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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Approaching Investments from an Owner's Perspective

ERIC R. HEYMAN is Executive Vice President, Portfolio Manager and Director of Research at Olstein Capital Management, L.P. He is also Co-Portfolio Manager of the Olstein Strategic Opportunities Fund and Olstein All Cap Value Fund. He joined Olstein Capital Management in January 1996, within months of the firm's inception. Mr. Heyman has been a research analyst since 1999 and was named Director of Research in 2005. He has been Co-Portfolio Manager of the Olstein Strategic Opportunities Fund since its inception in November 2006 and was named Co-Portfolio Manager of the Olstein All Cap Value Fund in October 2008. Previously, he was an accountant with Norstar Energy. He has a BBA in accounting from Pace University.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Heyman: We are value investors looking for solid businesses that have been unfairly punished by short-term factors, whether that's an earnings miss, poor management decisions, regulatory changes or overall negative market sentiment. We consistently find that many small to midsize companies face strategic challenges, often as a result of unrealistic expectations for growth, or they fall below investors' radar because they are underfollowed by Wall Street. We also find that short-term thinking and trading activity are dominating markets right now, and most people don't value the businesses underlying their equity investments anymore. We believe our back-to-basics approach of valuing business gives us an opportunity to find compelling SMID — small to midsize companies — ideas.

Our approach is driven by in-depth financial statement analysis to understand a company's accounting and reporting practices in order to make an independent assessment of a company's ability to generate free cash flow. While most investors don't spend time with 10-Ks, 10-Qs, proxies and shareholder letters, that's where we spend the majority of our time. It gives us insight into how a business is run and helps identify the issues that have caused the company's undervaluation. It also helps us assess the quality of a company's earnings, which is a key factor for estimating a realistic and sustainable future free cash flow. Once we identify the issues and challenges that a company faces, we can determine if those issues are fixable and the timetable we believe is needed to implement a corrective course of action.

We would rather spend time with the company's financial statements than spend time with company management. It is more important for us to get an understanding of how the company has operated, what's being communicated in shareholder letters and filings, how they're managing their balance sheet, how they're controlling their working capital, and the conservatism of their accounting and reporting practices. The goal of all our research and analysis is twofold: first, to gain insight into the business and its strategic challenges so we can reliably estimate how much free cash flow the business can generate and, second, to assess whether the company can successfully undertake the change needed to close the valuation gap within our time frame of 18 to 24 months.

TWST: Does the Olstein Strategic Opportunities Fund have a unique philosophy?

Mr. Heyman: I believe the fund does have a unique philosophy and approach. Most investors focus on growth in the SMID space, and as soon as a company stumbles, they lose interest and sell the stock. When a company falls out of favor, that's when we sharpen our pencils.

We approach a stock or a business as if we're buying 100% of that company. So we don't look at these companies as tickers on a stock screen. We look at them as if we own 100% of the business. From an owner's perspective, we ask, "How should this business be run? What should they be doing with their cash flows? Are they addressing their issues? How effectively and consistently are they addressing their issues?"

It's very important for us that the management team of a company that has stumbled is focused and moving in the right direction. Through our forensic analysis and due diligence, we determine if management's skill set is up to the task of implementing needed changes. Are they making bad investment decisions? What is needed to address those poor decisions?

Highlights

Eric R. Heyman discusses Olstein Capital Management, L.P. and the Olstein Strategic Opportunities Fund. Mr. Heyman is a value investor, and he looks for solid small and midsize businesses that have been unfairly punished by short-term factors. By analyzing a company's financial statements, Mr. Heyman gains insights into the business and its challenges. It also allows him to assess if a company can successfully close the valuation gap within 18 to 24 months. Rather than focus on growth and earnings, Mr. Heyman looks at a business from an owner's perspective and focuses on free cash flow, which he considers to be the lifeblood of a company.

