REPRINTED FROM DECEMBER 28, 2017

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Investing in the Undervalued Stocks of SMID Companies

ERIC R. HEYMAN is Executive Vice President, Portfolio Manager and Director of Research of Olstein Capital Management, L.P., and Portfolio Manager of the Olstein Strategic Opportunities Fund and Olstein All Cap Value funds. Previously, he was an accountant with Norstar Energy, a subsidiary of Orange and Rockland Utility. He received a degree in accounting from Pace University.

TIMOTHY S. KANG, Senior Vice President and Senior Research Analyst, joined Olstein Capital Management, L.P. in April 2006. Previously, he held the position of Vice President/Equity Research Analyst with Citigroup Asset Management covering Asia ex-Japan financial companies and assisted in covering U.S. banks. Prior to Citigroup, Mr. Kang was an Assistant Vice President at PPM America, where he was a member of the high yield bank loan team working on private bank loan transactions. Before that, he was a senior auditor at Arthur Andersen, LLP. Mr. Kang holds a M.S. in accountancy from DePaul University and a B.S. in speech with a concentration in economics from Northwestern University in Evanston.

SECTOR — GENERAL INVESTING

TWST: Could you identify yourselves please?

Mr. Heyman: This is Eric Heyman. I am the Portfolio Manager of the Olstein Strategic Opportunities Fund.

Mr. Kang: And this is Tim Kang. I'm a Senior Analyst at the Olstein Funds.

TWST: Would you like to talk a little bit about the firm?

Mr. Heyman: Sure. So we are value investors who look for solid businesses that have been unfairly punished by short-term factors, whether it's an earnings miss, poor management decisions, regulatory changes or overall negative market sentiment. We consistently find that many small-to-midsized companies face strategic challenges, often as a result of unrealistic expectations for growth, or they fall below investors' radars because they are under-followed by Wall Street.

The Olstein Strategic Opportunities Fund was launched in November 2006 to invest in the undervalued stocks of small-to-midsize companies, or SMID companies, companies that face unique strategic challenges and choices. We believe that the market's short-term reaction to SMID companies that stumble creates unique investment opportunities for us as long-term value investors. Equity markets tend to overreact and sharply penalize small-to-midsized companies that encounter problems in the face of unrelenting expectations for constant growth. Over its 11-year history, the fund has continued to emphasize investments in turnaround situations and SMID companies facing unique strategic challenges.

TWST: And are there a few things that make your approach to SMID unique, and did you want to talk a little bit about the philosophy of the investments?

Mr. Heyman: Sure, so there are two factors that differentiate the Olstein Strategic Opportunities Fund from its peers. Number one, our focus on turnarounds and companies facing strategic challenges, and number two, our emphasis on the quality of earnings and an intensive analysis of company financial statements and public documents. When most investors think of investing in small-to-midsized companies, they tend to think of fast-growing companies or finding the next high flyer. While it's great to find that one success story, the reality is that most companies misstep as they grow. We focus on a different type of company, those small-to-midsized companies with strong products or services that have stumbled or hit a wall usually due to Wall Street's demands for constant growth. Our approach to finding value in companies with temporary issues or companies that need an operational turnaround makes us very different from our peers in the SMID space.

The second factor that differentiates our process is our emphasis on the quality of earnings. One of the fundamental tenets of Olstein's investment philosophy is that in today's world of information overload, a forensic analysis of a company's financial statements, regulatory filings and accompanying footnotes is the best way to determine the quality of its earnings, the success of its strategy and the sustainability of its performance and the impact of management's decisions on future free cash flow. We believe that a forensic analysis of a company's balance sheet, income statements and other regulatory filings is more useful when assessing a company's ability to produce future free cash flow than management forecasts, earnings guidance or personal visits. We also believe that our analysis and valuation approach, which focuses on a company's ability to generate free cash flow, allows us to identify a great many investment opportunities overlooked by the market.

Highlights

Eric Heyman and Timothy Kang are value investors who look for solid businesses that have been unfairly punished by short-term factors. They find that many small-to-midsized companies face strategic challenges or fall below investors' radars, so they choose to invest in the undervalued stocks of SMID companies. Mr. Heyman and Mr. Kang say the market's short-term reaction to SMID companies that stumble creates unique investment opportunities for long-term value investors, and what differentiates their firm is its focus on turnarounds and companies facing strategic challenges, and also its emphasis on the quality of earnings and an intensive analysis of company financial statements and public documents..

