SPECIAL EDITION: IT’S NOT SUPPOSED TO BE EASY
HOW OAKTREE STRIVES TO ADD VALUE IN UNCERTAIN TIMES
Unlocking Paralyzed Companies

Managing paralysis – freeing up energy and unleashing companies that are in lock-down mode – is an Oaktree specialty and a skillset that lets us focus on creating value for our investors. In many cases, the companies we've invested in took on too much debt, the business turned sour, and then the companies totally froze up because the management team had no room to maneuver.

Chris Boehringer, co-head of our Distressed Debt group in Europe, pointed out that “we often come across companies immobilized because they are controlled by too many lenders. There was, for example, a European company we once got involved in that was controlled by 194 debtholders, most of which were banks. They couldn’t agree among themselves about what management should do to move the business forward.”

The company, Chris said, “was in the dangerous throes of being completely incapacitated. It had no strategy, and management was in handcuffs in terms of being able to do anything with the business. So Oaktree took a leadership role among the lenders in an effort to turn things around. Our goal is to unlock value by creating and executing a strategy, by taking the reins of the business.”

Leveraging Reputation

All investors want to buy assets early and at an attractive price. That’s not easy in today’s market, as Michael Cardito, co-portfolio manager of our Power Opportunities strategy, reminded us when describing how his team leverages their role as strategic, value-added partners to help them deploy capital in this challenging environment.

“Most of us believe that the market for the types of companies we pursue is somewhat efficient today. That is, it’s hard to find ‘bargains’ or to ‘buy low’ in the traditional sense,” Michael said. “However, we think of buying low and selling high in a different way, based on how we’re able to add value to our companies. We benefit not only as their financial performance improves, but also when we’re able to...
sell companies for higher multiples of EBITDA than those at which we bought them.”

But that doesn’t mean ‘buying low’ isn’t possible – even in today’s market. A skillful investment manager can at times acquire assets cheaply by making use of its sterling reputation.

In 2016, Oaktree’s Power Opportunities group acquired a mid-sized business from a family in a loose auction process. “We know for certain that they had offers $40 to $50 million higher than ours, which was roughly 20% of the purchase price,” Michael said. “We believe they chose Oaktree in the end because of our ability to add value to their business, and we were able to convince them that the substantial equity they rolled over would be worth much more in partnership with us than with anyone else. That difference more than offset our lower upfront valuation.” What that means, in concrete terms, is that we acquired the business at arguably 20% less than the company’s market value.

Similarly, Jean Rollier, who heads the Portfolio Enhancement team within our European Principal group, pointed out that our expertise in spearheading operational improvement can put us in a stronger position to access proprietary deals. Jean recalled the case of the European helicopter business we acquired where, originally, we didn’t have a stake.

“One of the shareholders reached out to us,” Jean said, “because they believed we were credible, and that by teaming up with us in the new capital structure, we would be able to help bring about change and drive performance.”

Chris Boehringer chimed in with his own example from the Distressed Debt group, a case where we were invited in by the banks. “We didn’t have a stake in the company. We owned some assets that the company was managing. But it was a company in paralysis, and the banks wanted somebody involved who understood that industry and asset base. And they effectively forced the 30-plus hedge funds who owned stakes in the debt to let Oaktree sponsor that business.”

**THE VALUE OF AVOIDING DISASTER AND PROTECTING THE DOWNSIDE**

A reputational advantage can also help create value in a way that isn’t apparent. Adding value not only materializes from how wisely and inexpensively Oaktree secures an investment, but sometimes in the problems and costs our portfolios manage to avoid.

We believe this is accomplished through maintaining vigilance, executing hands-on management, and utilizing the wisdom gained over the years of actively managing and transforming businesses. It’s hard work, but it can be done.

Ryan Delaney, head of asset management for our Real Estate strategies, gave a terrific example of how we try to create value by avoiding problems. “We bought an office building in Boston,” he recalled, “and within a couple of weeks our partner relayed to us that its old leasing broker was taking legal action against us. Our bread is buttered by leasing brokers, and so I thought, ‘How is a leasing broker disgruntled with us? How did we get ourselves in such a situation?’ I knew this leasing broker; they’re working on another building we own, bringing us a ton of activity. I jumped in, talked to the leasing broker, flew out to Boston and had dinner with them. I finally understood what was going on. His issue really was with our partner in the building. Our partner was viewed in the market as someone people didn’t want to do business with. To solve the problem, I became the face of the building with the brokerage community. As a result, we leased 40% of that building in the next 18 months in a down market. With that activity, the building was stabilized and we then sold it for a profit.”