Companies discussed: Zebra Technologies Corp. (NASDAQ:ZBRA); Motorola Solutions (NYSE:MSI); Amazon.com (NASDAQ:AMZN); Dillard's (NYSE:DDS); Kohl's Corporation (NYSE:KSS); Macy's (NYSE:M); CECO Environmental Corp. (NASDAQ:CECE); Ingersoll-Rand plc (NYSE:IR); Keysight Technologies (NYSE:KEYS) and Agilent Technologies (NYSE:A).

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Most people focus on earnings. Our focus is on free cash flow. Excess cash flow is the lifeblood of a business. Companies that generate excess cash flow have the potential to enhance shareholder value by paying a dividend, repurchasing the company's shares, reducing debt, making a strategic acquisition or by being acquired.

We have had many of our portfolio companies acquired over the years because they were either overpenalized by the market for short-term problems or the market failed to recognize their true potential to generate free cash flow. Acquirers, on the other hand, thinking like business owners, viewed a company's problems as short term in nature, which enabled them to buy a good business at a very favorable price. I think these are all key things. This is a strategy that a lot of people don't follow. They don't value businesses anymore, and that is what we do. We value a business based on its potential to generate free cash flow, on how the business is being run –- and how the company uses its free cash flow to benefit shareholders.

TWST: And given that strategy, did you want to highlight a company that you find interesting?

Mr. Heyman: A great example of a company that we like and that's currently in the portfolio is **Zebra Technologies** (NASDAQ:ZBRA). Every company out there wants to improve their efficiency and how they run their business. **Zebra Technologies** is a leader in automatic identification and data capture. So what does that mean?

Think about what's going on out there with the internet, retail, warehouses and distribution centers, or manufacturers managing production of multiple products. It's so important that from a logistics standpoint, that a retailer, a warehouse or distributor, a shipper knows what is going through their system. Whether it's a company managing just-in-time inventory, an airline tracking thousands of pieces of luggage or a warehouse facility managing fulfillment, shipping and restocking inventory, **Zebra** is in the center of all that.

Zebra captures all that data through barcoding, through RFID, through hand-held devices. They scan it; it goes into a database, so a retailer knows what's moving in and out of the store, what they have to order, whether or not a package has been picked up. Is a product at a specific warehouse? Is there enough of a specific product at a particular warehouse?

Zebra Technologies is an integrated company, especially after they acquired the **Motorola Solutions'** (NYSE:MSI) Enterprise business, and serves as a one-stop shop that helps companies improve their efficiency. The company is currently using free cash flow to pay down debt following the **Motorola** acquisition. They're not a serial acquirer. Every once in a while, a company like **Zebra** that generates a lot of free cash flow and has a terrific balance sheet identifies and acts upon a strategic opportunity such as **Motorola** Enterprises. This acquisition has put additional pressure on the management team to integrate **Motorola's** operations, which takes time. We think they have over $5 in free cash flow power and that the stock is worth somewhere around $95. It's currently selling at $68.

1-Year Daily Chart of Zebra Technologies Corp.

Chart provided by www.BigCharts.com

TWST: Do you think, with the innovations taking place in the internet of things and more machine-to-machine communication, that's going to help them in the future?

Mr. Heyman: Absolutely, and that's really the key. What **Zebra** does is help these companies become much more efficient. When you have the machines, let's say, in a manufacturing facility producing components or assembling products, you need to know that you have a certain amount of inventory in stock to be able to keep those machines moving at a steady pace or that you have an available supply of merchandise or components to fill an order as quickly as possible. It's very important that a store or a warehouse has products that the customer wants right away, and that's the efficiency and the help that **Zebra** brings to the market right now.

So while we, as a value investor, won't go out and buy a fast-growing momentum-driven company that's selling at 80 times earnings and that we believe is overpriced, here is a company that serves fast-growing companies and industries, and is key to making those businesses more efficient. A great example is **Amazon** (NASDAQ:AMZN). We wouldn't buy **Amazon** because it doesn't generate enough free cash flow to justify its price, but **Zebra Technologies** is a great help to a company like an **Amazon** or another fast-growing online retailing concept.

