Bill Ackman BBG Interview At Harbor Conference [FULL TRANSCRIPT]

Pershing Square's Bill Ackman spoke with Bloomberg TV anchor Stephanie Ruhle from the Harbor Investment conference in New York today. Ackman said "if 3G ran McDonald's, we'd own the stock for sure." He also said, "I think the board did the right thing in making a change in management."

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On Zoetis, Ackman said, "we've had a very nice relationship with Zoetis and the board. And I think the board and management share all the same goals we have and to make this, you know, a more valuable, more profitable company. And I think they've done a very good job since the company was spun-off. And I think there's a lot of potential."

Video: http://bloom.bg/1KPZlHS

Full transcript:

STEPHANIE RUHLE, HOST: Bill Ackman, would you have guessed it, he is just a laugh riot over here?

Bill, you just left the stage. You were sitting down with Ray Dalio. And for me watching two iconic investors sort of go through their investment practice was extraordinary.

What did you learn from Ray?

BILL ACKMAN, FOUNDER, CEO, PERSHING SQUARE CAPITAL: I learned a lot. I mean I really didn't know how he did what he does. I'm sure I completely understand at this point.

But remarkable how he's built his company and his organization and his approach. And I (INAUDIBLE)...

RUHLE: Did you have a single take-away that's going to impact you?

ACKMAN: Well, his point was much of what we do can be systematized and you can write a program to do it. That was his sort of argument.

I don't think that's -- I think that's -- maybe there's some element of truth to that.

RUHLE: It's the opposite of what you do.

ACKMAN: It very much is the opposite in that he is all about what he's (INAUDIBLE) almost artificial intelligence, a series of rules based on history and analysis of investment situations that guide his allocation of capital.

And I found it fascinating.

RUHLE: But not anything you would replicate?

ACKMAN: No. No. We do very few things. We do one or two things a year, so it can be much more handcrafted. It's almost like we're old-fashioned investors and he's the new -- the new new thing.

RUHLE: Well, let's talk about what you're doing.

Let's start with the WebEx. Someone from Pershing Square is now on the Zoetis board.

ACKMAN: Yes.

RUHLE: How is that going?

ACKMAN: That's going great. So Bill Doyle from our team joined the board. Bill is, you know, Billy was in the health care business. He was at J&J for a meaningful period of time.

And we've had a very nice relationship with Zoetis and the board. And I think the board and management share all the same goals we have and to make this, you know, a more valuable, more profitable company.

And I think they've done a very good job since the company was spun-off. And I think there's a lot of potential.

RUHLE: Where do you think they should be making cost cuts?

ACKMAN: You know, it -- rather than -- I would say this is a business that was owned by Pfizer. It was spun-off and had to become an independent public company. It's more about, you know, building a culture and -- and running a business.

But, you know, I'm limited in what I can say now that we're on the board.

RUHLE: Did you support their acquisition of Abbott Animal Health products?

ACKMAN: You know, I don't know the details on the acquisition, but it sounded strategically like it could make sense.

RUHLE: Well, let's just talk general health care sector.

What do you think of consolidation right now?

ACKMAN: I think it's going to happen. I think, you know, what's interesting about the -- the taxon version -- or the anti-taxon version regulations, I think it's going to push more sort of midsized pharmaceutical companies to sell probably to foreign buyers, you know, and -- and the foreign buyers are probably more likely to take the headquarters offshore than a U.S. buyer inverting into a foreign company.

So we may have, for better or for worse, we may have a fair amount of consolidation with a foreign buyer with a more favorable territorial tax structure buying U.S. companies...

RUHLE: (INAUDIBLE).

ACKMAN: -- because it's going to be hard for U.S. companies to compete with the very unfavorable tax structure.

RUHLE: What does Valiant mean to you right now?

ACKMAN: Valiant means to me a very well run, incredibly disciplined company. I mean we spent, really, almost a year working pretty -- very closely, as closely as you could work with another public company. And we had a call -- literally a call at 6:00 p.m. every night. I mean we really got to know each other.

And it was a great experience. So we think very highly of them.

RUHLE: And now you have no connectivity?

ACKMAN: No, we keep in touch. For sure.

RUHLE: And what's in store for Allergan?

ACKMAN: Allergan, I think and Actavis, I think it would be a very good combination. You know, we've gotten to know Brent Saunders and think highly of him. So I think it's going to be a good deal.

RUHLE: Are there other sectors that you think are sort of ripe for activism right now?

ACKMAN: You know, I don't think it's a sector-driven thing. I think...

RUHLE: It's just a sucky company thing?

ACKMAN: I don't know, even a sucky company thing. I just think that, you know, we want through a period of time where we went from very active owners of businesses 100 years ago to increasingly more passive owners of businesses, right?

