levers can be pulled to unlock value and what incentives to focus on to catalyze change with management teams and boards. In addition, over the last decade, we've been able to build-up an extensive network of world class CEOs and other executives that we can pull from to act as advisors in different situations we're involved with, as well as to nominate as board members if the situation warrants it. We believe this network is a tremendous competitive advantage, in that it provides us with a level of industry specific expertise and credibility when seeking to effect change that not many other firms have.

13DM: There is a lot of talk about the mass exodus into passive investing. Activism (as distinguished from active investing) is really on the other side of the spectrum from passive investing. As more capital goes into passive investing, does shareholder activism become even more important in the marketplace?

KO: Yes. We think the increasing amount of passive capital driving the public markets today has created an even greater opportunity for activists to differentiate themselves by directly influencing the outcome for investors. It's interesting – on the one hand there has been an exodus into passive investing in the public markets as you mention, yet there is truly an enormous amount of capital flowing into private equity, which is the ultimate active investment. The funds that private equity firms like Vista Equity Partners, Silver Lake, and Thoma Bravo have raised over just the past two years that are focused on enterprise software – an industry we know well and where we focus a large part of our portfolio – are the largest technology-related funds raised in the history of the industry by a wide margin. We think this creates an even more important role today for firms like Praesidium, who bridge the gap between private and public equity investing. In our view, our process provides investors idiosyncratic alpha potential and downside protection that is unique in the market.

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13DM: What are the pros and cons of small-cap activism versus mid and large cap?

KO: We focus our research in the least efficient areas of the market and in companies that are generally off the radar of other investors, which in many cases leads us to more small and mid-cap companies. Many of the reasons we like investing in these companies from a fundamental perspective (e.g. less efficient part of market, limited sell-side coverage, greater chance of mispricing, etc.), we think can actually create opportunity to add value through activism. These companies oftentimes lack the resources and expertise that larger cap companies typically have available to them. This dynamic makes all of the research and analysis we do on their company and industry extremely valuable and enhances our odds of successfully partnering with them on value-enhancing ideas. Another benefit is it allows us to hold significant ownership stakes in companies. As I mentioned earlier, our engagement and the work we do with our portfolio companies is driven by the vast amount of research we do, but there is no question our influence increases when we can build large ownership stakes and become anchor shareholders.

On the flip side, smaller companies tend to be more thinly traded which we always need to be mindful of. In general our portfolio is very liquid, so it's something we think a lot about when evaluating a company and determining its position size in the portfolio.

13DM: What are your views on the markets for equity investing over the next couple of years? What do you see as the biggest potential headwinds and tailwinds?

KO: We really don't take a view on the markets from a top down-perspective. We look to uncover a handful of high-quality businesses that have a very favorable risk/reward profile where we see meaningful upside over a multi-year time horizon with very little risk of a permanent loss of capital. Having said that, from an economic perspective we think the most important aberration of the economic cycle from 2010-2016 was the unwillingness of corporations to *commit* to the future through various

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types of investments they would normally make during an upturn. Our research team has studied this closely. Economic, political, and regulatory uncertainty led corporations to hold back financial commitment plans in ways they haven't in past cycles even though these companies held a record amount of cash on their balance sheets. This has had significant impact on many areas of the economy and was a contributing factor to the muted nature of the recovery. Capital spending as a share of gross cash flow of the S&P 500 core manufacturers dropped to 25%, roughly *half* of the long term average and close to a 60 year *trough*. Temporary staffing as a percentage of the total workforce reached a peak.

Our work shows that in many areas of the economy significant pent-up demand has built up such that a sustained period of catch-up spending will be required in the future. For example, we've been invested in the semiconductor equipment industry which is now seeing one of its biggest upturns in its history that resulted from years of just maintenance spending by their customers. Going forward we expect to see tailwinds in many other areas of the economy due to similar kinds of pent-up demand. We have a number of investments that will benefit from this phenomenon.

13DM: How do you react as a long only investor with a portfolio position that is engaged by an activist? What is the process and philosophy as a shareholder deciding between management's plan and the activist's plan?

KO: We are focused on maximizing long-term shareholder value, period. If another activist were to take a position in one of our companies with a plan they believed to be superior to management's current plan, we study it very closely, in the same way we study any plan proposed by management. There would be no bias to the activist's plan or to management's plan. Our support would go to the plan that we believe is in the best long-term interest of shareholders based on impartial analysis, regardless of whose plan it is.

13DM: What are your thoughts on the current trend of ESG investing? Is that something you think about in portfolio decisions?

KO: Responsible corporate management of ESG issues creates long-term sustainable value and we think that active shareholders can and should play an important role in pushing these good business practices. At Praesidium we approach it from the bottom up and typically invest in asset-light businesses such as enterprise software so they don't tend to carry much environmental risk. In fact, they are often an important part of the solution to companies implementing environmental initiatives. For example, we owned Aspen Technology, which provides software that helps its customers enhance operations at their oil and gas refining and chemical sites – which has improved their overall safety and reduced the risk of environmental disasters. On the corporate governance side, given how closely engaged we are with our portfolio companies over a long time frame, we are well positioned to examine the governance on an on-going basis and raise our concerns when necessary and push for positive changes.

13DM: Where they trade now, what is your favorite position in your portfolio and why?

KO: Since we run a concentrated portfolio it's difficult to single out any individual position, but our largest exposure within the portfolio is in enterprise software. This is an area where we have a significant amount of experience and expertise. Software is an industry where there is a tremendous opportunity to uncover and unlock value for investors that have the experience, skillset and timeframe that Praesidium does. We have found the public markets can oftentimes meaningfully undervalue high-quality, sticky, highly cash-generative software assets, especially when topline growth comes in below expectations.

Most public investors in the software space tend to be growth and momentum investors who focus primarily on topline growth. Our focus on the underlying long-term economics of the software business model relative to the public market's focus on growth has provided us with attractive opportunities time and time again. It's also an industry that continues to consolidate rapidly, thus giving us another potential avenue to realize value. What is different today compared with prior years is the tremendous amount of capital available to make acquisitions, as well as the different types of firms that are looking to make investments in the software space, which has expanded significantly to include major non-software technology companies, large industrial companies, and massive software-focused private equity firms. The result of all of this capital focused on the software sector, but largely yet to be deployed, is an extremely competitive and ripe environment for strategic investments and acquisitions which we feel we and our investors are positioned to benefit from.

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