

GuruFocus Value Insights: Olstein Capital's Eric Heyman and Tim Kang on Sticking to a Strategy and Knowing What You Own

At the end of the day, the investors say picking stocks is all about price



[Sydnee Gatewood](#)

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Summary

- Heyman and Kang have not changed their process despite the market conditions.



[Olstein Capital Management's](#) Eric Heyman and Tim Kang recently honored GuruFocus users with the opportunity to ask them questions about the firm's strategy, outlook and stocks they see value in currently, among other topics. We are pleased to share their responses.

Heyman was named president of Olstein Capital Management in 2022. He is the lead manager for the Purchase, New York-based firm's SMID Value Equity strategy and co-portfolio manager of the Multi Cap Value Equity strategy. He has served as portfolio manager of the

Olstein Strategic Opportunities Fund since its launch on Nov. 1, 2006 and as co-portfolio manager of the Olstein All Cap Value Fund since Oct. 31, 2008.

Further, as director of research since June of 2005, Heyman has overseen the ongoing generation of investment ideas, sector and company coverage and the orderly flow of information throughout the research department. He joined Olstein's investment research team in January 1996. Previously, he held the position of accountant with Norstar Energy, a subsidiary of Orange and Rockland Utility. He has a B.B.A. in accounting from Pace University.

After 16 years as a senior member of the portfolio management team, Kang was promoted to the position of portfolio manager in 2022. Previously, he was appointed as senior vice president and senior research analyst in 2013. He joined Olstein Capital in April 2006 as a member of the research team.

Before joining Olstein, Kang held the position of vice president - equity research analyst with Citigroup Asset Management, covering Asia ex-Japan financial stocks and assisting in covering U.S. bank stocks. Prior to Citigroup, he was an assistant vice president at PPM America Inc. as a member of the high-yield bank loan team working on private bank loan transactions in all industry sectors. Previous to PPM America, Kang was a senior auditor at Arthur Andersen L.L.P. He holds a M.S. in accountancy from DePaul University in Chicago and a B.S. in speech with a concentration in economics from Northwestern University in Evanston, Illinois.

The investors have also been guests on our [Value Investing Live](#) series.

GuruFocus: As a refresher, please share about Olstein Capital's strategy. What metrics or factors are you most interested in when evaluating a potential investment?

Heyman and Kang: As value investors, we seek to capitalize on significant deviations between the price of a company's stock and the underlying value of its business. We focus on those factors that help us determine the intrinsic value of the company as well as factors that help us understand the nature of its discounted stock price.

Since we value companies based on free cash flow, our analysis and valuation methodology, like that of a private equity investor, focus on how a company's operations generate sustainable free cash flow. We measure the level of ongoing investment required to maintain and grow cash flow and seek to determine how much free cash flow is available to investors. For us, reliable valuations require an assessment of a company's Quality of Earnings – a process pioneered by our firm's founder, [Robert Olstein \(Trades, Portfolio\)](#). That is, we assess whether a company's accounting policies reflect business reality, and we adjust reported earnings to eliminate what we believe are management's biases.

We spend a great deal of time assessing a company's Quality of Earnings – in other words, we assess its accounting policies, adjustments, transparency and normalized earnings power. We then try to determine if a company's reported earnings reflect its business reality – its capital

needs, need for restructuring, off-balance sheet liabilities or contingencies and other critical factors. When identifying factors that may affect future free cash flow, we conduct scenario analyses testing sensitivities to different factors. Through our analysis we also seek to fully understand the issues that have created the discount and assess whether those issues are temporary or chronic in nature. Ultimately, we determine a company's normalized free cash flow power and growth trajectory, leading to an assessment of its true intrinsic value.

GuruFocus: How, if at all, has your approach been impacted by the market environment so far this year?

Heyman and Kang: While the market has been fixated by the back and forth on interest rates, and market sentiment has gyrated stocks, we have not changed our process or views on how to approach valuation whatsoever. Although the Federal Reserve has had an outsized impact on the market and sentiment over the past two years, we are looking beyond the daily price fluctuations triggered by speculation about interest rates to focus on what we consider the bedrock of value creation – improving company fundamentals. Although our patience has been tested during this period, we have been adding to names we feel are underappreciated and overlooked by current market trends and have accumulated heavily discounted stocks in the Olstein All Cap Value and Strategic Opportunities (SMID Value) funds.