This trend from an individual owning 20 percent of -- of a company to a mutual fund, you know, having broad-based mutual funds to having ETFs, which are almost like a second derivative away from ownership with people constantly trading.

And now I think the rise of shareholder activism is almost a -- kind of pushing us back to the -- to the past, where there was a much closer connection between the owner and the -- and the way the business was run.

RUHLE: Does the strength of the U.S. dollar and how much it's hurting so many companies, is it incentivizing you to get involved in certain companies you weren't looking at just a year ago?

ACKMAN: Well, I do think that there are a lot of companies where the market and the analysts have yet to re-price the business on the basis of the move in currencies. And so I think that's some of the headwind for the stock market.

RUHLE: What kind of companies, just so we can -- you know, I don't need...

ACKMAN: No, I would say...

RUHLE: -- specific names.

ACKMAN: -- U.S. companies with, you know, global revenues. Kind of...

RUHLE: Wouldn't that be any company?

ACKMAN: You know, a lot of companies, the currency headwind is a real thing and in many cases, analysts' models have not been updated to reflect the -- the move in the currencies.

RUHLE: Fannie and Freddie, where do you stand?

ACKMAN: Well, that's...

RUHLE: Frustrated.

ACKMAN: No, no, we like them a lot. We -- I think just with the passage of time, we'll get to the right answer. You know, it's interesting that...

RUHLE: Really?

What makes you think that?

ACKMAN: Well, Fannie and Freddie are the -- collectively, the long-term financial institutions in the world, right. They've got almost $6 trillion of outstanding obligations.

Embarrassingly, they are the least well capitalized financial institution in the world, right. If you think of them as one institution, they have no capital.

Why do they have no capital?

Because the U.S. government, every quarter, is taking out 100 percent of their profits, right. So you have the housing finance system, this is supposedly an off balance sheet company. It's not consolidated into the balance sheet of the U.S. government.

And the U.S. government is taking 100 percent of the profits and, you know, these -- these are the -- the worst capitalized institutions in the world. And that's not a sustainable situation.

RUHLE: Whether they are or they're not, you have the government against you.

ACKMAN: I don't -- I don't think that's right. I think there are some members of government -- government who want to see Fannie and Freddie go away. But if Fannie and Freddie go away, so does the 30-year pre-payable fixed rate mortgage and so does the housing market.

And so I think when people understand the implications, the 30-year pre-payable mortgage...

RUHLE: But aren't you asking the government to understand the implications?

ACKMAN: Yes. And, you know...

RUHLE: Why do you have any confidence that they will?

ACKMAN: Well, the government is not one unified body. It's a series of people. There are a lot of very intelligent people who work in the Senate and in the Congress. And a, you know, I think that ultimately, truth prevails. That's been my experience as an investor and my experience in life. And we need to recapitalize Fannie and Freddie.

So there are two choices. Either the government can inject $500 billion into Fannie and Freddie and support the housing finance system or the private sector can do it. And the only way for the private sector to do it is really to let Fannie and Freddie recapitalize itself, right.

So if tomorrow the U.S. government turned off this cash flow suite where they're taking all the cash out of Fannie and Freddie, these institutions would recapitalize themselves and they would recapitalize themselves pretty quickly without the taxpayer needing to invest one penny.

And 80 percent of that capital would eventually -- would be owned by taxpayer itself.

So it's a way for the companies to become independent without the taxpayer having to write a check.

RUHLE: Even if private investors like you could do this, what about people in the government who at all cost just don't want to see someone like you make money here?

ACKMAN: Well, the good news is while our investors will make money if Fannie and Freddie are restored to well capitalized institutions, the taxpayer owns 79.9 percent of the company, right?

So if 79.9 percent of the value goes to the taxpayer. Then there's the 20 percent of which we own 10, right. And then what's interesting is the other 90 percent of Fannie and Freddie that we don't own is owned largely by individuals, voters, right.

The number of people who have called me, retirees from Florida, a true story. I've gotten calls from retired women in Florida...

RUHLE: Bill doesn't take my call and they get through to you?

ACKMAN: I certainly take your call. But -- and, you know, these are people who call me and they -- I own 30,000 shares of Fannie and Freddie. It's a meaningful part of my savings and the government wiped me out.

Why are they doing this to me?

And I said, look, call your congressman, right. They're not -- they're more interested in what you have to say than what I have to say.

So I think that what's interesting here is 80 percent is already owned by the taxpayer. And the other 20 percent, let's say 10 or 15 percent is owned by hedge funds. The other 85 percent is owned by voters. And those -- that's a pretty important constituency.

There's no scenario in which hedge funds are being enriched at the expense of the taxpayers. The opposite. In fact, if you restore Fannie and Freddie, not only will the taxpayer own $300 billion or $400 billion of value in the common stock of the company, but they'll be very profitable and they only operate in the U.S., so they'll pay 35 percent corporate level tax. And that tax revenue is -- 80 percent of the equity plus 35 percent of the profits going forward will go to the government...