TWST: And did you want to mention a second company?

Mr. Heyman: Here's another company — what I like to say is, sometimes boring is beautiful — **Dillard's** (NYSE:DDS) department stores. Number one, it's a strong free cash flow generator. Everybody is really down on the brick-and-mortar retailers and believes that they are going to eventually be replaced. It's a regional department store with 30% insider ownership in the business. Over 50% of their outstanding shares have been bought back with free cash flow over the last 10 years. They've sold unprofitable stores and now have a strong store base.

If this company wanted to buy out the remaining 70% of its public shareholders, it would only take them six years. And again, I'm looking at **Dillard's** as if I own 100% of the business. So I have a lot of free cash flow coming in that I could use to buy back stock, to increase the value of the remaining shareholders until basically there are no remaining public shareholders because the company would take itself private. The store base is 80% owned. So out of its 290 stores, approximately 230 of those the company owns the store and the real estate behind the business.

"So we believe that this is a $7-per-share free cash flow generator. The stock is currently selling at $60. That's a tremendous free cash flow yield. If you pay $60 per share and they're generating $7 per share in free cash flow, that's almost a 12% free cash flow yield."

So we believe that this is a $7-per-share free cash flow generator. The stock is currently selling at $60. That's a tremendous free cash flow yield. If you pay $60 per share and they're generating $7 per share in free cash flow, that's almost a 12% free cash flow yield. When you think about other businesses out there, or Treasury yields, that are earning basically nothing, and you could buy a business that's generating north of 10% free cash flow yields, and they're being responsible about buying back stock and making sure that their stores are efficient and clean and up-to-date, and they can basically take the public shareholders private in about six years, to us, that's a good investment. We think it's worth somewhere around $90. The stock is currently at $60.

TWST: How does it compare to Kohl's or a Macy's?

Mr. Heyman: I think those are great examples of two really strong free cash flow generators. Both **Kohl's** (NYSE:KSS) and **Macy's** (NYSE:M) are owned by our other fund — the Olstein All Cap Value Fund. I think people are overdiscounting the cash flows that these businesses can generate, and there's been a lot of multiple compression in this space, but these companies keep chugging along despite tremendous online competition for shoppers' attention. They've shifted their mix, they've placed kiosks within the store to make them more relevant, they are shipping more merchandise, they have terrific websites for online purchases, and customers have ease of use by returning the merchandise at the store.

in 2010, he has sold off noncore and nonprofitable businesses, and has added some profitable businesses. We believe right now the company is in an ideal position to capitalize on the intense and growing focus on a clean environment and minimizing the pollution-related causes of global warming. The company is dependent on capital spending despite a slowdown in China's economic growth or the negative sentiment that has affected the U.S. industrial sector.

While these negative sentiments do affect their business and are a leading cause of their current undervaluation, we think these unfavorable macro factors are short term in nature, and we can't control them. What we can control is investing in a company with a good management team in place and a business that is generating strong free cash flow that we can buy at a discount because of unfavorable short-term factors. So we believe they have a strong customer base. They have a large installed base; 30% of their business is recurring in nature. Their objective is to get to 50% recurring-revenue

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So these are all things that I think are very important in identifying what are undervalued securities. Or you can go out and buy what everybody else is buying because it's in an index, or it's the favorite stock of the month. The only thing I would say is that we look at things as if we own 100% of the business and what type of cash flow that business can generate. Other people are buying a stock's price momentum or number of clicks or topline revenue growth. They're not actually buying the cash flows the company generates.

TWST: And did you want to mention another company?

Mr. Heyman: As you can tell, I love talking about the companies in the portfolio. **CECO Environmental** (NASDAQ:CECE) is a small company with a $380 million market cap. They are a global player in the fragmented market for pollution control solutions. They provide air pollution control, fluid filtration, and handling technologies and clean energy technologies. Their products are used in manufacturing and industrial facilities and other buildings, especially in the United States and in China.