Companies include: Spartan Motors (NASDAQ:SPAR); United Parcel Service (NYSE:UPS); FedEx Corporation (NYSE:FDX); Stericycle (NASDAQ:SRCL); Samsung Electronics Co Ltd (KRX:005930); Prosperity Bancshares (NYSE:PB); Prestige Brands Holdings (NYSE:PBH); Scripps Networks Interactive (NASDAQ:SNI); Discovery Communications (NASDAQ:DISCA) and Hologic (NASDAQ:HOLX).

TWST: And did you want to highlight a company that you find interesting?

Mr. Heyman: The first one I want to talk about is **Spartan Motors** (NASDAQ:SPAR). It's a producer of heavy-duty and custom vehicles. The company has three major business lines: fleet vehicles, emergency response vehicles and specialty vehicles which include motor home chassis, defense vehicles and small aftermarket parts offerings. After the company languished for several years, the board brought in Daryl Adams, an auto executive who became CEO in February of 2015, to reinvigorate the business. He diagnosed the company's problems including unprofitable segments in the RV chassis and emergency vehicle segments, installed new leadership and chain of accountability, and has put in place a turnaround plan that is starting to show results.

There are a number of things we like about the business which lead us to conclude that the intrinsic value is higher than the current price. First, **Spartan** is a play on the growth of e-commerce as the company is the leading producer of last-mile delivery vehicles — Utilimasters is what they are called — including walk-in vans, truck bodies and cargo van upfits. A commonly cited statistic is that e-commerce is expected to grow at three times the rate of GDP. It is expected that over 64 million packages will be delivered daily by 2026; all of those packages need to be delivered somehow, and **Spartan** has the number one position in last-mile delivery vehicles.

Their delivery truck solutions include class one through class six types — light to medium trucks — capable of navigating through narrow streets in the cities or open roads. The delivery vehicle segment transports goods from distribution hubs to the final doorstep. A $214 million order from the United States Postal Service announced in late October confirmed our view that **Spartan** should continue to compete effectively in this space. This business which represents almost 50% of **Spartan's** revenues should generate operating margins in the low teens with an attractive runway for growth.

The second business is the emergency vehicle division. It's just started to turn around. With the active acquisition of Smeal this past January, **SPAR** has become the number three fire truck manufacturer and now has the scale to compete more effectively. Functioning fire trucks are essential in every community in the U.S., and an aging fleet translates to what we estimate to be at least several thousand units of pent-up demand as 66% of all fire trucks in service are estimated to be at least 10 years old. **Spartan** has worked hard to reduce the time from order to delivery and a new streamlined model, the S-180, has cut delivery times by 50% to 180 days. The S-180 seems to be gaining traction in the marketplace, and this division has become profitable for the first time in six years. We think midsingle-digit operating margins in these segments are reasonable with the ability to take some market share.

Third, **Spartan** sells chassis into the RV market through specialty vehicle segment. The RV industry has performed quite well coming out of the last recession; however, **Spartan's** performance lagged due to market share erosion and some legacy warranty and quality control issues. So trends in the business including estimated RV shipments forecast are still strong, and management has resolved the warranty issues and started to win back market share. Any pickup in the defense vehicles orders, which are part of this segment, would only add to the upside.

1-Year Daily Chart of Stericycle

Chart provided by www.BigCharts.com

So looking out a few years based on a higher revenue base which we believe is achievable, a solid balance sheet, margin improvement with some of the strategies that the CEO is implementing, we think this is worth around $22 to $24 based on $1.35 to $1.50 in free cash flow. The company has put out projections that they believe that they can do in 2020, they're saying $1 billion in revenue and 9% EBIT margins and, if that takes place, that would put the intrinsic value materially higher than our estimate right now.

TWST: What do you think investors might see happen to the company next year that might be interesting for them?

