Activist Insight

Engaged lays out plans for AeroVironment campaign

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In an interview with Activist Insight, Engaged Capital LLC's Glenn Welling sets out the case for changes at AeroVironment Inc.

Even at a time of government cutbacks, the defense industry is a large one. AeroVironment, which has a claim to be the inventor of the unmanned drone (back in 1986) is well-positioned to take advantage of that market. In 2012, the company's revenue in its unmanned aircraft division was $273.7 million, and its gross margin a healthy $116.1 million. In its electric vehicle division, the company pulled in $51.3 million with a gross margin of $13.3 million in 2012.

In November 2012, these were the assets that caught the attention of Engaged Capital, an investment manager that owns over 5% of AeroVironment that likes to work with boards to improve shareholder value. Welling talks of 'great assets', and a 'market-dominant' company.

But all is not well at AeroVironment. The company's total revenue fell 26% in 2013, its gross margin by 28%. Between the first and second quarters of 2013, the company's loss per share widened from $0.06 to $0.32. CEO Tim Conver says that delayed (not lost) orders have added to a 29% increase in the company's backlog, but Welling says he and other investors have concerns about the company's corporate governance and long-term strategy.

"AeroVironment is run like a private company," Welling told Activist Insight. "Management has little concern for its shareholders or urgency in how it responds to their inquiries. The board has been hoarding cash since its IPO, but since the company has provided no information on how they will use that cash or the returns shareholders will get from it, investing in the company remains a leap of faith and the valuation reflects that fact."

Welling is keen to take a hands-on approach to the company, emphasising his experience at Relational Investors and Credit Suisse. However, the board dismissed his candidacy for the nomination at the upcoming annual meeting, suggesting he sign a non-disclosure agreement for access to the company's books. Welling has already dismissed the offer as something that would only isolate him from other shareholders.

Welling says that he is willing to consider a one-year standstill to see whether Engaged Capital can make a difference behind closed doors. At the moment, he says, his company hasn't had enough access to determine the best use of cash. Engaged Capital's regulatory filings suggest that dividends or a share purchase agreement, with outsized capital expenditures funded by leverage might be an option. Welling confided to Activist Insight that a merger with a larger company might provide better and cheaper access to capital and other customers in the future, but that the current share price was likely too low to make an acquisition attractive right now.

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