Logical Conclusion

There’s nothing fancy about Michael Cook’s investing approach, in which he emphasizes attention to detail, sticking to one’s knitting and the need to rely on facts and logic over assumptions and hype. “Employ these values in almost any endeavor and they should translate reasonably well to good outcomes,” he says.

The outcomes have certainly proven good for Cook’s SouthernSun Asset Management investors. The firm’s flagship small-cap strategy since 1990 has earned a net annualized 12.3%, vs. 9.4% for the Russell 2000.

Targeting smaller companies with big profiles in their businesses, he’s finding opportunity today in widely diverse areas such as consumer electronics, automotive supply, industrial infrastructure, recreational vehicles and underwear.

Standing Out

Andrew Brenton isn’t afraid to take management at its word, a sound strategy given how skilled he’s proven at deciding who deserves that kind of trust.

Don’t expect Andrew Brenton to spend time trying to decipher the market’s intentions. “Our view is that the market is terribly inefficient and companies are mispriced most of the time,” he says. “So we don’t see the benefit of trying to figure out what the market thinks.”

Keeping their own counsel has served Brenton and Turtle Creek Asset Management co-founders Jeff Cole and Jeff Hebel remarkably well. Since 1998 the firm has earned an eye-popping net annualized 25.7% return, vs. 7.1% for equal weightings in the S&P 500 and S&P/TSX indexes.

Focused on companies with “big, rational ambitions,” Brenton currently sees opportunity in such areas as specialty foods, factory automation, mortgage lending, trucking and software.

Inside this Issue

FEATURES

Investor Insight: Michael Cook
Seeing past mishaps and headwinds to find value in Knowles, Tenneco, Hanesbrands, Chicago Bridge & Iron and Thor Industries.

Investor Insight: Andrew Brenton
Betting on the jockeys as much as the horses in Premium Brands, ATS Automation, Home Capital, TransForce and Open Text.

A Fresh Look: Sysco
Assessing anew whether it can “pull out of its slump.”

Uncovering Value: Discovery
Should it be painted with the same negative brush as peers?

Uncovering Value: At Hand
Examining big markdowns in star-investor portfolios.

INVESTMENT HIGHLIGHTS

INVESTMENT SNAPSHOTS PAGE
ATS Automation Tooling 15
Chicago Bridge & Iron 8
Discovery Communications 21
Hanesbrands 7
Home Capital 16
Knowles 5
Open Text 18
Premium Brands 14
Sysco 20
Tenneco 6
Thor Industries 9
TransForce 17

Other companies in this issue:
ADT, AGCO, Allergan, Ascent Capital, Badger Daylighting, Centene, Cheniere Energy, Darling International, Evertz Technologies, Fairfax Financial, Murphy USA, SunEdison, TJX Companies, Valeant Pharmaceuticals
INVESTOR INSIGHT: Michael Cook

SouthernSun Asset Management’s Michael Cook, Michael Cross, Elliot Cunningham and Peter Matthews describe the three filters through which they view all prospective investments, the system check they use at the end of their research process, and what they think the market is missing in Knowles, Tenneco, Hanesbrands, Chicago Bridge & Iron and Thor.

The core beliefs you’ve outlined behind how SouthernSun invests – things like “be thorough,” “be systematic,” “reality trumps hype” – seem to err on the side of basic common sense. Is that the point?

Michael Cook: When I talk about our core beliefs, I’m describing practices that are consistent with good logic and tend to apply broadly to any good decision-making. Taken together, we think they make us both better prepared to react to what’s in front of us and more patient in letting time become our friend rather than our enemy. While you and I may consider it all common sense, a great many investment decisions don’t get made this way, which we think can give us an advantage.

You focus in evaluating companies on three primary areas: niche dominance, financial flexibility and management adaptability. Describe what you mean by each.

MC: We’re trying to find businesses with strong market positions that are reasonably well protected by things like technology leadership, cost advantages and distribution strength. Their competitors typically look different than they do, either because they’re divisions of much larger companies on the one hand, or because they’re smaller and privately held on the other.

A good example in the portfolio today would be Knowles [KN], which was founded nearly 70 years ago – its technology was used in Neil Armstrong’s audio transmission from the moon – and today is the leading global manufacturer of hearing aids as well as of the microphones used in consumer electronics. The company was spun out of Dover Corp. last year and not long thereafter had to pull its microphone components out of Apple 6 iPhones due to a manufacturing defect. We have concluded the problem was temporary rather than permanent and that the company’s leadership position in two attractive markets is worth a lot more than the market has been willing to pay.

Another example of the type of company we like is Centene [CNC], which is the top provider of Medicaid and other healthcare-related services to state governments. We originally bought the stock a few years ago when everyone was so afraid the Affordable Care Act would negatively impact the company’s business, but we thought it was well positioned to take advantage of the trend toward states’ outsourcing their Medicaid programs, something we believed would happen irrespective of healthcare legislation. That continues to play out while healthcare reform, by expanding the number of people eligible for Medicaid, has so far turned out to be a tailwind rather than a headwind. We’ve taken some profits on the stock, but still own a sizeable stake.

In terms of financial flexibility, our emphasis is on organic revenue growth, internally generated discretionary cash flow and moderate leverage. All of this signifies staying power and even the ability to go on the offensive during difficult periods and take advantage of lesser competitors. This gets back to what I said earlier about being in a position where time works for us rather than against us.

With management, our focus as you mention is on adaptability. Anyone who is a keen observer of business and has run their own company, as I have, knows that conditions on the ground are constantly changing. So we spend a lot of time getting to know management and how they’ve reacted to both positive and negative periods in the past. Are they able to maintain focus on long-term measurable goals while executing through current conditions? This requires regular interaction – we don’t believe we can truly know what is happening at a company unless we’re in
regular contact with the people running it at different levels. In terms of metrics, we want to see a record of increasing return on capital over time. That’s typically a good measure of management’s ability to allocate capital.

We’ve owned shares for some time in Darling International [DAR], whose traditional business is in recycling cow carcases into animal-feed ingredients. When concerns over Mad Cow disease shrunk U.S. cattle herds, the company not only put significant emphasis on operating more efficiently, it also expanded outside its core business. It reconstitutes oils from the grease that comes out of traps in restaurant kitchens, and about two years ago entered into a joint venture with Valero Energy to produce renewable diesel fuel at a facility in Louisiana. It acquired a company that recycles commercial bakery leftovers. It’s the largest producer and supplier of gelatin in China. The businesses can be cyclical and conditions now are less than positive, but the company still generates considerable cash flow. All of this is a great credit to [Chairman and CEO] Randy Stuewe and his team, who have done an excellent job in developing new opportunities while staying keenly focused on day-to-day execution.

How does something like farm-machinery manufacturer AGCO [AGCO], which is much smaller than competitors Deere and CNH Industrial, fit your niche-dominant profile?

MC: The niches here are primarily geographic, as AGCO is the #1 tractor producer in Western Europe as well as in South America, two areas that account for more than 50% of the company’s total sales. We think management has been very smart in making bolt-on acquisitions to diversify the revenue base and position the company both to ride out down cycles and to benefit long term from increasing agricultural mechanization and higher protein consumption in developing markets. We also believe they’ve been innovative in developing in-cab, engine and emission-control technologies, much of that driven by the company’s long experience in Western Europe, where machines have to navigate smaller, more-complex plots and where emissions regulations tend to lead rather than follow. This is another situation where we believe cyclical concerns, in this case around commodity prices and agriculture, may be causing the market to misjudge the business opportunity going forward.