GuruFocus: What's a go-to resource for you when researching investment ideas, beyond typical business publications and websites?

Heyman and Kang: Our go-to resource when researching and analyzing potential investments are company filings -- 10-K's, 10-Q's, Annual Reports and Shareholder Letters, Footnote Disclosures and News Releases. Because our "Quality of Earnings" approach seeks to identify positive as well as negative factors likely to affect a company's future free cash flow, we identify a number of companies whose earnings and growth potential are either unrecognized or undervalued by the market. By focusing on a company's quality of earnings, adjusting reported numbers for the economic reality of the business and understanding the key drivers of its cash flows, we can estimate a company's future free cash flows and potential value with greater reliability than valuations based on reported numbers or management's optimistic earnings estimates. We believe that an intensive analysis of company balance sheets, income statements and other regulatory filings is more useful when analyzing a company's ability to produce future free cash flow than management forecasts, earnings guidance or meetings with management. In other words, we would rather spend an evening with a stack of financial statements than a dinner out with company management.

GuruFocus: How do you generate your ideas? Do you run a screener?

Heyman and Kang: In our universe of investable stocks, there are always companies – whether they are good companies that have temporarily faltered, or companies facing adverse competitive, industry or economic issues – that have been punished by the market. We constantly monitor our universe of investable stocks through qualitative and quantitative screening methods to identify companies that we have either temporarily stumbled or have been severely punished due to misperceptions in the market.

Since companies that are “out of favor” or have stumbled due to temporary problems stimulate our interest, we have established a series of regular and robust quantitative screens that seek to identify companies experiencing significant deviations from historical performance. While it is naïve to expect that companies will repeat history precisely, historical performance can provide important insight into a company's future performance since cycles do exist and reversion to the mean is a frequent pattern. As such, our quantitative screens analyze data from current and historical financial reports, tracking important data points and performance measures such as: historical returns on capital, inventory turnover and asset utilization, debt levels, free cash flow, buybacks, performance versus peer growth, balance sheet changes and other factors. Noteworthy deviations or exceptions from historical performance on these measures usually rise to the top of our quantitative screens, prompting further investigation of a specific company.

Another way that we find ideas is by “reading for heat.” We are reading for such things as management changes, strategy changes, M&A (Mergers and Acquisitions) action, new product introductions, new innovations, capital allocation decisions or a strategic acquisition, just to name a few. And this reading is not just from the newspaper and general media, but also from specialized investment publications, trade publications, academic and economic research publications and, as we discussed previously, company filings. Coupled with our collective 100 years of investment experience of “reading for heat,” some of our best investments can be found in these extensive and eclectic reading materials.

GuruFocus: How do you value the quality of the management team? What particular things do you objectively look into to assess how the administration is aligned with shareholders?

Heyman and Kang: When we see a significant gap between a company's stock price and our determination of its value, we naturally assess the leadership capabilities and decision-making skills of the company's management team. For us, an accurate assessment of management's capabilities relies less on what company management says and focuses instead on what management has done and continues to do. By conducting an intensive, proprietary forensic analysis of a company's financial statements, accompanying footnotes, shareholder reports and other required disclosures, we are able to assess the quality of earnings and free cash flow that company generates and make determinations of whether the management team is acting with integrity and prudence as they are allocating capital or structuring incentives for the business. We also evaluate the management team by analyzing the consistency and integrity of its shareholder communications and presentations over many years to answer the basic question “has management actually accomplished what it said it was going to do?”

GuruFocus: When you last spoke with us on Value Investing Live, one of the stocks you discussed was The Shyft Group ([SHYF](#), [Financial](#)). Filings show you have added to that position over the past several quarters. Do you still feel the market is still misvaluing the company, or have the dynamics improved?

Heyman and Kang: The Shyft Group ([SHYF](#), [Financial](#)) is a leader in walk-in trucks, the most widely used transportation vehicles used for the “last mile” of e-commerce deliveries, work

trucks and motorhome RV chassis. Growth in this space has been solid with package delivery volumes growing at a high single-digit rate. On top of secular package growth, there is a solid replacement business for the current base of delivery vehicles, supported by regulatory emissions mandates, which will provide opportunities for the Shyft Group's Blue Arc Electric truck. Management laid the foundation for future growth by divesting the Emergency Vehicle segment in February 2020, which has allowed them to benefit from the structurally growing end market in the "last mile delivery" business in fleet vehicles.

