Peter W. May

The Power of the Argument

An Interview with Peter W. May,
President and Founding Partner, Trian Fund Management, L.P. ("Trian Partners" or "Trian")

EDITORS' NOTE *Peter May has held his current post since November 2005. He currently serves as non-executive Vice Chairman of The Wendy's Company. May is also a director of Tiffany & Co. From April 1993 to June 2007, May served as President and Chief Operating Officer and a director of Triarc Companies, Inc. which owned Arby's Restaurant Group, Inc. and the Snapple Beverage Group, as well as other consumer and industrial businesses. He was President and Chief Operating Officer and a director of Triangle Companies, Inc., which became the largest packaging company in the world and a Fortune 100 industrial company, from 1983 until December 1988, when that company was acquired by Pechiney S.A., a leading international packaging company. May is Chairman of the Board of Trustees of The Mount Sinai Health System in New York, where he led the turnaround of this major academic health center from serious financial difficulties to what is today one of the most profitable and fastest growing academic medical centers in the United States. In addition, May is a Trustee of The University of Chicago and a Life Member of the Advisory Council of The University of Chicago Booth School of Business. May is also the Vice Chairman of the New York Philharmonic, a Director of Lincoln Center for the Performing Arts, and a partner with the Partnership for New York City, as well as the past Chairman of the UJA Federation's "Operation Exodus" campaign and an honorary member of the Board of Trustees of The 92nd Street Y. He is Chairman of the Board of The Leni and Peter May Family Foundation. May is a graduate of The University of Chicago (A.B.), The University of Chicago School of Business (M.B.A.) and is a Certified Public Accountant (inactive). He also holds an Honorary Doctorate in Humane Letters from The Mount Sinai School of Medicine of New York University.*

COMPANY BRIEF *Founded in 2005 by Nelson Peltz, Peter May, and Ed Garden, Trian Partners (trianpartners.com), as a Highly Engaged Shareowner, seeks to invest in high quality but undervalued and underperforming public companies and to work constructively with the management and boards of those companies to significantly enhance shareholder value for all shareholders through a combination of improved operational execution, strategic re-direction, more efficient capital allocation, and increased focus.*

What has made Trian Partners work so well?

Trian Partners is an investment firm that invests in great but undervalued and underperforming public companies. We aim to work collaboratively with management teams and boards of those companies to execute operational and strategic initiatives designed to drive long-term sustainable earnings growth for the benefit of all shareholders. Our focus is on the income statement and strategic options as opposed to simply the balance sheet.

Nelson Peltz and I have been employing this strategy since the early '80s – we have been working together since 1973, when I left Peat Marwick (now KPMG) after I was told I would be made partner. Together, we built what became the largest food service distributor in the Northeast, based on Nelson's family's original business. We sold that in 1978, ran a consulting business helping troubled companies from then to the early '80s and, in 1983, we took control of Triangle Industries, which was in the wire and cable and vending machine businesses. It was losing money but had a decent balance sheet. We turned around the operations quickly and ended up using it as a base to build an industrial company, buying National Can and American Can, and ultimately creating the largest packaging company in the world. In 1988, with its enterprise value at approximately $4.2 billion, we sold the company to a French aluminum company called Pechiney.

We built Triangle by working with existing management. We encouraged them to view things through a wide-angle lens and to think about their business as entrepreneurs.

No business goes in a straight line. People have to invest in and run their businesses in a lean and efficient manner, but also use the resources that are available and stick to some basic principles.

A business needs to be run in a way in which, over the long term, the sales go up and there is a lid on expenses. We also believe that one measure of success is how much free cash flow is being generated that allows management to continue to invest or return it to shareholders.

As businesses get bigger, they tend to introduce one layer of cost and bureaucracy on top of another. Cultures get blurred and the ability to make decisions slows down dramatically. That's when you have to go back to the basics – "sales up, expenses down."

After Triangle, throughout the '90s, we built a public company called Triarc, which was a group of unrelated assets when we bought our stake. One of them was RC Cola, which ultimately led us to buy Snapple. Quaker Oats bought it for $1.7 billion in 1994 and proceeded to totally change the culture of the company. It was a small company founded by three friends from Long Island who came out with new products all the time. They had very low overhead and individual distributors who owned their territories acting as their sales and distribution people. Quaker Oats moved the company to Chicago, didn't take any of the management, layered overhead on top of it, and came out with one new flavor every couple of years. The company began to flounder and started losing money. Triarc eventually bought Snapple in 1997 when its enterprise value was approximately $300 million and took just three people from Chicago and moved it back to New York.

Almost immediately after our purchase was completed, to create buzz, we had a parade down Fifth Avenue with Wendy the Snapple lady, who had been part of the original Snapple team. We also started introducing many new products, reduced manufacturing costs, and met with Snapple's distributors. Within six months, we were able to turn the company around to break even and earnings started to take off again. In 2000, with its enterprise value at approximately $1.5 billion, we sold Triarc's entire beverage business including Snapple to Cadbury Schweppes.