In other words, smart investment firms are always on the lookout for future downside, because there is value in spotting trouble before it rears its head. This is a good example of controlling risk. But a firm can only develop that skillset if it has highly experienced managers it can rely on. David Tanner, a managing director who heads up our Portfolio Transformation team within the Special Situations group, is one such professional. David revealed a technique he relies on to spot future trouble: he closely watches executives’ behavior when they’re under pressure.

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- Michael Cardito, Co-Portfolio Manager, Power Opportunities
“I’ve seen many an ethical executive,” David said, “that once they start underperforming and feeling the pressure, the lines tend to bend and the sales forecasts get more aggressive – and they’re still sure of them. You’ve got to take a hard look at how people change when they’re under a lot of pressure and read the signals you’re getting out of them. It’s human nature, frankly, to not want to be seen as failing – and you’ve got to watch out for signs that people are hiding potential failure from you.”

THE ART OF MAKING OPERATIONAL IMPROVEMENTS

At Oaktree, we believe operational improvement – broadly defined – is critical to adding value to both control and non-control investments. No matter a deal’s size, location or industry, even the best-intentioned and best-thought-out plan for operational improvement stands little chance of success if the firm executing it lacks operational experience. Thus, we focus a great deal on putting the right people in the right positions, and the right governance and oversight in place in each company, business or asset we get involved with.

This is particularly relevant as we head into a period of rising interest rates. As Ryan Delaney pointed out, “operational improvements provide much-needed downside protection, because the more you are able to increase net operating income, the less susceptible you are to interest rate risk.”

Jean Rollier precisely laid out how we make operational improvements, reminding us what happened when we bought a global packaging business on the continent. “One part of the business served the beauty industry and was struggling. The other business served the pharmaceutical industry; it had healthy margins and good growth prospects, but because it was joined at the hip with the ailing cosmetics business, we couldn’t leverage its profitable assets. The combined multiple was very, very low – given the operational issues we had in the cosmetics business,” Jean said.

Jean’s team came up with a robust operational plan to help turn around the cosmetics business that included separating out the pharmaceutical operation. That was no small task. Said Jean, “We had to build a new plant and pull together a full new management team. It took us two years to get there. At the end of those two years, however, we got the financial benefit from the operational improvements at the beauty business, and we were able to leverage the healthy pharmaceutical assets.”

Oaktree’s teams hunt down opportunities for operational improvement – wherever we can find them. Alison Endemaño heads up our Human Capital division within the European Principal group and is an expert in the tools we’ve developed to assess how healthy an organization is – based on our analysis of the firm’s leadership, culture and the dedication of its employees.

Alison said, “We’ve developed, for example, a very simple and effective ten-question engagement survey that determines how inspired employees are by their company. One of the questions we ask is, ‘Would you recommend this as a great place to work?’ Things are seriously wrong if employees are telling outsiders the firm isn’t a good place to be.”

Oaktree recently acquired an IT outsourcing business in Eastern Europe and translated our human-assessment tools into the local language; we were able to get all the IT firm’s staff to answer the ten engagement questions. “There were two areas where engagement was dangerously low,” Alison recalled. “One of the sites was actually responsible for a key account. So we could see there was risk. Here was a team of people with low engagement – and they were responsible for 40% of total revenues. We shared that fact with management. They pretty much had no clue how that team felt. So we were able to put a plan in place to turn the team around and to reengage them in the overall direction of the business.”

THE VALUE OF WORKING WITH THE MANAGEMENT TEAM YOU INHERIT

David Tanner shared with us his experience in turning around a sports apparel and accessories company. “This is an industry that is notoriously too cool,” David said. “Guys who surf and skateboard, and a culture around that which was undisciplined, not fact-based, not data-oriented, loosey-goosey on cost controls.” In this case, they crucially needed to make business decisions based on hard data. So Oaktree showed the management team what for them was a different approach to decision-making.