**ON VALUATION:**

**I don’t look at anything other than discretionary cash flow in trying to fundamentally understand a business.**

Give an example of something recently added to the portfolio and how it got on your radar screen.

MC: We recently took a position in our mutual fund portfolio in Ascent Capital [ASCMA], which is in the residential and commercial security-monitoring business. We’ve owned competitor ADT [ADT] since late 2013 and also owned Broadview Home Security, which was spun off from Brink’s Company and later bought by Tyco. We believe we understand this business well, but the specific impetus for our interest was the collapse of Ascent’s share price from nearly $90 less than two years ago to $40 earlier this year, and now to below $30.

There’s a pervasive fear that telecom and cable companies are going to take over Ascent’s traditional business, and that customer growth is going to dry up as people set up a few cameras around the house to keep track of what’s going on. We basically think that the monitoring, response and customer-service aspects of what Ascent does is less susceptible to competitive threat than is generally assumed. Have you called your cable company recently for customer service? We also think Ascent has opportunities to increasingly provide home-automation and other services to their customers. Only time will tell how it plays out, but we’re comfortable we’re paying a price that can turn out to be quite opportunistic.

Describe your valuation discipline.

MC: My father and grandfather were in the construction business, so after my exposure to that I’ve never been comfortable looking at anything other than cash flow in trying to fundamentally understand a business. Over time I’ve refined that down to discretionary cash flow, what’s left over after what we consider maintenance capital spending and dividends. It’s not at all a trivial exercise, but we’re trying to get at the actual cash that management will have to invest in things like new plant and equipment, acquisitions, paying down debt or buying back stock.

We’ll model that discretionary cash flow over time and come at valuation in a variety of ways, including applying normalized multiples, doing a sum-of-the-parts analysis and discounting the future cash flows back to the present. We want to buy businesses whose shares we think in the next three to five years can go up at least 50%, and over five to seven years can go up at least 100%.

One of the last steps you list before being ready to buy is an assessment of “key drivers of the business.” Haven’t you at that point already worked through all that?

MC: Due diligence takes time and is an organic process within the team. We’ve obviously gone through the drivers of the business, but I’ve found it helpful at this last stage to formally lay out what the absolute key ones are and how we’re going to track them. It’s a gut check on whether we fully understand the business and the risks and is an opportunity after summing up six months of work for people to flag fundamental concerns.

Do you take full positions right away?

MC: When I was starting out, a friend of mine who had been very successful as an
investor told me that he found it amazing that no matter how much due diligence he did, the skeletons often didn’t come out of the closet until he had something at risk. I’ve always kept that to heart and typically will start out with a 1.5% to 2.5% position rather than what for us is a full 4.5% to 6% position. I think that’s served us very well over time.

Only owning 20 to 30 stocks in your small-cap portfolio is quite concentrated, especially given the amount of assets you manage. What’s the rationale for that?

MC: That’s how we’ve done things since day one. The rationale is that I’ve just always wanted it to hurt when we’re wrong, because we’re going to learn and grow from that. At the same time, we want it to matter when we’re right. Why own something if it doesn’t really matter if you’re right or wrong?

We try to come at it as we own one, why own two? If we own two, why own a third? You walk yourself up the ladder and it becomes a discipline to constantly evaluate whether something new provides a better opportunity than what you own. Reevaluating what you own is a very healthy exercise.

Do you trade much around your existing positions?

MC: Our annual target turnover is in the 20-40% range, so we’re not jumping in and out of positions as a way to time the market. We do, however, believe we’re pretty good at knowing what businesses are worth, so when the market overshoots on either side we try to take advantage.

To give one example, in the third quarter of last year we added Murphy USA [MUSA] to the portfolio. It’s a filling station operator in the South and Midwest, with almost all of its sites located next to a Wal-Mart. That results in significantly higher fuel sales per station, and also provides them with a long runway for growth as they build out the relationship with Wal-Mart across the large number of stores, even in just the South and Midwest, that don’t currently have filling stations.

You wouldn’t necessarily think this would be a volatile stock, but since we bought it it’s gone from around $50 to over $70 and back down almost to where it started. [Note: MUSA shares currently trade at around $55.] It appears to trade on how people are feeling about Wal-Mart, what’s happening with renewable-fuel tax credits and what’s happening with oil prices – all to a degree that we think is out of sync with the long-term prospects of the business. When the stock went up so fast we took some gains along the way, and we’ve added some shares back as the stock has come back down.

You’ve spoken highly of Oxford Analytica, a U.K.-based research firm that helps you monitor macroeconomic risks. How do you use their input?

MC: OA provides us with a regular flow of information on all the big topics of the day – from the refugee problem in Europe, to the debt crisis in Greece, to the market upheaval in China – and unbiased analysis of the potential impacts on various industries. It’s really never about getting expertise that allows us to make a prediction and trade – I’ve rarely found that to work – but more about helping us to test what we’re seeing with our own eyes and to refine the questions we’re asking our companies. We’ll read about sovereign-debt issues in Brazil, for example, and go back to OA for insight on what impact that might have on agricultural finance and regulatory oversight, which then informs what we’ll ask AGCO management. That might be an important line of questioning we wouldn’t have offered up otherwise.

Walk through the broader investment thesis today for Knowles.

Elliot Cunningham: The business operates in two segments. Around 60% of revenue comes from mobile consumer electronics, where it is by far the largest supplier of microphones and among the top three suppliers of speakers and receivers. The rest of the business is in what they call specialty components, which includes hearing aids, where they are the global market leader and have been a technology pioneer for more than 60 years. It’s a global company, with design centers in North America, Europe, Asia and India.

We believe the mobile consumer electronics business presents plenty of growth opportunity and we like that Knowles does business with most every origi-
nal equipment manufacturer, typically brought in during the spec and design phase as new products are developed. Not only are smartphones becoming more and more ubiquitous, but the acoustic content per device is also increasing. In 2008 it was $1-2 per phone, now it’s $2-3 and the trend is going toward $3-5. In the hearing-aid business there’s a tailwind from aging populations, as well as the fact that hearing aids keep getting better and smaller, which should allow greater market penetration as many more of the people who can benefit from a hearing aid actually start to use them.

As Michael mentioned, Knowles in the latter half of last year identified a low-level product defect in one of the microphones that was going into the iPhone 6, causing it to pull out of production late in the game. The company is vertically integrated so as volumes fell, margins came down meaningfully, causing an estimated $70 million hit to revenues and $60 million hit to earnings before interest and taxes [EBIT]. That’s what got our attention. We ended up adding the position in April of this year.

Losing the Apple business would obviously be a big negative, but it turns out the defect wasn’t perceived as a chronic problem and Knowles technology is back on the Apple platform, both for the iPhone 6 line and other products under development. The defect was actually so inconsequential that the company has been able to sell much of the inventory it pulled to other OEMs.