In 2003, Ed Garden, our current CIO, joined us. He had been a Managing Director at Credit Suisse First Boston and suggested we think about starting an investment firm. To this point, the transactions we had done were with our own money and that limited the size and scale of the businesses we could invest in. We started Trian Partners in late 2005.

The idea was that, if we brought in outside investors' capital alongside our own, we would be able to invest in much larger companies, which dramatically changed the risk/reward profile. Today, Trian Partners generally has seven to 10 positions in large to mega cap publicly traded companies. We frequently take board seats and tend to hold stocks in these companies for three to five-plus years as we collaborate with management and the board to improve earnings and evaluate strategic opportunities.

Do you concentrate on particular industries?

Industry matters. We're organized in three verticals – everything consumer, industrial, and what we call non-balance sheet financials.

Do you work with the existing management in the companies you invest in as opposed to trying to replace executives?

Our go-to methodology is to work constructively with management and boards. We have found it's better to work with the existing team -- to refocus and think more entrepreneurially. Many times management knows exactly what's needed, but for external and/or political reasons, they don't act. We basically give them "cover" to re-set the bar.

We engage with management and boards with what we call "the power of the argument." We do an enormous amount of homework at Trian Partners before we make an investment – we write a white paper, which details initiatives we think the company needs to pursue to increase long-term value. We debate these initiatives ad nauseam. We want everybody in our organization, no matter how junior or senior, to express their point of view, and we don't pull the trigger until we're all comfortable with our thesis and how reasonably we can help execute change.

We typically buy stock once the white paper is finished. When we have a fully sized position that we think will enable us to influence decision-making we then approach management "under the radar screen" and tell them we're there to help.

Over the years, I think Trian has developed a solid reputation for helping build businesses and for the way we operate as shareholders and board members. The CEOs we have worked with frequently act as our references today; one of them, Bill Johnson, former CEO of H.J. Heinz, is a Trian Advisory Partner – and I believe that other shareholders and advisors view Trian as a positive change agent.

What is Trian's culture?

Culture is critical. We have a total of just under 60 people and it's a given that they're all smart. Beyond that, we believe everybody has to understand what we're looking for and work well with one another and our portfolio companies. We like to say our culture is one of "respectful confrontation." If someone thinks something doesn't make sense, we want them to push back and say why. We think this results in great outcomes – and the people who work at Trian Partners do this day in and day out.

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How do you define the role the board should play today?

Boards have evolved dramatically but there is always room for improvement. When we first started working with public companies years ago, the typical corporate board tended to be filled with what we called "Amen" directors. If a board member asked a potentially controversial question, they might not be invited to the next meeting or to stand for re-election. Sarbanes-Oxley in 2002 changed that and required that a certain number of directors be independent. It also dictated that directors had to have an executive session, meaning there is a period of time where the CEO and management are asked to leave and board members speak among themselves about the company. We see these as good developments and the evolution continues. Today, the typical corporate board is much more sophisticated. We also encourage an industry expertise and stock ownership mentality – acting like you own 100 percent of the company – in the boardroom.

When Trian joins a board, often the first thing we do is sign a confidentiality agreement. This means that not just the individual who is on the board but the entire team working on that company has access to the information that the company provides its board members.

Also, there is significant data that one gets for a board meeting, and the board members will often read some of it and then wait to have it presented to them at the meeting. When we get this data, our team reads and analyzes everything before the meeting and is able to ask questions of management before the board meeting. This allows us to start to develop relationships with management beyond the CEO and other board members. When we get to the board meeting, our board members are able to focus on the operations and strategy of the business.

We've seen how boards aren't sure what we're going to do when we come in, but they seem pleasantly surprised over time. Our job is to convince them of the merits of our proposed initiatives with the "power of the argument" so, together, we get things done that we expect will increase value over the long term.

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Having gone through your investment process so many times, are you ever taken by surprise?

We typically spend up to six months doing research on a company before we buy our first share of stock. Until we're on the board, we don't really know all the nitty gritty from the inside – our analysis is solely from the outside looking in. Because we focus on three industries, we end up knowing these industries very well. By the time we get in the boardroom, we believe we have done our homework thoroughly, and we also try to know the downside risks.

We tend to be able to see where things are off the rails at least directionally. We may not know that a particular product needs to be redeveloped or that the sourcing is wrong, but we've rarely found we were fundamentally wrong in our analysis.

Was the need to give back instilled in you early on?

Yes, much comes from my family upbringing. I've developed a philosophy called "Engaged Philanthropy," which means if one is lucky to be successful, it's easy to write a check; however, if someone is willing to not only give money but give their time and expertise, then they can really make a difference. I've been fortunate to use my own business expertise in organizations that have needed it, particularly as Chairman of Mount Sinai Health System.

What is the secret to the success of the partnership you have with Nelson?

Communication, a sense of humor, and a willingness to respect other's points of view. We're different but we have become family. That's also true for everyone at Trian Partners. ●

