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Activist investment firm buys 5.1% of drone maker AeroVironment

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AeroVironment Chief Executive Timothy E. Conner, pictured in 2011. (Al Seib / Los Angeles Times / March 2, 2011)

A Newport Beach activist investment firm has taken a 5.1% stake in AeroVironment Inc., a drone maker based in Monrovia that seen its stock and sales drop dramatically in recent months.

Since last November, Engaged Capital has invested about \$23 million in AeroVironment, according to a July 11 filing with the U.S. Securities and

Exchange Commission.

Wall Street responded positively to the news. In midday trading, AeroVironment's shares were up \$2.56, or 12.4%, to \$23.21.

Engaged Capital's investment comes less than a month after AeroVironment reported that revenue dropped in half to \$54.1 million during its fiscal fourth quarter ended April 30, compared with \$110.7 million in the same period last year.

AeroVironment depends largely on contracts from the Pentagon, which is winding down its presence in the Middle East and preparing for budget cuts. The company is the Pentagon's top supplier of small drones -- including the Raven, Wasp and Puma models -- that give troops on the ground a bird's-eye view of what's happening over a ridge or around a bend.

As federal funding began to dry up, the company's shares plummeted around 20% this year. But the stock has regained much of those losses now and are down just 5% year-to-date.

In a statement, Glenn W. Welling, Engaged Capital's principal and chief investment officer, said that AeroVironment's leading market position, varied and significant growth prospects and excellent balance sheet should command a higher valuation.

At issue is the company's clean balance sheet along with its \$217 million in cash and liquidity that doesn't seem to be utilized, Engaged Capital said.

"In our view, concerns over an excess of cash in the capital structure, a lack of granularity and specificity with respect to its growth plans, and uncertainty surrounding its heavy exposure to the defense budget are all addressable issues," Welling said. "We are fully committed to working with

the board of directors and management of AeroVironment to implement strategic initiatives to enhance the company's equity valuation and maximize value for all shareholders."

AeroVironment released a statement of its own, saying the company "maintains and welcomes open communications with all of its stockholders and values their input toward the goal of enhancing stockholder value. We will continue to take actions that we believe enable us to achieve this objective."

Founded by the late aviation pioneer Paul B. MacCready, AeroVironment's aviation ambitions began with attempts to win a much-needed \$100,000 prize for the first human-powered airplane. It won the prize with the Gossamer Condor, which hangs at the National Air and Space Museum.

MacCready then built the Gossamer Albatross, which crossed the English Channel on pedal power.

All the while, quietly in the company's back rooms, engineers were also dabbling in a new frontier in aviation -- making planes ever smaller and closer in design to small birds. That research paid off after the Sept. 11, 2001, terrorist attacks as the Pentagon began to look for ways to protect U.S. troops from elusive insurgents.

It wasn't long after the World Trade Center twin towers fell in New York that the Pentagon went looking for technology for the guerrilla-type warfare it would face in the Middle East.

When special forces units were dispatched in 2001 to the desolate outcroppings of Afghanistan to stalk and eradicate the Taliban, the commandos were outfitted with radios, night-vision goggles and automatic rifles. But they also carried a tiny robotic spy plane, so small it would fit in a backpack. The technology enabled them to avoid ambushes and pinpoint the location of enemy positions.

AeroVironment went on to develop an array of the small drones that quickly became a staple of U.S. military operations. Its technology fueled the growth of the once-tiny company into a publicly traded defense contractor by 2007 with thousands of drones at work in the war zone.

Although AeroVironment recognizes its reliance on the military, the company still has high hopes.

For instance, it makes residential charging stations for the Nissan Leaf and continues to expand internationally.

The company, which makes its small spy drones in Simi Valley, hopes to diversify its customer base in the coming years with the Federal Aviation Administration's impending introduction of regulations that would allow small drones into U.S. airspace in 2015.

"Our goal has always been — and continues to be — building value for all of our stockholders," the company said. "We continue to focus on our fiscal 2014 plan to maintain our market leadership in unmanned aircraft systems and electric transportation solutions while we move innovative new solutions closer to market adoption and long-term value creation."