Is technological obsolescence a bigger risk here than in your typical holding?

EC: We haven’t historically had a lot of exposure to the tech space for that reason. Here we think the risk is mitigated by how dominant Knowles is in its markets. In the microphone business, for example, it controls approximately 60% of all global manufacturing capacity, so phone OEMs literally couldn’t make enough phones without it. The company in our opinion has also done a great job in maintaining technology leadership for a very long time. An Apple or Samsung won’t want a single supplier, but Knowles’ involvement at the front end of the product-development process typically means it will get more than its fair share of the business. Finally, they do business with almost every viable OEM on the consumer side. So if a customer like Nokia or Blackberry struggles, another like Xiaomi typically picks up the slack.

The shares, at a recent $17.65, are down 30% in the past year. What upside do you see from here?

EC: We’re looking for normal top-line growth in the 7% range, and as volumes through their factories recover we think margins will increase meaningfully. With the Apple problem, operating margins, adjusted for acquisition amortization charges and some restructuring, went negative in the mobile consumer electronics business last quarter. Management is targeting overall margins in the low-20% range, which the company earned as recently as 2013. We think they can get there again. If they do, coming at the valuation in a variety of ways, we believe the share price can double over the next couple of years.
INVESTOR INSIGHT: Michael Cook

Is the high short interest, above 30% of the float, a concern?

EC: It’s certainly something we want to understand. The Apple issue will take a quarter or two to work through the system, so that may signal more of a red flag to some than we believe it really is. Beyond that there’s probably also some knee-jerk concern about Chinese exposure that we don’t believe impacts the long-term thesis. Finally, as a new public company, it’s possible that management’s credibility has been somewhat put into question, particularly after the Apple issue. It may take some time, but we’re confident in the management team going forward – their history of operational execution has been very good.

Whatever the near-term ups and downs, Knowles has a conservative balance sheet and impressive cash-flow characteristics that give it all the flexibility it needs. Now it’s all about execution.

What drew your attention to automotive-equipment supplier Tenneco [TEN]?

Michael Cross: This is a company we’ve followed for some time, but we decided to look more closely at it out of a conversation we were having, with Oxford Analytica’s input, around the businesses that were well positioned to benefit from the pollution situation in China. One area that is likely to get increasing attention is vehicle emission control regulation, and emission control is Tenneco’s primary business.

The company’s clean-air division, which accounts for some 70% of revenues, packages catalytic exhaust systems and sells them to automotive, commercial-truck and off-highway vehicle OEMs around the world. Their scale allows them to be very competitive from a cost standpoint, they have strong and deep relationships with customers’ engineering and design groups, and they understand the roadmap of emission-control regulations better than anyone. All that tends to create customer loyalty and puts up important barriers to competitive entry, which is highly valuable as increasingly stringent clean-air regulations are enacted, not just in China, but around the world. As Tenneco’s technology addresses that, it should increase the dollar content of the company’s products per vehicle.

The other big business is in ride performance, which primarily means shock absorbers like those sold under the Monroe name. Tenneco is a low-cost leader and also benefits from a nice, higher-margin and more stable aftermarket business. While there’s not as much going on here from a technological standpoint, better shock absorbers improve the ride and handling characteristics of any vehicle, and are likely to become increasingly prevalent in more mainstream cars going forward. The company should be a key beneficiary of that.

In terms of financial flexibility, Tenneco has been a consistent generator of cash flow, which has been used to fund organic expansion, primarily in Asia, and to pay down debt. Current net debt to annual EBITDA is only around 1.3x. The board also recently approved a buyback of up to $350 million worth of shares, material for a company with just over $2.6 billion in market cap.

INVESTMENT SNAPSHOT

Tenneco (NYSE: TEN)

Business: Designs, manufactures and distributes emission-control and ride-control products and systems for vehicle original-equipment, repair and replacement markets.

Share Information (@9/29/15):

Price 43.50
52-Week Range 39.13 – 61.73
Dividend Yield 0.0%
Market Cap $2.64 billion

Financials (TTM):

Revenue $8.24 billion
Operating Profit Margin 6.6%
Net Profit Margin 2.7%

Valuation Metrics (@9/29/15):

<table>
<thead>
<tr>
<th>Company</th>
<th>TEN</th>
<th>Russell 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E (TTM)</td>
<td>11.8</td>
<td>81.7</td>
</tr>
<tr>
<td>Forward P/E (Est.)</td>
<td>8.1</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Largest Institutional Owners (@6/30/15):

<table>
<thead>
<tr>
<th>Company</th>
<th>% Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidelity Mgmt &amp; Research</td>
<td>11.3%</td>
</tr>
<tr>
<td>Vanguard Group</td>
<td>6.2%</td>
</tr>
<tr>
<td>Rebeco Inv Mgmt</td>
<td>5.4%</td>
</tr>
<tr>
<td>BlackRock</td>
<td>5.1%</td>
</tr>
<tr>
<td>SouthernSun Asset Mgmt</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Short Interest (as of 9/15/15):

Shares Short/Float 4.8%

TEN PRICE HISTORY

THE BOTTOM LINE

The company’s scale, customer relationships and experience in navigating regulatory regimes should allow it to benefit from more-stringent regulations around vehicle emission control worldwide, says Michael Cross. Assuming mid-single-digit revenue growth and modest operating leverage, he values the shares within three years at around $70.

Sources: Company reports, other publicly available information
Already weak, the shares took a more recent hit from Volkswagen’s admission to cheating on its emissions-control capabilities. How inexpensive do you consider the stock at today’s $43.50 price?

Michael Cross: The company’s direct exposure to VW’s diesel cars is minimal, and we don’t believe the scandal will negatively impact the drive globally toward stronger emission-control regulation.

Overall we’re looking at 5-6% top-line growth, with some modest operating leverage taking margins a bit higher. Short-term there’s concern about growth in Asia, which accounts for 15-20% of revenues and a higher percentage of profits, but as I mentioned earlier, we see China and the rest of Asia as a long-term growth driver. Over the next three years our valuation work puts the share price at closer to $70. Five years out we think that can be around $90.

This isn’t necessarily an exciting business, but as someone who spent 24 years at Cummins [CMI] prior to joining SouthernSun, I’ve seen first-hand how evolving environmental regulations around cars and trucks can translate into profitable growth. The same dynamic should be a real tailwind for Tenneco.

What’s behind your interest in Hanesbrands [HBI]?

Peter Matthews: To give some history, the company was spun out of Sara Lee in 2006 with a significant amount of leverage and a disjointed and inefficient supply chain. It wasn’t an easy fix, but management started to reconfigure the supply chain with an emphasis on owning and operating its own factories in low-cost areas in the Caribbean basin and in southeast Asia. There were clear obstacles from the financial crisis and then a sharp cotton-price rise in 2011, but by the time we bought into the company in 2013 it had built a world-class manufacturing and distribution capability and had the potential to take advantage of it by acquiring brands in its core underwear and activewear clothing markets.

After integrating the acquired businesses, it typically ends up having paid ex-post EBITDA multiples of less than 5x.