Since we last spoke in 2021, we have traded around this position to take advantage of favorable prices created by volatility in the stock. We believe the stock has sold off recently as the secular growth demand is exhibiting cyclical choppiness coupled with a large expense investment in the Blue Arc EV product (roughly 45 cents to 55 cents per share) impacting normalized EPS and FCF. We also believe that given their clean balance sheet, growing total addressable market for their products and room for margin expansion will lead to realization of our intrinsic value of \$19 over the next few years, especially since we believe the Blue Arc EV is poised to be a growth lever in 2025 and beyond. Keep in mind that "last mile delivery" is the sweet spot for electric vans and small trucks since these vehicles have relatively short and predictable delivery routes and do not need to rely on public charging infrastructure. These delivery vehicles return to their home base to charge overnight and are ready to go out again the next day.

GuruFocus: You also discussed Prestige Consumer Healthcare Inc. ([PBH](#), [Financial](#)), which you have decreased your exposure to over the past several quarters. What has changed about the company that influenced this decision?

Heyman and Kang: Prestige Consumer Healthcare Inc. ([PBH](#), [Financial](#)) manufactures and distributes over-the-counter health care to retail and online stores. The Company distributes products for oral, eye and skin care, cough, cold, allergy and sinus treatments. Since their catalog of every-day brands is highly recognizable, including Clear Eye, Dramamine, Monistat and Summer's Eve, the company has historically commanded premium prices and shelf space. Additionally, items are not high-priced discretionary items, but essential remedies at reasonable price points, with the majority of PBH's products selling for under \$10. Over the past few years, organic growth has improved and ranged from 1-3%.

When we spoke in September 2021, PBH was trading in the low \$50 range. Since that time, we've sold stock at very favorable prices as it has appreciated considerably. We continue to hold the company, which is currently trading around \$70, in our Small Cap Value portfolio, since we have a value for the company in the high- \$80's to \$90 range.

GuruFocus: The latest 13F filing for Olstein Capital shows several new positions, including The Middleby Corp. ([MIDD](#), [Financial](#)) and Douglas Dynamics Inc. ([PLOW](#), [Financial](#)). Which of these investments are you most excited about, and why?

Heyman and Kang: We're excited about both of these new positions, Middleby Corp. and Douglas Dynamics.

Middleby ([MIDD](#), [Financial](#)) is a leader in the foodservice equipment market with a broad line of innovative products used in commercial restaurants, food processing operations and premium residential kitchens. Growth in commercial foodservice equipment sales comes from new stores -- largely internationally and from new emerging restaurant chains, equipment upgrades due to new technologies and menu changes. In addition to organic growth, Middleby has been an industry consolidator over time by using their free cash flow to opportunistically buy solid brands and streamline their operations to improve margins. The current weakness in the company's stock price stems from the negative impact of inflation on restaurants' results, causing them to be tighter on capital expenditures. This factor coupled with destocking at distributors in the commercial segment and higher interest rates/low housing starts has caused the company's residential segment sales to reset. That being said, the headwinds Middleby has faced in the past year appear to be stabilizing with tailwinds expected to help the company over the next few years. After a large restaurant rationalization during the pandemic, new restaurant openings are planned over the next few years and its residential division has undertaken plans to stabilize and improve margins toward company averages. We expect that the company should be able to grow low-to-mid single digits organically, generate solid free cash flow and continue to add good brands to their portfolio over time. We have a value of \$180 for the company.

Douglas Dynamics ([PLOW](#), [Financial](#)) is North America's premier manufacturer and upfitter of commercial work truck attachments and equipment. The Work Truck Attachments segment includes operations that manufacture and sell snow and ice control attachments and other products and the Work Truck Solutions segment includes manufactured municipal snow and ice control products and the upfit of market-leading attachments and storage solutions. Due to weather patterns having a large impact on their business in any given year, the market tends to overreact during down cycles. Average snowfall in the last few seasons has been materially below historical levels, which has led to a lengthening of the replacement cycle. While it is impossible to time, looking at long-term snowfall averages, the company's FCF through cycles, and their margin expansion plans, we believe we will see substantial improvement over the cycle from where they are today. We have a value of \$30 for the company.

GuruFocus: While the firm's portfolio is fairly diversified, are there any areas or sectors you tend to stay away from?