RUHLE: All right, Bill...

ACKMAN: -- and to the taxpayer.

RUHLE: -- we have to take a quick break.

But when we come back, we've got to talk Herbalife.

We'll be back from the Boys and Girls Harbor Investment Conference right here in midtown New York City.

You are watching TAKING STOCK with Pimm Fox.

Stay with us.

(COMMERCIAL BREAK)

RUHLE: Welcome back to TAKING STOCK.

I'm here at the Boys and Girls Harbor Investment Conference with Sheikh Bill Ackman.

ACKMAN: Yes.

RUHLE: Bill Ackman -- no, I'm messing around.

Bill, I've got to talk to you about McDonald's.

When you and I sat down in December, given your experience, your success in Burger King, I asked you if you wanted to get involved in McDonald's.

You said if it was run more like Burger King, the stock would be trading significantly higher and it wasn't cheap enough yet.

Fast forward, the stock is hurting, earnings are poor, the CEO stepped down.

What's doing?

ACKMAN: Well, for one, we don't comment on things we have in -- that's been required to disclose a stake in, so I can't tell you whether we own it or we don't own it, just as a general rule.

RUHLE: But do you have a view on McDonald's right now, whether you're...

ACKMAN: I think the board did the right thing in making a change in management. I don't know anything about the new CEO, though, so I don't...

RUHLE: You don't?

ACKMAN: I don't.

RUHLE: Are you taking a look at McDonald's?

ACKMAN: We look at everything, everything big and interesting. Sure.

RUHLE: So that's...

ACKMAN: It's one our list of things to look at, at a minimum.

RUHLE: Yes.

ACKMAN: We might own it and we might not own it, right.

RUHLE: You think, if they followed more like a Burger King it could be more interesting to you?

ACKMAN: Oh, for sure. I mean if 3G ran McDonald's, we'd own the stock for sure. And I'd be happy to tell you that.

RUHLE: Coke and Pepsi, either one interesting to you right now?

ACKMAN: No.

RUHLE: Neither?

ACKMAN: No.

RUHLE: I think Herbalife is interesting to you.

ACKMAN: Yes.

RUHLE: Where are you on it right now?

ACKMAN: Very short.

(LAUGHTER)

ACKMAN: Very short.

RUHLE: Well, where are you in the process?

ACKMAN: Well...

RUHLE: I mean you've said to me this thing is going to 0.

ACKMAN: It will. So I think the 26th of February is a big day. They announce earnings after the close. Interestingly, they're holding the conference call after the close as opposed to ten in the morning the following day.

I think it's a little bit of a tell that the numbers are going to be bad, right, because they typically file the press release, they put out their 10K. They give you the evening to read it and then you're prepared for the call and you can ask questions at 10:00 the following morning.

You're in a P.R. business. If you give people no time to read the 10K and you, you know, do the conference call at night, you're trying to get ahead of the news.

So I think the earnings, just on that tell, I think the earnings are going to be bad. But I think the business fundamentals are deteriorating.

So I think the -- what's interesting is, one, I think they're going to have a bad earnings. They're going to have to meaningfully take down guidance. But probably the most interesting stuff will be in the 10K. I think the -- some combination of the FCC and the auditors will require them to make more -- or it a more interesting disclosures. I think that will be useful to the -- to the thesis.

But at this point, we're -- it's a race to the bottom.

You know, will the business fall apart before the government intervenes or will the government intervene before the business falls apart?

RUHLE: Have you changed the structure of your position in any way since we last spoke?

ACKMAN: Not meaningfully, no.

RUHLE: Does Ramira being on the panel with Herbalife's chief compliance officer mean anything to you?

ACKMAN: I think she's at the same conference. So I don't think she's actually on a panel. That would really surprise me.

But, no, nothing of substance.

RUHLE: Before we go, do you have a view, Harry Wilson's name has been in the news, Appaloosa and Kyle Bass trying to get Harry in the mix to push GM in terms of share buybacks.

Do you have a view on this, because there's been a lot of grumbling?

ACKMAN: So I think he is a -- I've met him, Harry. I think he's very capable. He clearly knows a lot about GM, because he was involved in the restructuring.

You know, the -- the thing that's -- I'm not a big -- I don't like a thesis predicated on just capital return. So my assumption is that Harry has more up his sleeve than just returning capital to shareholders.

RUHLE: All right, Bill, today is an extraordinarily successful day.

Congratulations on raising all this money and awareness for such a great organization, founded by Tony Duke.

Thank you so much for joining us today.

ACKMAN: Thanks for having me.

RUHLE: Bill Ackman.

ACKMAN: Appreciate it.