The key brands like Hanes, Maidenform, Playtex and Champion generally sell across the retailer spectrum, from Macy’s to Costco to Wal-Mart. These are usually the #1 or #2 brands in their categories and while price matters, they benefit from reputations for comfort, fit and consistency that enhance and reinforce customer loyalty. When cotton prices spiked in 2011, for example, Hanes had to put through three price increases to cover higher costs and they had little or no impact on sales. In fact, the company ended up increasing its shelf space at retailers like Wal-Mart during that period.

While the organic growth in Hanesbrands’ end markets isn’t particularly exciting, we believe it has a long growth runway in buying additional brands to plug into its system. Part of the upside in such deals comes from overall integration cost savings of 15-20%, but the company has also been willing to invest in new styling and things like better fabric technology to improve and refresh the acquired brands’ product lines. That’s had a positive impact recently on Maidenform, which was bought in 2013. They’re now applying the
same program – they call it “innovate to elevate” – to the Knights Apparel brands bought earlier this year to expand in the collegiate-logo apparel business.

How do you see this translating into good news for the shares, now trading at $28?

PM: It’s interesting that the stock went down after the company announced last quarter that it was initiating a share-re-purchase program. Management made the case that the business produces so much cash that they can pay a dividend, buy back shares and continue to make acquisitions as before. But that didn’t sit well with the market, which seemed concerned that the buyback signaled a weaker pipeline for acquisitions than expected. We don’t think that’s the case, but we agree with the sentiment that acquisitions are a key element to the upside here.

The stock now trades at 15x consensus earnings estimates for next year. That to us signals a business with limited growth prospects and decent, steady cash flow. But we think this is much more, and that Hanesbrands has a fantastic recipe for value growth through acquisition. The market can be slow to value that on current numbers, but we think there’s at least 50% upside in the stock over the next two to three years.

With Berkshire Hathaway and Greenlight Capital as large fellow shareholders, you’re in good company in owning Chicago Bridge & Iron [CBI]. What you think others are missing?

PM: This is an engineering and construction firm primarily serving the energy, petrochemical, power and government-services industries. Specialties include natural gas liquefaction and regasification, nuclear power, pipe fabrication, and all manner of flat-bottom tanks used to store hydrocarbons and petrochemicals.

One current negative perception – and it is a headwind – is that the oil-price decline will put the brakes not just on upstream exploration and production projects, but also on a broader range of downstream infrastructure spending and in related areas like petrochemicals. There’s also heightened concern around CBI’s nuclear-plant business, as changing regulations have resulted in project delays and cost overruns. CBI has always maintained that it’s protected by its contracts and won’t get stuck having to pay for change orders, but uncertainty around that has also been weighing on the stock.

Our basic view is not that headwinds don’t exist, but that the current miniscule valuation on the stock isn’t warranted. The company still has a $30 billion backlog – more than two years’ worth of revenues – that is highly diverse by geography and by end market. It also seems to get little credit for areas in which it has very strong market positions and bright future prospects. One is in building LNG-related infrastructure, an area we believe should have a tailwind for the next decade as producers in low-cost regions look to liquefy natural gas and export it to higher-cost regions. We also see value being driven

INVESTMENT SNAPSHOT

Chicago Bridge & Iron
(NYSE: CBI)

Business: Global provider of design, engineering, fabrication, procurement and construction services to the energy, petrochemical and natural-resource industries.

Share Information
(@9/29/15):
Price 37.34
52-Week Range 32.16 – 59.45
Dividend Yield 0.7%
Market Cap $3.97 billion

Financials (TTM):
Revenue $13.09 billion
Operating Profit Margin 8.3%
Net Profit Margin 4.7%

Valuation Metrics
(@9/29/15):
CBI S&P 500
P/E (TTM) 6.7 20.6
Forward P/E (Est.) 6.6 16.4

Largest Institutional Owners
(@6/30/15):
Company % Owned
Berkshire Hathaway 8.8%
Greenlight Capital 6.3%
Vanguard Group 6.0%
Southern Sun Asset Mgmt 5.8%
BlackRock 3.1%

Short Interest (as of 9/15/15):
Shares Short/Float 15.7%

CBI PRICE HISTORY

THE BOTTOM LINE

Fixated on negative impacts to the company’s businesses from low oil prices, the market isn’t properly valuing the diversity of its operations by geography and end market, says Peter Matthews. Considerable uncertainty must first clear, he says, but at a more reasonable 14x his estimate of normalized earnings per share the stock would trade above $90.

Sources: Company reports, other publicly available information
in high-return tank, pipe-fabrication and technology-licensing businesses. The global oil-production footprint is constantly evolving – witness the shale-oil boom in the U.S. – and the infrastructure around that has to evolve as well. CBI is nicely positioned to benefit as that happens.

How do you rate management adaptability here?

PM: The CEO, Philip Asherman, has been in the position for nearly 10 years and has continued to broaden and diversify CBI’s capabilities and revenue base while focusing on increasing cash flow over a long time horizon. The company’s profitability over time demonstrates, among other things, his unwillingness to take uncompensated risk or bet the company on individual high-profile projects. We were also pleased to see Michael Taff take over as chief financial officer in April, having joined from Flowserve, which we also own and consider a first-class company.

At today’s $37.30, the shares trade at only 6.6x next year’s estimated earnings. How are you looking at valuation?

PM: The company is expected to earn around $5.75 per share this year, but on a normalized basis we believe that will be in the range of $6.50 to $7. Applying what we consider a reasonable 14x multiple to that would result in a share price above $90. We realize this won’t happen until some of the uncertainty in many areas clears up.

A short report last year accused the company of accounting malfeasance. What is that all about?

PM: The thesis was that CBI inappropriately handled the purchase-price accounting of its 2013 acquisition of Shaw Group in order to mask ongoing problems with some of the contracts assumed in the deal. We respect management and have gone in detail with them through the accounting assumptions – we don’t believe they’ve done anything wrong or inappropriate.

How does RV-maker Thor Industries [THO] match up with your investment criteria?

Michael Cross: Thor is one of the largest U.S. manufacturers of towable and fully motorized recreational vehicles, selling under such brands as Airstream, Keystone, Thor Motor Coach and Dutchmen. Its brands are generally #1 or #2 depending on the niche category, and they tend to have extremely strong relationships with the independent dealer network that sells the product. Particularly after the financial crisis, dealers want to partner with the biggest and best players, which has allowed Thor to consolidate its position with them.

We consider the company a poster child for financial flexibility, even though it competes in a cyclical market. It has no debt and uses a capital-light manufacturing model, basically operating as more of an assembler than a manufacturer. If orders drop off, it has flexible relationships with both suppliers and employees that allow it to downsize quickly. Not many manufacturing businesses could see their top line fall 40%, as it did here in 2009, and still remain profitable. The company,
through ups and downs, has made money every year since 1980.

Management runs a decentralized operation, taking advantage of overall scale in sourcing, but leaving the bulk of the operating decisions to the individual brands. Out of 9,400 employees, only 45 or so are on the corporate staff. This setup has allowed it to make several successful bolt-on acquisitions that have either strengthened positions in certain niches of the market or opened new ones. They’re even testing the model a bit by backward integrating through the May acquisition of Postle Aluminum, a supplier of aluminum components to the RV industry.

RV sales took a big hit in the recession. How well has the business recovered?

