

SPOTLIGHT Impala Asset Management CEO Bishop on Long Opportunities in U.S. Stocks

Robert Bishop, chief executive officer at **Impala Asset Management LLC**, spoke to Bloomberg's Simone Foxman about his firm's long-short equity strategy and why it is bullish on airlines, fracking and U.S. homebuilders. The New Canaan, Connecticut-based fund started in 2004 and manages \$3.2 billion.

Q: What industries does your strategy focus on?

A: We focus on what we call basic industries, which means industrials, materials and energy. There's also a consumer discretionary element to that, including homebuilding, some retail and automobiles. From there, we try to identify the right companies that are going to be models for the rest of their sector. We tend to be early. We like the 10 percent down and 70 percent up opportunities. We're willing to suffer through the 10 percent down if we think there's a good long-term story there.

Q: What are you focused on now?

A: For the last two years, we've liked the airline industry. We suffered through the first eight to nine months of that investment and then it finally started to work. For years, even Warren Buffett said his worst mistake ever was investing in airlines and that seemed to be very true up until 2012. But then the U.S. airline industry consolidated from six players to three players. The airlines had a good citizen like Delta to demonstrate that performance is dependent upon free cash flow generation and getting the airline to function well so that customers like it. That became the model for the industry. It's an area we still like. We have been in Delta for a long time and it's worked much better than the other airlines. If some of the others can start to show more of the positive effects of merger synergies and of managing their operations well, there are probably opportunities there.

Q: Where are you seeing investment opportunities in industrials?

A: We've been seeing a lot of opportunity around fracking in the U.S. over the last three to four years. Early on, you get the

energy production that comes from the expansion of fracking. Later, you have to look for all the industries that pop up around this cheap energy source. For example, you'll see pipelines being built and an increase in railcar demand as you try to move all this energy. There is between \$100 and \$150 billion in planned U.S. petrochemical investments over the next three to four years. We're at the phase where everyone has completed the planning for these projects and now have to decide whether to break ground. We think the decision is likely to be yes on the vast majority of these projects. As that happens, some of the companies that manufacture the pumps and valves, etc. are going to make more money. The engineering and construction companies that win these projects are going to have a nice bump to their longer term outlook. Rising value in these companies isn't based on beating quarterly earnings by a few pennies. This is a long-term trend, and the companies that are well-positioned for this are going to offer decent upside over the next four to five years.

Q: Any other significant themes?

A: U.S. homebuilding will be an area that is ripe for really strong growth over the next five years. Pent-up demand for housing has been finding its way into the rental market thus far, but all the academic surveys suggest that people haven't fundamentally changed their behavior in wanting to own a home. What's held the housing cycle back has been the difficulty for a large part of the population to get a mortgage. If we can find a way to make it easier for those

people with FICO scores between 620 and 740 to obtain a mortgage, we'll see a five to six-year boom in housing.

Q: How are you playing that?

A: We like homebuilders. Part of the reason they are underappreciated right now is because they have much more land inventory than they really need. The company that has led the way in maintaining the right land-to-sales ratio over the last several years has been NVR Inc., which is one of the primary reasons that we own it. Its stock chart has looked very different from those of the other builders. NVR uses options for buying land. Land is a cost of doing business that fluctuates. It's like a commodity. Other builders focus on hoarding that commodity and hoping that the value goes up. Some of these builders have enough land inventory for the next six to seven years, when they should really only have inventory for four or five. The better companies like Lennar Corp. (LEN), which we also own, are going to start to bring that land-to-sales number down. When they do that, we expect they will be generating free cash flow yields of 15 to 20 percent per year, which should start to change the way investors view the industry. We'll be at that point in the next three months to six months. Then again, like the airlines model, we're not bullish on every company. There are some companies buying a ton of land this year. Lennar was buying land back in 2010 when it was cheap. And next year when those companies are still focusing on land acquisitions, Lennar will likely buying back shares.

AT A GLANCE



Age: 57

Education: Northwestern University (BA), Wharton (MBA)

Professional Background: Salomon Brothers, Tiger Management, Kingdon Capital, Maverick Capital, Soros Fund Management

Family: Married with three children

Favorite Sports Team: Cleveland Cavaliers

On The Nightstand: "The Man in the Queue," by Josephine Tey