Mr. Heyman: Well, I think that sometimes, especially in turnarounds, it takes time for their customers to understand what's taking place. So we see a lot of promise in delivery vehicles, like **UPS** (NYSE:UPS) and **FedEx** (NYSE:FDX), emergency vehicles; we think that as companies and cities start to replace their existing fleets, that's a good benefit, and manufacturing utilization should only continue to increase. The RV market continues to grow. It is no longer just for Baby Boomers; a lot of Millennials are into camping and RV travel. It's the new in-thing. So we think there are a lot of positive things going on with this company that we believe could benefit shareholders going forward. With a $570 million market cap, this is a great example of very small company that flies under Wall Street's radar.

TWST: Did you want to mention a second company?

Mr. Heyman: The next one I want to mention is **Stericycle** (NASDAQ:SRCL). **Stericycle** is a leader in outsourced services with a focus on regulated and compliance solutions for health care, retail and commercial businesses. Specifically, their services include medical waste management, sharps disposal management, pharmaceutical waste, hazardous waste management, recycling of expired or unused inventory. Their services help their customers maintain compliance with complex regulations to ensure proper handling and disposal of items. They have 11% market share; it's a $33 billion growing industry that is fragmented but consolidating. They have over a million customers, none of which are larger than 1.5% of sales with over 90% retention rate.

So recently, they have faced a series of lackluster quarters. And again, it goes back to my comments about Wall Street's expectations for growth. So Wall Street right now is negative on the company because they're not growing enough. Approximately, 1% or 2% is not enough for Wall Street, which has given us the chance to own a great business with high barriers to entry at a reasonable price of $67. A couple of years ago, the stock was selling at $120. We believe business valuations are far less volatile than stock prices.

There had been pricing headwinds in their regulated waste and compliance business due to the purchase of many of their smaller clients by much larger institutions. So basically, what they had to do was go back and renegotiate contracts with the consolidation of some of their end markets. This has caused **Stericycle** to proactively work with these customers to renegotiate contracts ahead of time in order to minimize the length of time it takes to overcome the headwind. Unfortunately, it takes 12 to 24 months, and again, Wall Street can be shortsighted. So I think they are working through these issues; they're working on repricing and trying to set a lower bar for steady growth in the future. They've also settled some lawsuits that had been lingering, which has only added to some of the investor concerns and impatience.

While frustrating in our view, their business model is not impaired. Trends that support growth include outsourcing — customers want to focus on their core business, aging populations, pressure to reduce health care cost, enforcement of regulations. So the bulk of their business is essentially a subscription-based business with monthly fees under long-term contracts that are focused on growing free cash flow. We believe they have around $4.50 in free cash flow, growing to $5 over the next few years, and it's worth a minimum of $90 a share.

Because of all the regulation and compliance, it's a value-added business that is needed. Just recently, with **Samsung's** (KRX:005930) battery incident, they had to collect the batteries that caught fire in one of the **Samsung** products. They would hire **Stericycle** to go in there and collect the stuff safely and then get rid of it according to what the rules and laws are. It's a very regulated business, a protected business, but it's competitive and they are the leaders out there, and we think they are going to keep moving forward and reestablish themselves with positive growth going forward.

TWST: From what I understand, the company laid off a couple hundred workers as part of an overhaul just to make itself a little more competitive. Is that something you're seeing throughout the company, that there is this effort to make the company efficient and competitive in a competitive field?

Mr. Heyman: Recently, they announced a restructuring program, and again, if businesses don't keep evolving and restructuring and looking at their cost structures and what they are doing, basically their competition gets the best of them. I think people are frustrated because in addition to cost rationalization, they have been dealing with pricing issues and renegotiating contracts. Now they are trying to restructure the ERP system, consolidate operations, business planning and logistics to get costs more in line.

"It's a very regulated business, a protected business, but it's competitive and they are the leaders out there, and we think they are going to keep moving forward and reestablish themselves with positive growth going forward."

That's what we want to see — a business that keeps evolving, especially in a space that we think has a solid end market and is not going to go away. Having a network of trucks that go from location to location and are able to handle all types of waste, whether it be medical or corporate, it's a very protected business, and you have to have expertise in doing it. So I think the restructuring, while people get frustrated about it, I think is needed, and I think that's going to make them a stronger company over the next three to five years.

TWST: Did you want to mention a third company?