Michael Cross: Unit volumes in the industry peaked in 2006 at 383,000, a level the company expects will be exceeded for the first time next year. Annual growth in units has been running at around 9% over the past five years, and while management thinks Thor will grow faster, we’re modeling 5% organic unit growth going forward. A lot of that has to do with demographics – retiring baby boomers should buy more RVs – but we also see potential in an increasing number of the large population of tent campers in North America trading up into RVs.

How attractive do you consider the shares at today’s $51.30?

Michael Cross: With our assumption of 5% unit growth and some increase in average selling prices, our discretionary cash flow analysis yields an estimated share price over the next two to three years of roughly $70 on the downside and $80 on the upside.

One key will be the mix of sales in the industry between the high end and the low end. Thor plays across the spectrum, but tends to lag when the low end is relatively hot and outperforms when higher-priced models are selling. That mix is something we’ll keep a close eye on.

You’ve written about the “tragedy of urgency” in the market, which surely is more prevalent than when you started in 1989. Does that make things harder or easier?

MC: Evaluating businesses and valuing companies – the most important things we do – is pretty much the same despite the fact that time horizons have gotten shorter and more and more trading is automated. One thing that’s probably a bit better for us is the opportunity created by greater share-price volatility. One thing that makes it more difficult, however, is how today’s environment unnerves clients unnecessarily.

We’re persistent philosophically and in the way we go through our process, but like the management in our companies, we ourselves always have to adapt. We can adapt to increased competition. We can adapt to increased volatility. We’ll have a harder time shifting focus more toward near-term results. That wouldn’t be in our or our clients’ interest – our own money is right there with them.
Describe the characteristics of companies that attract your attention.

Andrew Brenton: We’re looking for highly intelligent companies that understand the environment in which they operate, that out-think and out-maneuver their competitors, and that focus on maximizing shareholder value even if that means – in a declining industry – harvesting capital from their business and returning it to their shareholders.

We own companies that are in high-growth sectors, companies in mature industries and even a couple of companies in declining industries. But regardless of the industry backdrop, they often have what we call big, rational ambitions. They pick their spots, press their advantage when they have it, and know when to pull back due to a poor environment or irrational competitors. Probably two-thirds of the fund by value today is in companies where growth through well-integrated acquisitions is a key part of their strategy.

To us it’s very much about the people. The CEO of Premium Brands [PBH:CN], George Paleologou, took charge of a commodity pork producer in the prairies of Canada many years ago, exited commodity businesses and has gone about building a remarkable business focused on specialty foods where purchasing decisions are based on factors other than price – namely quality, convenience, health-consciousness, sourcing and brand recognition. He buys into strong regional operators and then, often in partnership with the company founders, helps them scale and improve their businesses. Given the opportunity set, we think he’s just getting started.

Another example: In 1996 Alain Bédard took over a near-bankrupt Quebec-based trucking business with maybe C$100 million in revenue. He’s since made over 100 acquisitions and his company, TransForce [TFL:CN], is 40 times bigger by revenue and a strong operator across trucking and delivery segments in Canada and the U.S. We've yet to come across a CEO with a better command of his business or who is more opportunistic and flexible in managing capital for shareholder benefit.

We gravitate toward companies with relatively long management tenure. It sounds obvious, but you can look at what they’ve done. How did they manage through this rough patch? How did they integrate that acquisition? How did they respond to that competitor? Much of our research is around understanding history and context, not unlike piecing together a well-written story. We’re looking simply for operational excellence and great capital allocation, which are hard to find in the same place.

The last thing I’d add here is that while a lot goes into deciding where we place our trust, once it’s there we’re not trying to recreate the wheel about what the company can and should do – we’re typically taking management at their word and we’re counting on them to deliver. That’s why one early check for us is to make sure the company’s business model isn’t at all predicated on raising additional equity capital from the market. When they don’t need treasury money from us, we’re more likely to get the straight goods.

What is your circle of competence?

AB: Our universe is the approximately 1,900 companies listed on North American stock exchanges with market capitalizations between $1 billion and $25 billion. Within that range we’ve found no correlation between market cap and market efficiency. We actually don’t consider the market very efficient, period.

Primarily due to the fact that we’re based in Toronto, the large majority of our investments have been in Canadian-headquartered companies. Of the 80 companies

Going Public

After successful stints as an M&A investment banker and as the founding CEO of a bank’s private-equity subsidiary, Turtle Creek Asset Management’s Andrew Brenton sat down one weekend in the late 1990s and wrote out what turned out to be 13 reasons he thought investing in public equities was the better way to go. “Think of all the issues you have to deal with in private equity,” he says. “Deal sourcing, intense competition, the fact that you can do months of due diligence on what you believe is a great opportunity and very often the owner decides he doesn’t need your money or goes with someone else. In the public market, you do your research and can simply put capital to work if you like the investment at the price. You don’t have control, but if you can identify terrifically run and terrifically governed companies, that doesn’t matter.”

In pursuit of his new strategy, Brenton in 1998 joined with his private-equity colleagues Jeff Cole and Jeff Hebel to launch Toronto-based Turtle Creek. Seventeen years later, he says public-equity opportunities remain as plentiful as ever: “An incredible feature of public markets is how broadly company stock prices move relative to company business values. We do our best to try to take advantage of that.”
companies we’ve owned since starting out in 1998, 70 have been based in Canada and 10 in the U.S. But differentiating by head office is really an artificial distinction. Most of our companies generate far more business outside Canada than in it. We also wouldn’t say Canadian stocks are less efficiently priced than those in the U.S., and as we’ve worked our way through small- and mid-cap Canadian companies, we’re naturally spending more of our time looking for comparable opportunities in the U.S. Our working list of prospective names today is probably half U.S. based.

One area we’ve always excluded is the resource sector. We don’t own oil-and-gas companies. We don’t own mining companies. Some people find this surprising because we’re based in Canada, but we’ve never figured out what comparative advantage we might have that would make investing in those areas worth our time.

Can you give an example of something attracting your attention in the U.S.?

AB: TJX Companies [TJX], which operates retail banners including T.J. Maxx, Marshalls and HomeGoods, is interesting. We know them in Canada where they’ve done a terrific job in building the business through acquisition. As management describes it, people in every culture want a deal, so they believe they have considerable opportunity to expand their off-price retailing concepts to new countries. Based on our work so far the stock isn’t nearly as cheap as many of our other holdings, so we own a very small position today. But it’s the type of business we could own more of as we do additional work, especially if it becomes cheaper.

Describe your idea generation.

AB: We never run screens. We’ve actually tried to go back and construct screens that would have reliably identified the companies in which we’ve invested, but we haven’t been able to do it. Because of accounting rules, there are always enough anomalies in the numbers that screens too often reject companies where we might think the business is a lot better than the reported numbers indicate.

Our ideas come from talking and reading about companies, trying to put together that narrative I described earlier that signals highly intelligent organizations. We talk with experienced research analysts who “get” what we’re looking for. We go to institutional lunches and conferences to hear management speak about their businesses. When we dig in, we want to spend a lot of time with management. It takes a long time for us to know something well enough and be comfortable with it. We have to get to that point first before we pay much attention to valuation, so it’s rare that we start to look into something just because it appears cheap. Without digging in, it’s difficult to actually know whether a company is cheap.