“They had never seen the discipline that the Oaktree team brings to bear, the analytics on both the deal side
and the operating side. Over the two and a half years we’ve been involved, the pendulum of the company and of the culture has completely moved. It’s still got that great vibe and spirit, but at the same time, people know they can’t come into meetings with us without their fact-base down. They know they can’t tell us one thing one day and not deliver it the next day, because they know we remember these things.”

David’s got it absolutely right, I thought, when he pointed out how changing the culture of a firm is “extremely challenging” work. “It’s easy to change out management teams and think that’s going to be the solution,” David said, “but in this situation, it’s really tough to get someone who culturally fits in the action-sports space – which is important to the brands. We’ve had to work with a lot of talent that’s in there and change the culture through the techniques we specialize in.”

As Charlie Munger told Howard, it’s not supposed to be easy. Thankfully, there is one thing we can count on: all of our key constituents – from our clients to industry partners to the management teams working with us to help turn their companies around – rely on Oaktree to add value, be creative, think long-term, act with integrity, roll up our sleeves and work side-by-side with them and to embrace the fact that hard work and adding value is often essential for successful investment outcomes.
**JAY WINTROB**  
*Chief Executive Officer*

Mr. Wintrob is Oaktree’s Chief Executive Officer and has served as a member of the Board of Directors since 2011. Prior to joining the firm as Chief Executive Officer, he was President and Chief Executive Officer of AIG Life and Retirement, the U.S.-based life and retirement services segment of American International Group, Inc., from 2009 to 2014. Following AIG’s acquisition of SunAmerica in 1998, Mr. Wintrob was Vice Chairman and Chief Operating Officer of AIG Retirement Services, Inc. from 1998 to 2001, and President and Chief Executive Officer from 2001 to 2009. Mr. Wintrob began his career in financial services in 1987 as Assistant to the Chairman of SunAmerica Inc., and then went on to serve in several other executive positions, including President of SunAmerica Investments, Inc. overseeing the company’s invested asset portfolio. Prior to joining SunAmerica, Mr. Wintrob was with the law firm of O’Melveny & Myers. He received his B.A. and J.D. from the University of California, Berkeley. Mr. Wintrob is a board member of several non-profit organizations, including The Broad Foundations, the Doheny Eye Institute, The Los Angeles Music Center and the Skirball Cultural Center.

**MICHAEL CARDITO**  
*Co-Portfolio Manager, Power Opportunities*

Mr. Cardito is a managing director and co-portfolio manager of Oaktree’s GFI Energy Group, which executes the Power Opportunities investment strategy. He is responsible for the overall management of the group and its investing activities, including setting investment strategy, sourcing and executing investment opportunities and board oversight of the group’s portfolio companies. He currently serves on the board of Fidelity Engineering Corporation, Solomon Corporation, MaxGen Energy Services, Trench Plate Rental Co. and Sterling Lumber Company, and previously served on the board of Shermco Industries. Mr. Cardito began his investing career at The Beacon Group, a New York-based advisory and private equity firm, and since then has been primarily focused on control private equity investing in energy, power and niche industrial sectors. Prior to joining Oaktree in 2011, he was a principal with Harvest Partners, LP, a New York-based private equity firm, and before that was a vice president with Nautic Partners, LLC, a Providence, Rhode Island-based private equity firm. Mr. Cardito received a B.A. degree in economics from Colgate University and an M.B.A. from Harvard Business School.

**CHRIS BOEHRINGER**  
*Managing Director, Distressed Debt, and Co-Head of Distressed Debt Europe*

Prior to joining Oaktree in March 2006, Mr. Boehringer spent two years at Goldman Sachs in the European Special Situations Group. Prior to Goldman, he was co-founder and director of FITravel Corporation, an internet-based distribution system for travel products. Prior experience includes five years in Leveraged Finance at Wärburg Dillon Read/SG Warburg and two years at LTU GmbH & Co. Mr. Boehringer holds a B.A. degree in economics from Harvard University and an M.B.A. from INSEAD in France, where he graduated with distinction and was the recipient of the INSEAD Canadian Foundation Scholarship. Mr. Boehringer is proficient in German, French and Japanese.