Mr. Kang: Sure. **Prosperity Bancshares** (NYSE:PB), which has a market cap of about $5 billion, is a Texas regional bank with approximately 250 full-service banking locations, predominantly in the Houston, Dallas and Southeastern Texas area, and some in Oklahoma. As it is with most banks, the products that **Prosperity Bank** offers are standard for a full-service bank. So we are talking about deposits, mortgage loans, commercial mortgages, commercial industrial loans, agriculture loans, construction, consumer loans — like auto and home improvement — home equity lines of credit, as well as debit and credit cards. Also, as many other banks do, **Prosperity Bank** has a trust and wealth management business as well.

What is less standard is that **Prosperity Bank** has an underutilized and under-levered balance sheet. Deposit levels are nearly twice that of loan balances, and total assets are only six times total shareholders' equity. Just as a comparison, most banks in the U.S. have loan balances that are 85% of deposit balances and with total assets at roughly nine times shareholders' equity. In other words, **Prosperity Bank** has lots of excess capital.

We see that Houston is in a rebuilding mode at the moment after devastating storms. With a good branch network, plenty of capital, as we talked about, and consistent and conservative underwriting standards, we believe **Prosperity** is in a good position to allocate capital for better returns for the foreseeable future. Additionally, should the bank choose to use other methods of utilizing excess capital, either in the form of buybacks, dividends, acquisitions or some other combination, the return profile for investors is compelling.

We also believe as the oil price continues to recover that **Prosperity Bancshares**, as a Houston and Dallas predominately located bank, should also benefit as well. These potentials are not fully reflected in the prevailing share price, and we believe just running the numbers with our methodology of forensic accounting — we think that current earnings of $4 is understating the potential here. Our scenarios suggest the potential of doing better than $6 of earnings and the stock price at around $70 represents good value; we believe that the stock should be closer to $90.

TWST: From what I understand about two years ago, Prosperity did a merger with Tradition Bancshares and brought in some additional banking offices in the Houston region. Do you think that they may be looking to see if there could be some other acquisitions out there over the next few years?

Mr. Kang: Absolutely. Small acquisitions are part of the benefit, or part of the advantage, you have with so much excess capital — that you can make these acquisitions bolt-on, whether it's branches or make additional loans that you see fit, and then frankly at a $5 billion dollar market value, these guys could actually be an acquisition candidate as well.

TWST: Can you mention a final company?

Mr. Kang: Sure. We have **Prestige Brands** (NYSE:PBH). This is a roughly $2.5 billion, over-the-counter health care company with highly recognizable products covering a broad spectrum of health care needs from feminine care, eye care, dental care and various pain remedies. **Prestige Brands** competes with a suite of highly recognized brands like Clear Eyes, Dramamine, Monistat and Summer's Eve. Additionally, the products are not high-priced discretionary items, but essential remedies at reasonable price points with the majority of **PBH's** brands sold under the $10 threshold price.

So we see the total health care spending to reach about $5 trillion by 2021, and this is according to the Center for Medicare and Medicaid Services, representing roughly a 5% CAGR with an increasing percentage of customers or consumers opting for home remedies as an effective lower-cost option. This dynamic fares well for the catalog of products for **PBH** over the long term. However, recently slowed growth due to distractions from an integration of recent acquisitions has created a discount from what we believe is its intrinsic value.

But as the company continues to execute on their planned integration, product innovation and debt paydown, organic growth should improve back toward 3% or better. We believe that its steady nature of generating free cash flow and lack of capital requirements due to its lean business model should bring the stock back to its intrinsic value. We believe that this has the potential for generating better than $3.25 of free cash flow, and the stock should be worth better than $66.

1-Year Daily Chart of Prestige Brand Holdings

Chart provided by www.BigCharts.com

always trends or shifts in sentiment or economic headwinds that usually hit the stocks of smaller companies much harder than those of larger-cap companies. For us though, it's not so much trends or shifts in sentiment that impact the type of SMID-cap companies that we invest in, rather it's a prevailing mindset where many investors favor faster-growing companies looking for constant topline growth.

As I said before, when most investors are thinking — small-to-midsized companies, they think of fast-growing companies and finding the next big concept or technology. We emphasize looking for what are undervalued companies or situations where companies are undertaking turnaround strategies that shift their internal focus to greater efficiency or increasing shareholder value. The companies that we own have solid cash flow, great balance sheets. So they have flexibility to increase dividends or buy back stock or pay down debt — actions that return free cash flow to shareholders.