We meet with companies even when we have little intention of diving in right away. Often management has turned over recently and we don’t have enough history to go on, but we want to meet the CEO and hear the story. Who knows down the road what might prove useful?

A number of years ago we met with the CEO of Badger Daylighting [BAD:CN], which provides excavating services using its in-house-built “hydro-vac” trucks – think high pressure water and a powerful vacuum. It’s an alternative or complement to using picks, shovels or backhoes to dig. The CEO talked about how this technology, which was widely used in the Western Canadian oil patch, could be used in Eastern Canada by contractors to avoid damaging buried utility lines, a new market that would allow him to expand the business. We took copious notes but didn’t think it was right for us at the time.

A year or so ago when a local investment firm flagged Badger again for us and wanted to set up a meeting with the CEO, we looked over our previous notes and what had happened in the interim, and by gosh if he hadn’t done everything he said he was going to do. This time we dove even deeper and became convinced that the company could consistently out-execute its competition. It also has a significant long-term opportunity to expand both geographically and into new sectors beyond oil and gas, a legacy that we believe is unjustly hitting the share price. [Note: Badger shares, at a recent C$19.25, have fallen by 55% in the past 18 months.] This is an example of a company we’ve known for some time, but only added it to the portfolio in the past year. As the share price has declined it has more recently become an overweight position.

Describe how you turn a company “story” into an assessment of value.

AB: We build for each of our companies what become complicated financial models that are meant to represent our best view on the future at every point. The real value in doing all the modeling work is that it consolidates a great wealth of historical information and makes us explicitly consider all crucial assumptions that will affect the future of the business, guarding against untested speculation and optimism. We think probabilistically, recognizing that the world is complicated and uncertain. If you think of potential outcomes as some kind of bell curve, we’re trying to get to the 50% percentile.

The present value of all the future cash flows of the company is ultimately the only thing we care about. We use a 9.5% discount rate, so if we buy a company’s shares at our intrinsic value and our forecasts turn out to be accurate, we should earn about 9.5% per year over the long term. The end result of all this is an apples-to-apples cash flow forecast for each of our companies, generating a net present value that we think roughly coincides with the price a buyer would pay for the entire entity. That’s our intrinsic value. The low-

ON IDEA GENERATION:
It’s rare that we start to look into something just because it appears cheap. Without digging in, it’s hard to know.
er the price we pay below intrinsic value, the higher the long-term expected annual return is above 9.5%.

We earn our returns from the cash our companies are going to make and pay out to shareholders. We’re not at all counting on the market to “recognize” value.

What’s the hurdle to get into the portfolio?

AB: We always hold 25 stocks, so the hurdle is having one of the best 25 expected returns.

Why 25 holdings?

AB: The number was driven initially by how many companies we felt we could know at any given time. We also believe that once you own 25 companies in industries unrelated to each other, with each company facing its own unique opportunities and challenges, you are substantially as diversified as portfolios containing hundreds of companies. This is where we have all our money and knowing what we own – which often means being comfortable to buy more when something is falling in price and other people are running the other way – is the best risk control.

Sticking right at 25 also disciplines us to make sure we’re always trying to optimize the portfolio. Once we own something, position size is driven primarily by expected return from today’s price, but we also consider other factors like quality of management, how well we believe we understand the business and how broad or narrow we consider the range of possible outcomes. If we thought everything in the portfolio was equally attractive, we’d have 4% in each. But that’s never been the case. Today our biggest holding is 12% and our smallest just under half a percent. Again, it’s primarily a function of price: We might think the half-a-percent holding is a better company than the 12% one, but at current prices the expected return of the bigger weighting is far more attractive than that of the smaller weighting.

People ask me all the time what are our highest-conviction ideas. I answer that all of our ideas are high conviction. Some just happen to be priced highly by the market and we therefore don’t own very much.

Do you ever hold cash?

AB: We don’t believe as a general rule that it’s possible to forecast the direction of the stock market in the short term. So as long as we can find companies that are generating strong cash flows, have excellent growth prospects and are trading below intrinsic value, we’re likely to be more or less fully invested.

There have been a few periods of high valuation, primarily in 1999 and early 2000, when we weren’t fully invested because expected returns on some of our holdings didn’t offer a superior risk/return proposition relative to Treasury bills. But that was an anomaly. We own a couple of companies in the portfolio today that trade a bit above intrinsic value, but the risk-adjusted expected returns versus Treasuries are still highly positive. The position sizes are small, but we own them.

You consider what you call “continuous portfolio optimization” to be an important factor in your outperformance over time. Describe what that is.

AB: It’s essentially what I spoke of earlier about our multi-factor model for determining position sizes. We have a buy-and-hold mindset in liking to own high-quality companies with strong management teams as they compound future cash flows, but we’re very disciplined in continuously responding to changing stock prices – trimming positions in companies as they come into other investors’ favor and adding to positions as they go out of favor.

I’m picking an especially positive example, but to give you an idea of the difference this can make, we’ve owned almost continuously since mid-1999 a position in Open Text [OTC:CN], an enterprise software company. Had we bought an initial position and never traded around it, we would have earned a quite respectable annual return of 12%. But by responding to volatility in the share price as it overshot and undershot intrinsic value, our return – over 60% per annum – has been more than five times the buy-and-hold return.

We’re not responding to every little day-to-day movement, but we are quite active. In fact, we plan out a trading strategy for each of our positions that allows us to react calmly during times of market dislocation. In what until recently have been relatively calm markets in North America over the last few years, our annual turnover in terms of number of shares traded divided by total shares owned has been 35-50%. We don’t know exactly how to measure it, but we believe a meaningful part of our long-term outperformance has been from owning a little bit of terrific companies when they’re fully priced and owning a lot when they’re cheap.

You spoke earlier about stepping up to buy when other people are running the other way. Are you in that situation often?

AB: I mentioned that we’ve owned 80 companies over our 17 years. If you look at the 35 or so that have been overweight in the portfolio, in every single case we initially lost money. Part of that is definitional – the only way something becomes a big holding is if it falls further in price and we buy more. But yes, we’re in that situation often. I’d add that in each of those 35 positions we ended up making money.

A share-price decline is a great test for an investor. If you don’t want to buy more or are disappointed and wonder if you should sell, then you never should have owned it at the higher price. We regularly ask ourselves if the price of one of our investments were to drop, would we be happy to buy more? If the answer is no, we should be reducing the weighting today.
Describe in more detail how Premium Brands is an intelligent company.

AB: It’s a combination of strategy, execution and capital allocation. They identify specialty food businesses that fit their profile and then look to do deals with the founders who still run the business. The founders may be starting to plan for an orderly transition, or may want to diversify their net worth, or may simply recognize that they can expand their business faster by teaming up with Premium, which has a reputation as a great partner. Premium wants its acquired companies to grow and it has the operational expertise and resources to help make that happen.

As an example of the strategy, Premium recently bought a majority interest in Expresco Foods, a $55 million annual revenue business that was started by two guys in Montreal who figured out an innovative way to prepare grill-fired, pre-cooked shish kabobs and satays and then sell them into foodservice and retail channels. At the same time Premium expects to use its U.S. and Canadian marketing and distribution infrastructure to help the company expand, it also believes Expresco has products and expertise that can help its other brands. We think they paid around 6x EBITDA for about 70% of a business that they believe has a long runway of low-double-digit annual organic growth.

