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Rolls-Royce urged to accelerate cost cuts

Stephen Foley in San Francisco and Peggy Hollinger in London

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ValueAct, the US hedge fund that has become [Rolls-Royce's](#) largest shareholder, is urging the engine manufacturer to accelerate cost cuts within its core aerospace business, according to people familiar with the fund's thinking.

The San Francisco-based activist fund is also likely to encourage an eventual sale of Rolls-Royce's non-aerospace divisions when the board conducts a strategic review, although this was not one of its immediate priorities. It is likely, too, that ValueAct, which is run by its founder Jeff Ubben, will push for a board seat for one of its representatives.

The fund, which disclosed a 5.4 per cent stake in the company on Friday, took the decision to invest after researching the career of new Rolls-Royce chief executive Warren East, who previously ran the chipmaker Arm Holdings.

In conversations between the two sides, the hedge fund has positioned itself as an ally for Mr East

as he examines ways to improve margins and cash flows in the core aero-engines division, people familiar with those talks said. Mr East has said a strategic review of Rolls-Royce could come in the next 12-18 months.

ValueAct had traded in and out of Rolls-Royce for more than a year before a share price decline following profit warnings and the change of chief executive triggered its buying spree this summer.

Investors and analysts have expressed doubts about the value of Rolls-Royce's diversification beyond civil aerospace into marine engines and other power systems, where results have been poor.

In its core aerospace division, Rolls-Royce is in the midst of a difficult transition from the Trent 700 engines that power Airbus's A330 widebody aircraft to the Trent 7000 that will go on the remodelled version, the A330neo.

ValueAct believes that the market is undervaluing future maintenance contracts for the new engines, which deliver the bulk of profit aero-engine sales.

The hedge fund has experience investing in the aerospace sector, having held a stake in Rockwell Collins, a supplier of aircraft electronics, since 2011. Mr Ubben, meanwhile, has connections to Rolls-Royce's board: he and Rolls-Royce director John McAdam sat together on the board of Sara Lee for four years when ValueAct was pushing for a restructuring of that company.

Rolls-Royce said on Friday that it was familiar with ValueAct, having had "constructive conversations" with the fund last year when it first emerged as a shareholder. The fund is understood to have met last year with former chief executive John Rishton, who left at the start of July.

Mr Rishton came under fire from shareholders after presiding over several profit warnings. He struggled to impose his authority on the civil aerospace division, the biggest part of the group and a bastion of engineering expertise. Mr Rishton repeatedly expressed frustration at the division's resistance to his cost-cutting measures.

Mr East has said he wanted to add "pace and simplicity" to the company and to the restructuring plan launched by Mr Rishton. He has begun an operational review aimed at delivering results "better and faster", he said at the group's interim results on Thursday.

In a sign that ValueAct's support of Mr East could encounter difficulties, Mr East told the Financial Times last week that he believed the group's diversification into marine and power systems was "broadly correct". He also suggested that the marine division, which has been hard hit by the collapse in offshore oil and gas investment, could need more investment to be competitive.

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