What I would say to our clients is focus on buying good companies with good balance sheets that can create value or are interesting enough where other companies are looking at them. This year alone, we had about seven or eight corporate actions. We had **SNI** (NASDAQ:SNI) bought by **Discovery Communications** (NASDAQ:DISCA). **VWR** was just purchased by **New Mountain Capital**. **Cynosure** was bought by **Hologic** (NASDAQ:HOLX). **VCA**, which is **Veterinarian Care of America**, was bought by **Mars**.

"We see the total health care spending to reach about $5 trillion by 2021, and this is according to the Center for Medicare and Medicaid Services, representing roughly a 5% CAGR with an increasing percentage of customers or consumers opting for home remedies as an effective lower-cost option."

TWST: Do you think that the outlook for these home remedies and over-the-counter health care products is going to continue to be competitive, because it seems like a lot of consumers now are looking for lower-cost ways to improve their health if they feel ill and may not need a prescription medication?

Mr. Kang: Yes. So this secular trend is exactly that, that people, patients, customers are looking for home remedies, and again, **PBH's** brands are sold under that $10 threshold price, which is a compelling value versus a prescription, where you have to go to the doctor, you have a copay. There is maybe a prescription that is expensive if it's not covered, and there's just a number of different steps that you'd have to take; whereas a home remedy, you would be able to go to your local drugstore or buy online and you'd have that health care need met.

TWST: Changing gears a bit, when you talk with your clients about 2018, what are one or two of the concerns that they have as they look toward the next year?

Mr. Heyman: I would say that with everything that's going on, and I've been with the Olstein Funds for 22 years, there is always something that someone's concerned about, whether it's who is going to be president, Brexit, recession fears, interest rates rising, what's going to happen with the tax cuts, Greece, China, Russia, health care reforms. What I would say is that from our perspective, there are

We have a lot of companies in the portfolio that have similar characteristics to the ones that were either taken over or a corporate action that ultimately returned free cash flow to shareholders was implemented. So focus on the business. Focus on the balance sheet. Focus on the intrinsic value of an individual company and let the market work out itself.

TWST: Thank you. (ES)

ERIC R. HEYMAN
Executive Vice President, Portfolio Manager and Director of Research
TIMOTHY S. KANG
Senior Vice President and Senior Research Analyst
Olstein Capital Management, L.P.
4 Manhattanville Road
Purchase, NY 10577
(800) 799-2113 — TOLL FREE
www.olsteinfunds.com
e-mail: info@olsteinfunds.com

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 Strategic Opportunities Fund and should be read carefully before investing. A current prospectus may be obtained by calling (800) 799-2113 or visiting the Olstein Funds' website at www.olsteinfunds.com. Past performance is no guarantee of future results.

The Olstein Strategic Opportunities Fund follows 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. Also, the Investment Manager's calculation of a stock's intrinsic value involves estimates of future cash flow which may prove to be incorrect and, therefore, could result in sales of the stock at prices lower than the Fund's original purchase price. There is no assurance that the fund will achieve its investment objective.

An investment in a portfolio containing small- and mid-cap companies, particularly those facing strategic challenges, is subject to additional risks, as the share prices of small- and mid-cap companies are often more volatile than those of larger companies due to several factors, including limited trading volumes, products, financial resources, management inexperience and less publicly available information. These stocks could also experience less liquidity and higher share price and trading volume volatility than stocks of other companies.

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 12/31/17, the Olstein Strategic Opportunities Fund maintained a position in the following securities referenced above, and is subject to change: Spartan Motors Inc. (1.9%); Stericycle Inc. (3.7%); Prosperity Bancshares Inc. (3.3%); Prestige Brands Holdings Inc. (3.2%); and Discovery Communications-Class C (2.6%). As of 12/31/17, the Olstein Strategic Opportunities Fund did not maintain a position in the following securities referenced above, and is subject to change: United Parcel Service, Fedex Corp., Scripps Networks Interactive, and Hologic Inc. Positions in other portfolios managed by the Investment Manager may differ.

Not FDIC insured – Not bank-guaranteed – May lose value
Distributed by Olstein Capital Management, L.P. – Member FINRA
TWST Investing in the Undervalued Stocks of SMID Companies - 0118