As soon as the deal was announced competitors called up saying, “We’ve been trying to get these guys to sell for three years, how did you convince them to do it?”

George Paleologou is a remarkable judge of both talent and business potential. Going back five years, Premium paid something like $42 million to buy SK Food Group, a maker of artisan breakfast sandwiches based in Washington state. George had identified sandwiches as an attractive segment and Premium was already Canada’s largest sandwich maker. Buying SK would make it the largest player in North America. Since the acquisition, SK has grown dramatically and has become one of Starbucks’ largest suppliers. It’s still going strong, recently opening a new plant in Columbus, Ohio partly to serve new quick-service-restaurant clients and also to handle Starbucks’ increased demands.

How are you looking at valuation with the shares trading today at C$31.30?

AB: Most of our companies report using IFRS [International Financial Reporting Standards] rather than U.S. GAAP [Generally Accepted Accounting Principles], which especially for acquisitive companies like Premium can be a bit of a mess. We always focus on cash earnings, which we believe this year will be north of C$3 per share and within a couple of years will be close to C$5. That makes the shares today quite cheap, especially given the growth we’re expecting. The dividend yield is also attractive, at 4.3%.

Cash-flow growth is coming here from a variety of areas, including organic unit growth, pricing power, declining input prices for things like pork and beef in the short- to medium-term, and continued acquisitions longer-term. Factoring all that in we arrive at an intrinsic share value in the low-C$60s. It’s one of the smaller market cap companies we own, but is currently our second-largest position.

What attracted your interest in ATS Automation Tooling Systems [ATA:CN]?

AB: This is a great example of a company we got to know years ago but did not invest in initially because we didn’t find it attractive enough. ATS’s core business is in factory automation and it has a reputation...
in the industry for expertise in tackling tough problems, like trying to figure out how to refurbish a nuclear reactor with a minimum of down time. It was founded by a German engineer who had moved to Canada and it’s always been steeped in a strong engineering culture.

We first met with management in 2003 and weren’t impressed with the strategy. The founder was quite sick and while the company clearly had some great customer relationships helping Fortune 500 firms make their production processes better, it struck us as rather unfocused and meandering. They had bought a solar plant in Lyon, France, for example, which didn’t seem at all like a good idea.

We started paying attention again in 2007 when Anthony Caputo was named CEO. He was someone we’d known and respected and so we met with him soon after he joined, and he described all the things he was going to do to fix the company and grow it. We thought he was a smart guy but it all seemed like a lot of work, so we waited and watched. Over the next 15 months we saw him do exactly what he said he would do and results were starting to improve. We bought our first shares in January of 2009 at around C$5, and promptly watched them go to C$3 in the first three months. As I said often happens, we used the price decline to significantly add to our stake and by that April it was our largest holding.

There were several aspects to the company’s renewal. They see a positive secular trend toward automation, driven by customers’ ongoing push to improve manufacturing efficiency, eliminate labor costs and improve quality control. To capitalize on that, the CEO has been focused on creating domain expertise both by industry and by type of manufacturing process. They’ve done a good job using acquisitions to buy capability and we expect that will continue in what is still a mom-and-popish industry. The solar business, by the way, is gone.

There’s also been a fundamental change – which is still a work in process – in how the company looks to engage with its customers. As Caputo describes it, when he took over, the company had worked for years with Gillette. Every time Gillette needed a new machine that could put, say, five razor blades in a razor rather than four, it would ask ATS. ATS would get to work, deliver on the project and then wait until the next time Gillette needed something new. Now the company tries to engage at a level where it goes to Gillette and says, “We know Procter & Gamble, your parent, thinks you should be making your razor blades in China, but have you ever looked at the total cost of doing that versus better automating the process and continuing to make blades along the waterfront in Boston? We can help you do that.” That’s an actual example, and describes more of a partnership approach toward longer-term enterprise solutions.

The more successful ATS is in partnering this way, the stronger its competitive advantage will be.

It’s also very interesting when they talk about changing culture. The CEO says he has a lot of great engineers, but they were much better at responding to 50-page requests for proposal than actually sitting down with customers to understand their businesses better and see what they might need beyond the 50-page document. One thing he did was hire business-development people to have that conversation and then create in-house their own 50-page documents that the engineers could better relate to. Rather than trying to change the engineers or just say “do this,” the organization was adaptable in finding a solution that accomplished the ultimate goal.

INVESTMENT SNAPSHOT

ATS Automation Tooling Systems (Toronto: ATA:CN)

Business: Provider of automated manufacturing and assembly systems for customers in the consumer products, energy, life sciences and transportation industries.

Share Information (@9/29/15, Exchange Rate: $1 = C$1.341):
- Price: C$12.51
- 52-Week Range: C$11.90 – C$16.60
- Dividend Yield: 0.9%
- Market Cap: C$1.16 billion

Valuation Metrics (@9/29/15):
- P/E (TTM): 20.8
- Forward P/E (Est.): 12.5

Financials (FY ending 3/15):
- Revenue: C$361.1 million
- Operating Margin: 7.6%
- Net Profit Margin: 5.9%

Sources: Company reports, other publicly available information

THE BOTTOM LINE

Andrew Brenton believes the company has robust growth ahead of it as it benefits from a positive secular trend toward automation and from an evolution in sales culture from a task orientation to one focused more on longer-term enterprise solutions. Assuming multi-year 20% profit growth, he arrives at an intrinsic value estimate in the high-C$20s.
How do you see all this translating into upside for the shares, now at C$12.50?

AB: As I mentioned, we don’t go off in isolation and try to invent the future. We talk to our companies and assess what they believe they can do. Can they achieve that level of organic growth? Will traction with enterprise solutions drive that much new business? Can they get paid more for the value they believe they provide?

All of this folds up into what might appear to be very ambitious growth, but when we break it down it’s quite reasonable. With mid-single-digit organic revenue growth, improving operating margins and continued acquisitions, we believe over the next seven or eight years the company can grow its bottom line 20% per year. The stock isn’t optically cheap, trading at around 11x trailing EBITDA, but when we discount our estimate of future cash flows we arrive at an intrinsic value in the high-C$20s. The level of growth expected here might scare some investors away, but we’ve learned not to be afraid to forecast growth when we think it’s there.

There’s controversy around your next idea, Home Capital Group [HCG:CN]. How are you seeing through that?

AB: Gerry Soloway, a former real estate lawyer, took over as CEO of Home Capital in 1987. He had identified certain segments of mortgage customers, namely successful entrepreneurs or fairly recent immigrants to Canada, that were being turned away by the increasingly automated loan processes at the big, lumbering Canadian banks. He started Home to serve them and has built it into Canada’s largest alternative mortgage lender by far. While it has a trust license, it has to comply with all the regulations for banks in Canada.

Home originates prime mortgages which are securitized and sold off, but the driver of value is non-prime mortgages which are retained on its balance sheet. Their primary customers are new immigrants who lack a Canadian credit history, and the self-employed, larger banks are not willing to do the extra work required to substantiate income. The underwriting process is very disciplined, with loans made against double appraisals done by approved appraisers, and with down payments typically of 25-30% in cash.

