

## Cost cutters facing off: Canadian hedge fund in Colorado fray

National Post  
Thursday, August 18, 2005  
Page: FP8  
Section: Financial Post Investing  
Byline: Carrie Tait  
Source: Financial Post  
Idnumber: 200508180061  
Edition: National  
Story Type: Business  
Note: catait@nationalpost.com.  
Length: 712 words  
Keywords: INVESTMENT STRATEGY; STOCKS  
Illustration Type: C P C T  
Illustration: Colour Photo: Stan Honda, Special to the National Post / WILL BURTON RUN CENVEO?: Robert Burton.

Chart/Graph: Bloomberg News, National Post / CVO/NYSE.: (See print copy for complete chart/graph.)

Table: Bloomberg News, National Post / CENVEO INC.: (See print copy for complete table.)

Most Canadian investors have probably never heard of Cenveo Inc. It's a small commercial printer based in Englewood, Colo. (population, 31,727), and prior to April, its stock lingered around US\$3.

Then a Toronto firm, Goodwood Inc., got involved. Now the stock is trading around US\$8.40 and many think it could go higher. But who will take it there? That's where things get sticky.

To back up a little, Cenveo's stock jumped in April after Goodwood, a hedge fund manager, and Burton Capital Management LLC, a catalyst investor, revealed that they wanted to run the show at Cenveo.

With control of 10.7% of the company's shares, the duo launched a proxy battle with a plan to put Burton Capital's Robert Burton in the corner office and swiftly cut costs.

At least US\$50-million in costs would be trimmed in the first year, and another US\$25-million would follow the next year, the dissident shareholders said in their proxy statement dated Aug. 9.

With Mr. Burton at the helm of Cenveo, and his hand-picked slate of directors behind him, including Goodwood partner Robert Kittel, the company's stock could trade between US\$10 and US\$12, in line with multiples attached to its competitors, the proxy said.

What's eye-catching here is that this is the second go-around for Goodwood and Mr. Burton. They recently teamed up to launch a dissidents' fight against another long-suffering printing industry company, Vancouver-based Creo Inc.

The standoff ended early this year with Eastman Kodak Co. coming in with a takeover offer at about double the price Creo was when the dissidents announced their intentions.

As soon as the market heard Goodwood and Burton had another target in Cenveo, the hedge funds piled in.

They see opportunity because Mr. Burton has the added reputation of being a former chief executive in

the printing industry who did what several CEOs before him couldn't do -- turn around troubled printing company Moore Corp. and see it sold.

Mr. Burton's reputation for whipping companies into shape is a central reason why Peter Hodson, a fund manager at Toronto's Waterfall Investments, bought the stock.

But there's a telling dip in Cenveo's stock chart.

Winning control of Cenveo might not be a cake-walk for Mr. Burton. James Malone was appointed chief executive on June 22, which prompted the stock to lose US66 cents in eight days. He has since countered Mr. Burton and Goodwood's cost-cutting plan with one of his own.

Before joining Cenveo, Mr. Malone was a founding and managing partner of Qorval, LLC, a financial and business restructuring firm. This made him the CEO of companies including Mail Contractors of America, Inc. and Avborne Inc. He also "led the restructuring team" at InaCom Corp., a US\$5-billion company.

Since taking over as top boss in June, Mr. Malone has pinpointed US\$30-million in annualized cost savings, in addition to the US\$25-million that Cenveo had already identified.

Added to that, Mr. Malone wants to move Cenveo's headquarters to a "smaller and cheaper" location in Denver, while Mr. Burton would pack up the head office and open up shop in Greenwich, Conn.

Mr. Malone sounds very confident in his plan. On Monday, Cenveo revealed it received "expressions of interest" to the buy the company for up to \$9 a share.

But in the same sentence, the company also said it rejected those expressions of interest in favour of trying to cut costs itself.

It's not as if Cenveo's management don't stand to benefit if the company is sold. A sale will trigger the "change of control" severance benefits -- clauses that were written after Mr. Burton showed up on the

scene.

Right now, Cenveo also is on the road, marketing the established management team to investors, trying to win over potential dissident investors. But all this activity hasn't caused Mr. Burton and his dissident followers to back off.

"We believe that, in light of the speed with which Cenveo was able to identify cost-cutting measures after we called the special meeting, there are further opportunities to reduce costs and that significant additional cost reductions are required to make Cenveo cost competitive and enhance shareholder value," the proxy said.

One thing is clear: No matter who comes out on top at the special meeting on Sept. 14, Cenveo will emerge a leaner company.