**RYAN DELANEY**  
*Managing Director, Real Estate*

Mr. Delaney joined Oaktree in 2012 after having spent six years as a Principal and Head of Asset Management at Mesa West Capital, a Los Angeles based commercial real estate finance company. Prior experience includes five years in the Global Recovery Management Group at Credit Suisse First Boston (“CSFB”), where he was responsible for the workout of special situation assets including distressed real estate, syndicated bank debt and the restructuring of asset-backed transactions. Mr. Delaney began his career in New York in the Investment Banking Analyst program at CSFB in 2001. He holds a B.A. degree in economics from Hobart College, where he was elected to Phi Beta Kappa.
JEAN ROLLIER
Managing Director, European Principal

Prior to joining Oaktree in 2007, Mr. Rollier spent two years at The Boston Consulting Group in the Paris office. Before that, he handled various managerial roles in France, in the United Kingdom and in the United States, working for tier-one automotive suppliers. Mr. Rollier received an M.Sc. degree in mechanical engineering from Arts et Métiers ENSAM and an M.B.A. from INSEAD. He is fluent in French.

DAVID TANNER
Managing Director, Special Situations

Mr. Tanner leads the Portfolio Transformation Team (PTT) – a group of operating executives that specialize in partnering with portfolio companies to drive performance improvement. Throughout his career, Mr. Tanner has led improvement efforts in over 30 companies globally in the consumer, industrial, healthcare, and technology sectors; including more than a dozen turnaround situations. The PTT has the capabilities to serve the full breadth of industries and functions, offering advisory services and interim management in areas such as turnaround leadership, operational restructuring, commercial transformation, cost rationalization, corporate strategy, talent management, governance implementation and due diligence. Prior to joining Oaktree in 2011, Mr. Tanner held a number of senior executive roles at Fortune Brands, Inc. Most recently, he was Senior Vice President of Strategy and Corporate Development charged with leading the turnaround of Fortune’s then largest portfolio company, Beam Inc. Previously, Mr. Tanner drove M&A activities across Fortune’s portfolio in the alcoholic beverages, building materials, sporting goods and security sectors; led their corporate strategy efforts; and managed a range of performance improvement initiatives across Fortune’s portfolio companies. Prior thereto, he was a member of the Strategy and Corporate Finance practices at McKinsey & Company, Inc. where he worked with Fortune 500 companies and private equity firms on strategy and operational improvement efforts. Earlier in his career, Mr. Tanner served as a Major and Senior Pilot in the United States Air Force, including serving in Iraq. He currently serves on the boards of Boardriders, Coriant, Agro Merchants, and Hanley Wood. Mr. Tanner received a B.S. in operations research from the United States Air Force Academy and an M.B.A. with honors from the Wharton School of the University of Pennsylvania.

ALISON ENDEMAÑO
Senior Vice President, European Principal

Ms. Endeñano joined Oaktree in 2014 with over 15 years of experience in Human Resources leading change and managing talent in the UK, Europe, Middle East and the U.S. As a senior vice president in our European Principal Group, she focuses on talent attraction and HR management across its portfolio. Ms. Endeñano began her career in corporate tax at Arthur Andersen where she qualified as a Chartered Accountant (ICAEW), and then spent two years with the Human Capital Services consultancy business. In 1998, she joined 3i plc for eight years as a senior HR leader focusing on the company’s international expansion. In 2006, Ms. Endeñano moved to Bausch & Lomb, where she successfully led a cultural change program raising both capability and accountability through various performance and talent management initiatives. In 2009, she became an independent consultant providing strategic and operational HR consultancy services to a range of SME and corporate clients. In 2010, one of her corporate clients, Ramboll, invited her to join them as the interim Head of HR for the UK and Middle East leading the HR integration of 1,100 people arising from the merger with Gifford LLP. This assignment was successfully completed in 2012, following, which, Ms. Endeñano completed an assignment with a Phoenix Equity Partners-backed start-up, Global Navigation Solutions, completing three acquisitions in the marine sector. She earned her B.A. degree in management from Aston University and an M.A. in human resources management from Kingston University. Ms. Endeñano is both a Fellow of the Institute of Accountants in England & Wales and a Chartered Fellow of the CIPD.
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