Heyman and Kang: We don't necessarily stay away from any given sector, but certain characteristics may make a company less attractive to us. Some of these characteristics may be fairly common for many companies within certain sectors. Here are some of the risk factors that would require a deeper investigation into a company as well as a steeper discount before investing:

- High debt level/Highly leveraged balance sheet
- Debt terms unfavorable to management (restrictive covenants, onerous leverage targets, etc.)
- Negative free cash flow
- Qualified audit/accounting issues/repeat restructurings/repeat restatements
- Management integrity issues

- Highly concentrated customer base/supply base/product revenues
- Onerous exposure to government/environmental/litigation that creates risks to the business model due to legal or regulatory changes
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At the end of the day, the most important factor is the price you pay and the discount you are getting. It's all about price, price, price!

GuruFocus: There has been a lot of hype around AI over the past year or so. What are your thoughts on its prospects and impact? Are there any aspects of it that give you pause?

Heyman and Kang: Technological innovation has always been a factor in every market. Whether it is the assembly line, television, computers, the internet, smart phones, social media and now with AI in the spotlight, it has always been important to maintain a balanced perspective when assessing and analyzing the opportunities and impact of these technological innovations. While we don't know, at this stage, exactly what AI will do to our world, we don't want to get caught up in the short-term hype. We want to develop an understanding of how AI will be integrated into business and people's lives over the long run. As always, while such innovations are exciting, we take an open minded, but skeptical approach to assessing the impact of AI since the financial impact on most businesses is currently limited and will likely take many years to fully develop. The one constant is that technology changes constantly, and the technology leaders of today are not necessarily the technology leaders of tomorrow.

GuruFocus: With the ongoing conflicts around the world, what opportunities are you seeing emerge?

Heyman and Kang: Conflicts, while we don't want to see them, are sometimes what create opportunities in the marketplace. Scared investors steer away from good companies with good discounts, looking for everything to be perfect. We look for companies that have a diversified business stream, with products that are essential and often mundane in nature that have a discount as they are discarded by the market out of fear. We gravitate toward companies that have good business models, balance sheets and sustainable cash flow that will allow for time to pivot and change with the political climate and run by management teams that can navigate effectively through such change.

GuruFocus: Do you think index funds and ETFs are good options for average private investors? Why or why not?

Heyman and Kang: Investors should keep in mind that a significant amount of money flowing into passive investment vehicles, particularly into S&P 500 index-linked products, has been invested in a narrow range of companies due to their market capitalization. As a result, the stock prices of this narrow range of companies keep increasing without regard to their intrinsic value. It is extremely important to have a robust knowledge of the underlying investments in an index fund or ETF and to understand what factors are driving the investment returns of those products. The real risk is complacency. We strongly recommend that investors know what they own.

GuruFocus: In your view, what are some prudent investment techniques to address currency inflation risk in order to retain the purchasing power of an investment portfolio? What are the countervailing risks of employing those techniques?

Heyman and Kang: We believe that an effective way to mitigate inflation is to have companies in a diversified portfolio that have good business models with pricing power and lasting power. When you hold good businesses over the long-term that creates value over that time, it will act as a natural hedge to any kind of inflation.

GuruFocus: Value stocks have lagged growth stocks for more than a decade. Do you believe that the reversal of the mean will occur at some point, and value will start outperforming growth going forward?

Heyman and Kang: We believe there is too much focus on value vs. growth. We believe that a company's intrinsic value should include how profitably a company can grow over time, discounted back to the present. Traditional value metrics such as low P/E, low P/Book and other valuation metrics often don't capture the essence of a company's discount to intrinsic value. A company that is in secular decline with a low multiple can be less attractive than a fast-growing company with a high multiple. It is up to the investment manager to determine, based on research and due diligence, whether or not the prevailing stock price is a compelling discount to the company's intrinsic value. In other words, we are not waiting for value investing to come back into favor. We are valuing companies on their own trajectory and merit and selecting stocks, at what we believe are very favorable discounts, based on that assessment.

GuruFocus: As you know, Charlie Munger passed away at the end of last year. What would you say his most significant contribution to the investment community was?

Heyman and Kang: Both Buffett and Munger are American icons and investing legends that have increased the financial acumen of the investing public in immeasurable ways. Their confidence in American innovation and sovereign stability have likely encouraged other management teams to take calculated risks regarding capital allocation, mergers, expansions and other actions that have contributed to the wealth creation of the investment community.

On a more personal note, given our investment approach and our focus on the quality of earnings, we have always appreciated Buffett and Munger's understanding of GAAP (Generally Accepted Accounting Principles) and the need to often adjust a company's reporting earnings to reflect its economic reality.