The company has a CEO, Jeffrey Lang, from **Ingersoll-Rand** (NYSE:IR) who brings more than 25 years of relevant industry experience to **CECO**. Since becoming CEO

1-Year Daily Chart of CECO Environmental Corp.

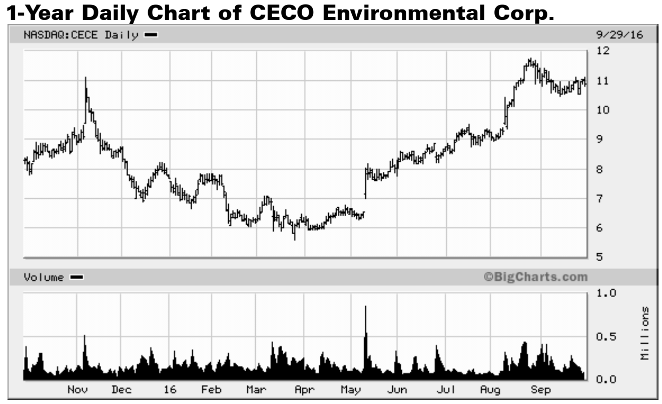

Chart provided by www.BigCharts.com

products that are going into their install base, which is a nice amount of money or a free cash flow to rely on to get you through difficult times or slowdowns.

So this business, it's selling at around $10.50. We see the company generating $1 per share in free cash flow. We think the stock is worth somewhere around $15 and is currently selling at a significant discount to the opportunities that we see in the business. For us, it's a good risk/reward investment.

TWST: Depending on what happens with the presidential election, do you think there could be a boost in infrastructure spending in the United States and maybe even more environmental regulations that could help the company in the next few years?

Mr. Heyman: What we try to do here is really focus on the individual merits of a business. I've been with the Olstein Funds for more than 20 years and have always found that whenever we've tried to look at things from a big macro picture, whether it's assessing the impact of the Brexit vote or the likely effects of health care reform or how China's slowdown will be felt throughout the global economy, we find that we're presented with compelling opportunities in individual companies. So we try to focus on the individual names and see how those companies are likely to benefit from macro shifts or trends.

What we try to do is identify specific factors unique to individual companies that can sustain operations when faced with macro headwinds. We try to buy those companies at a 30% discount to our estimate of their intrinsic value, which is based on a company's ability to generate free cash flow. If we identify the right company-specific factors that should help a company during tougher times, when the macro trend changes or when that tide turns more favorably, the company should be a beneficial player in its industry niche, and the tailwind should help us achieve our value.

So in the case of **CECO**, if there is growing emphasis on pollution control, it's going to help them get to our $15. Our focus is not to make 100% on these stocks, but if we can make 20% or buy stock at a 30% discount and make 50% in two years, those are the type of investments we're looking for. We're looking for singles and doubles. We're not looking for the home runs. Although every once in a while, we get the home runs, and they're nice when they happen.

TWST: And did you want to mention another company?

Mr. Heyman: Another great company in our portfolio is **Keysight Technologies** (NYSE:KEYS). It's a measurement solution and testing company that was spun out of **Agilent** (NYSE:A). They focus on communications and electronic systems. So when people are talking about new sensors coming out or you hear people talking about 5G, the next generation of technology in telecommunications, or the latest aerospace or new industrial technology and machinery, they are the number-one player with around 25% market share.

They spend 13% of their revenue dollars on R&D to come up with new testing equipment that is critical to customers' product-development efforts. Their testing equipment is used to develop new electronics and technologies for the next generation of products, and to make sure that the existing generation of products is working efficiently. They were spun out of **Agilent** in 2013 into very weak end markets with China, Europe and, to some extent, the U.S. experiencing an industrial sector slowdown. They have spent their time since the spinoff really trying to establish themselves as a standalone company, and with that, they've had to go through some ups and downs.

