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## Engaged Capital Takes Stake of About 5% in AeroVironment – Sources

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Upstart activist investment firm Engaged Capital LLC has taken a stake of about 5% in AeroVironment Inc. with an eye toward boosting the drone maker's sagging stock.

The investment, which cost Engaged Capital about \$25 million, could be revealed in a securities filing as soon as Wednesday, people familiar with the matter said. It would represent the firm's first publicly disclosed position.

Engaged Capital began buying AeroVironment stock late last year and has held discussions with the company's management, the people said. On Engaged Capital's wish list: that AeroVironment loosen its purse strings and put some of the cash sitting on its balance sheet toward growth initiatives; that the company lessen its reliance on U.S. defense spending; and that it become more open with investors about how it plans to penetrate new markets.

A spokesman for Monrovia, Calif. based AeroVironment had no immediate comment.

AeroVironment makes so-called "small unmanned aircraft systems." Unlike the larger, headline-grabbing Predator drones, which are made by General Atomics Aeronautical Systems Inc., AeroVironment's tend to have a wingspan in the range of just 6 feet to 12 feet. Some are the size of — and painted to resemble — hummingbirds. In addition to military uses, some of which can be lethal, the company's drones have applications in wildlife biology, farming, utility monitoring, border patrol and other policing.

AeroVironment also sells electric-vehicle charging equipment.

AeroVironment sold shares for \$17 each in an initial public offering in early 2007. The stock soared in its first day of trading, rising 41%. Although it rose sharply over the next two years, the stock has lost roughly half its value since touching a high of about \$40 in early 2009. The shares closed Tuesday down 1.2% at \$20.65, giving the company a stock-market value of about \$470 million.

The company carries no debt on its balance sheet and had about \$217 million in cash and liquid investments at the conclusion of its fiscal quarter, April 30.

Engaged Capital wants the company to use some of that cash and perhaps take on debt to expand more aggressively into markets beyond the U.S. defense industry, from which it derives most of its sales, the people said.

Based in Newport Beach, Calif., Engaged Capital was founded by Glenn Welling. Mr. Welling previously ran a corporate advisory business at Credit Suisse Group and later joined Relational Investors LLC, a San Diego firm with a history of taking big stakes and agitating for change at major corporations including retailer Home Depot Inc. and biotech company Genzyme Corp. He left Relational in 2011 and launched Engaged Capital in the second half of 2012.

The firm was seeded with an \$85 million investment by money manager Grosvenor Capital Management LP. Engaged Capital has not disclosed its assets under management, though people familiar with the firm say it has raised "hundreds of millions" of dollars.