GuruFocus: On a similar note, which investors inspired you the most at the beginning of your career? Are there any investors that continue to inspire you today?

Heyman and Kang: Without singling out any individual investor, suffice it to say that we are value investors because we believe in the logic of value investing -- of buying the common stocks of good businesses at material discounts to their intrinsic value. Collectively, a number of investment managers identified as "value investors" continue to inspire us with similar

thinking and approaches to investing that value companies based on a thorough understanding of company fundamentals.

GuruFocus: What is the most important lesson you have learned over the course of your career?

Heyman and Kang: While our primary goal is capital appreciation, and we take calculated risks to achieve that goal, one of the most important lessons is that mistakes cost a lot – sometimes your losers hurt more than your winners. A permanent loss of capital has an unrecoverable impact on a portfolio. A fundamental premise of our investment philosophy is that there is a strong correlation between above-average performance and error avoidance. We believe that in order to achieve long-term investment success, an investor must first consider the financial risk inherent in each investment opportunity before considering the potential for capital appreciation. Thus, when considering any security for the portfolio, we analyze the downside risk before assessing upside potential. And our assessment of downside risk starts with an analysis of a company's quality of earnings.

GuruFocus: What would you say is the biggest concern for investors currently?

Heyman and Kang: Emotional decision-making influenced by the onslaught of “noise.” Whether it's traditional media, the internet or social media, investors are bombarded with conflicting opinions, especially about the future direction of the market. We believe the current environment is especially difficult and consumed with speculation about Federal Reserve policy. Nobody can accurately predict markets and outcomes, and most investors get into trouble when they focus too much on the short term. Fear of missing out and charging into an investment or becoming overly concerned about short-term volatility can lead to costly mistakes. We believe investors should stick to a process and investment discipline through all the noise and focus on the longer-term investment horizon.

GuruFocus: In light of that, what advice do you have for individual investors in the current market environment?

Heyman and Kang: Shut out the noise, do your homework, think long term and, most importantly, know what you own. On our website, we have an extensive library of publications that discuss what we look for, as well as accounting alerts that we believe every investor should be aware of, before investing in a company.

GuruFocus: Whether they are investing related or not, please recommend three books and three movies for our readers to check out. Could you also share why you like them?

Heyman and Kang: Books that we recommend include:

“Margin of Safety” by [Seth Klarman](#) ([Trades](#), [Portfolio](#)) provides great advice for developing risk-averse value investing strategies designed to deliver investment success over the long term.

“The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail” by Clayton Christensen was one of the first books to describe the concept of disruptive technology and its impact on established, market-leading companies.

“Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports” by Howard Schilit, Jeremy Perler and Yoni Engelhart provides investors with valuable tools to detect shenanigans in corporate reporting.

Movies we recommend because they're entertaining and deliver valuable lessons: “Moneyball” and “Too Big to Fail.” And, of course, “Enron: The Smartest Guys in the Room,” because at its heart this cautionary tale is about accounting and the need to take some reported numbers with a grain a salt, which is what we do best!

This information should be preceded or accompanied by a current prospectus, which contains more complete information, including investment objectives, risks, charges and expenses of the Olstein All Cap Fund and Strategic Opportunities Fund and should be read carefully before investing. A current prospectus may be obtained by calling (800) 799-2113 or visiting the Fund's website at www.olsteinfunds.com.

Investing involves risk including possible loss of principal. The Olstein Funds follow 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.

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Standardized and monthly performance can be obtained from the Fund's website at www.olsteinfunds.com.

The above represents opinion and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any references to securities (including valuation opinions) 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 3/31/25, the Olstein All Cap Value Fund maintained a position in the Middleby Corporation (0.93%), referenced above and is subject to change. As of 3/31/25 the Olstein Strategic Opportunities Fund maintained a position in the following securities referenced above and is subject to change: The Shyft Group (3.43%); Prestige Consumer Healthcare (2.43%); The Middleby Corporation (2.14%); and Douglas Dynamics Inc. (2.62%). Positions in other portfolios managed by the Investment Manager may differ. Please visit the Fund's website at www.olsteinfunds.com for a listing of the Fund's holdings as of the most recent calendar quarter end. Positions in other portfolios managed by the Investment Manager may differ. References to other mutual funds should not be considered an offer to buy or sell these securities.

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