As we look at this business, we don't focus on the recent negative environment; rather, we see a number-one market-share player and a management team that we think is pretty solid, who is taking the time to improve their business and margins. We believe when the market turns and things start to improve, **Keysight** will be in a position to benefit. We know how quickly technology changes and the thirst for technology that's out there.

We believe this company has over $2.50 per share in earnings power and is worth north of $40 over our time horizon, the next 18 to 24 months. The stock is selling around $30, and we think it's a terrific opportunity. This is a company that will help test and make sure that the latest and greatest technology in the future is efficient.

TWST: When you talk to your clients, do they have any concerns now in 2016 and looking to 2017 that they express to you?

Mr. Heyman: What I tell our shareholders is that the average investor should not be led astray by the short-term focus or constant barrage of noise from the media or internet. The information flow is so great that, one day, they tell you to buy based on favorable data, and the next day, they tell you to sell the same holdings based on negative data. You really can't get caught up in the hype and constant flow of conflicting data that's so readily available. Investors are so focused now on finding yield that they are continuing to invest in the same large companies that are usually either overfollowed and that pay dividends, and those dividends are shrinking because the stock keeps appreciating, or they're plowing their money into index investing, which continues to buy the same names regardless of price.

What I say is, with interest rates so low, free cash flow yields of some businesses are very compelling right now. And what you have to really focus on is that the overall negative market psychology that's out there is providing a lot of opportunity for SMID companies that are completely being ignored by the market because they're either not in an index or they don't pay a big dividend. So that's where we're seeing a lot of very compelling value opportunities for us to take advantage of, add to positions and put into our portfolio on a stock-by-stock basis. What I remind people all the time is that stock prices are much more volatile than business valuations.

So while stock prices react violently to the latest news, over time, if you have a good business with solid free cash flow and a responsible management team, that undervaluation is an opportunity to buy now. You have to buy while the negativity is out there because people aren't focused on the merits of the underlying businesses. That's what we're focused on, and that's why we have a lot of stocks in our portfolio that we believe are selling at 25% to 30% discounts to what their intrinsic values are. That's a nice position to be in — when you have good free cash flow companies selling at significant discounts.

TWST: Thank you. (ES)

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The Olstein Funds follows a value-oriented investment approach. However, a particular value stock may not increase in price as the Investment Manager anticipates and may actually decline in price if other investors fail to recognize the stock's value or if a catalyst that the Investment Manager believes will increase the price of the stock does not occur or does not affect the price of the stock in the manner or to the degree that the Investment Manager anticipated. Also, the Investment Manager's calculation of a stock's private market value involves estimates of future cash flow which may prove to be incorrect and, therefore, could result in sales of the stock at prices lower than the Fund's original purchase price. There is no assurance that the fund will achieve its investment objective.

An investment in a portfolio containing small- and mid-cap companies is subject to additional risks, as the share prices of small- and mid-cap companies are often more volatile than those of larger companies due to several factors, including limited trading volumes, products, financial resources, management inexperience and less publicly available information. The activist strategy invests in stocks of underperforming companies and any shareholder activism might not result in a change in performance or corporate governance. These stocks could also experience less liquidity and higher share price and trading volume volatility than stocks of other companies.

The above represents opinion, and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. The references to securities are not buy or sell recommendations, but are intended to be descriptive examples of the fund's investment philosophy and are subject to change. Do not make investments based on the securities referenced. As of 3/31/17, the Olstein Strategic Opportunities Fund maintained a position in the following securities referenced above, and is subject to change: Zebra Technologies Corp. (4.1%); CECO Environmental Corp. (2.4%); and Keysight Technologies (3.1%). As of 3/31/17, the Olstein Strategic Opportunities Fund did not maintain a position in the following securities referenced above, and is subject to change: Motorola Solutions, Amazon.com, Kohl's Corp., Macy's Inc., Ingersoll-Rand plc, Dillard's Inc. and Agilent Technologies.

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