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Don't follow the money

Canada's most intriguing value investor stays as far away from the Bay Street herd as he can

Eric Reguly

George Armoyan has no MBA, no CA, no CFA or any other designation that would qualify him as the best investor in Canada you've never heard of. "I have a WD--Wheeler Dealer," he says with a laugh.

The fast-talking, Syrian-born Armenian wheels and deals more cleverly than just about anyone on Bay Street. But he doesn't work on the Street, and he invests in businesses that don't show up on his rivals' radar screens. The 45-year-old lives in Toronto, but his private holding company, Geosam Investments (named after his sons, George and Sam), is based in Halifax. It controls a public company called Clarke Inc. that holds transport, warehousing and IT assets.

His investment philosophy is simple: Don't follow the money. Armoyan is a value investor who searches for bargains other money managers have overlooked. Of course, plenty of managers claim they do that, yet they then stampede like a herd of buffalo to a handful of big names like Canadian National Railway, Dofasco and the banks.

That's why true outriders like Armoyan are the wave of the future. He and his five-man team of accountants and analysts work a niche--they go after broken, ailing or simply undervalued companies and income trusts with market values ranging from \$50 million to \$150 million. "We're in the minor league," he says. "Most institutions do not want to be involved in these illiquid stocks."

The Armoyan team will typically buy no more than 20% of a business--majority stakes are hard to sell--then obtain a seat or two on the board and go to work. That often means ousting managers, selling a division, cutting expenses, merging with a competitor or just telling a compelling story from near the bottom ranks of the TSX. The job often requires the help of "operators, visionaries and sons of bitches," says Armoyan.

The goal is an 18% return on equity on the half-dozen or so investments the team manages at any given time. One big winner was Vaquero Energy, a junior oil company. The team bought a stake in 2003, when Vaquero traded at less than \$1 a share, and Clarke reined in the oil company's risky exploratory drilling program. Soaring oil prices also helped. Last year, Highpine Oil & Gas bought Vaquero in a stock swap for about \$7 a share.

Clarke itself, a trucking company that had underperformed for years, also needed a shakeup. Armoyan sacked management and focused operations. The share price has climbed from about \$3 in 2001 to more than \$10 recently. Other holdings have included Halterm Income Fund, Royal Host REIT, Fishery Products International and Versacold Income Fund. His worst pick was Hip Interactive, a video game company that went bust last year. Although Armoyan runs apart from the Bay Street herd, the herd has noticed him. Mention of his interest in a stock can send it soaring. That happened in April, after Clarke disclosed its 11% stake in the Granby Industries Income Fund. When Clarke sold

some units, investors and analysts got skittish, and the share price sank. "We view [his sale] as a negative, since Mr. Armoyan may not be bringing his experience directly to the fund," said a report by Research Capital.

Armoyan won't reveal his personal net worth, other than to say, "I don't have to work for the rest of my life." Clarke is certainly flush--it has \$140 million in cash.

That Armoyan has got this far in finance is unlikely, to say the least. He and his family emigrated from Syria to Boston in 1976. He then enrolled in Dalhousie University in Halifax because he couldn't afford a U.S. school, earned a civil engineering degree and fell in love with Nova Scotia. A trader and bargain hunter by instinct, he bought junk at auctions, from canoes to washing machines, and resold it through newspaper ads. Then he shifted to land development.

In the 1990s, Geosam started buying non-performing loans from banks and converting the loans into equity in the borrowers' businesses. Since then, he's been a shake-up artist, moving in and out of companies quickly. Jim MacDonald, chairman of Enterprise Capital, a leading activist investment fund, says Armoyan is a "very shrewd observer of companies and goes where others fear to tread."

What's next for Armoyan? More--and bigger--deals. He'd like to build Clarke into a billion-dollar company. "If I had the money, I'd go hostile after [Bell Canada owner] BCE," he says. "I think the parts are worth more than the whole." It's a nice fantasy, but Armoyan should keep sifting through the weeds, searching for small, tarnished gems while the big boys look the other way. That will keep him out in front of the herd.

Eric Reguly is an award awarding columnist with The Globe and Mail. He can be reached at ereguly@globeandmail.ca

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