The loan-loss experience has been better than at the big banks, a function of maintaining low loan-to-value ratios and of selectivity in where and when it lends. It stays away from rural areas, for example, preferring cities with homes that are similar to others on the street and can be sold quickly if there is a problem. Because of the lack of recourse to the borrower in Alberta, it’s more cautious with its loan-to-value ratios there. In Saskatchewan, where legislation is even friendlier to delinquent borrowers, Home chooses not to lend. That kind of discipline has resulted in 20%-plus returns on equity over time.

When we were first digging into this around the financial crisis, we’d meet industry experts who criticized the company for shifting more of its lending from subprime to prime. When we asked management about it, they simply said they were able to write insured prime mortgages at the same spread as they could write subprime, so why wouldn’t they do so? When we talk about intelligent companies, that’s the type of thing we mean.

Is the market opportunity still growing?

AB: If you think of the customer base as primarily immigrants and the self-employed,
those groups as a share of the mortgage market are definitely growing, especially in Home’s biggest market, which is the greater Toronto area. Out of the roughly C$1 trillion Canadian mortgage market, we’d estimate the addressable subset for Home at closer to C$100 billion. It has maybe 12% of that market today and we believe due to its scale and relationships with mortgage brokers that that share can get to the mid- to high-teens.

One of the governors on growth has been the regulator in Canada tightening the rules on things like income verification in an ongoing effort to prick a little bit of air out of the real estate market. While that causes Home to lose some business to unregulated players, at the same time it allows it to get some business that it otherwise wouldn’t that the big banks no longer write. Overall we think the Canadian regulators have done an excellent job, so having to adjust to new standards at the margin isn’t a high price to pay.

Home’s short interest as a percentage of its float is 25%. What’s the bear view?

AB: Some U.S. hedge funds appear to have concluded that if you look at certain mortgage-debt and home-price metrics in Canada that there are parallels to pre-financial-crisis levels in the U.S. and that the other shoe is about to drop. When we make adjustments for how things are defined and reported to arrive at apples-to-apples comparisons, we think the numbers are far less concerning.

There also appears to be specific concern that Home has a high percentage of liar loans and is misrepresenting its credit quality. It didn’t help that there was fraud uncovered recently at a large mortgage-brokerage in the Toronto area that appears to have falsified income for some clients that had applied for insured prime mortgages. In that specific case, Home cut off a number of brokers and hasn’t seen any unusual loss or arrears experience on the loans in question. More generally, we trust management and believe the numbers they report, which don’t indicate any real problems with credit quality.

The shorts so far appear to have the upper hand – the shares, in the mid-C$50s less than a year ago, now trade at around C$32. Have you been buying?

AB: This is the highest-expected-return stock we own and our estimate of intrinsic value is well more than double the current share price. When the stock in the past few months went from the mid-C$40s to as low as C$26, we almost exactly doubled the amount of shares we own. It’s now one of our largest holdings.

Why are you still high on TransForce’s prospects?

AB: There’s nothing particularly unique about the basic business. As I mentioned, the company started out as a small less-than-truckload carrier and has methodically over time expanded beyond that. It’s now the largest trucking company in Canada. It’s big in parcel delivery. It’s one of the largest same-day expedited delivery companies in the U.S. It’s building a U.S. truckload business. It’s even in the landfill business in Eastern Ontario and Quebec.

What is unique is Alain Bédard, who is a remarkable capital allocator and a first-class operator. He has tremendous command of the business and the numbers and is very clear-headed and rational in explaining what he’s doing and why. In one conference call someone asked about using caps and collars on fuel surcharges and he explained he didn’t like them. If fuel prices go up and exceed the cap, he
has to eat the excess amount. But if prices fall through the floor, or collar, customers say they want the full lower price or they’ll take their business elsewhere. There have also been questions on trucking competitors adding rigs in response to higher demand and he says he’d always prefer first to raise prices, then think later about adding rigs. These may seem like little things, but they add up to give us confidence he will do the right thing.

We also like that he’s opportunistic and responds to what’s in front of him. A few years ago he said he’d never go into long-haul trucking in the U.S., but he ended up buying a decent-sized U.S. truckload business because he thought there was an opportunity to take advantage of the increasing north/south trade flow in North America, including Mexico, and he couldn’t do that with just a Canadian piece. He also thought the management of the U.S. company was extremely capable and could eventually take on a bigger role in the entire company.

While he’s been adept at acquisitions and we consider that to be the primary avenue for growth going forward, we’re also comfortable that he’ll sell if the opportunity presents itself. TransForce has been aggressive in expedited-delivery in the U.S., which is a different animal, much more about guys in bikes and cars running around delivering things than all the technology and logistics involved in overnight delivery. He sees a chance to consolidate the business, but if things get frothy as the craze for e-commerce and immediate delivery goes on, he’s probably more likely a seller than a buyer.

Now trading at just around C$23.50, how are you valuing the shares?

AB: We’re assuming very little organic growth, but we think revenues can increase 10-12% per year for the next number of years as a result of acquisitions. We also think operating margins, as acquisitions both old and new are integrated, can get back to their pre-crises levels above 13%. Working through the model we arrive at an intrinsic value estimate in the high-C$40s. It’s an overweight position for us.

From trucking to software, describe your investment case today for Open Text.

AB: The history of Open Text is that it started out using search-engine technology from the University of Waterloo, and rather than go toe-to-toe in the consumer market with competitors like Alta Vista, it focused on helping companies navigate their unstructured data – e-mails, memos, reports – in a similar way to how SAP helps companies deal with structured, database-type data. The company has since expanded around that through acquisition and now talks about itself as a provider of “enterprise information management” software solutions, which includes things like content management, business-process management, customer-experience management, and information capture and discovery. It’s one of the biggest software companies headquartered in Canada.

We’ve become quite comfortable with the CEO, Mark Barrenechea, who took over at the beginning of 2012 after holding senior positions at Silicon Graphics, CA and Oracle. At first we were concerned by his penchant for buzzwords and that he might pursue acquisitions predicated on revenue synergies. But he’s done a good job of broadening what the company does through intelligent acquisitions that have been far less about revenue synergies and far more about buying undermanaged companies, cutting costs by plugging them
into an established infrastructure, and just running them better.

This is another case where we believe the growth opportunity through acquisitions is still very high. The company has been saying it can spend all of its free cash flow on accretive acquisitions, which we originally didn’t believe but now do because of the broadening of the product line. We think the bottom line can grow over at least the next few years at a mid-teens rate.

How is the company navigating the cloud?

AB: Management expects the movement to the cloud to be a net positive in terms of the lifetime value of a customer. We’re modeling it as neutral, but are starting to come around to the view that it will be better than that.

The stock, which trades in the U.S. as well as Canada, has been quite volatile this year, falling from a high of $61 in February to a low of $37 in July, recovering somewhat to a recent $44. What’s behind all that?

AB: The good news is that he’s healthy, but Mark Barrenechea had been on a partial leave to be treated for leukemia and when he got back he didn’t like what he was seeing in terms of sales, so the company announced that it was unlikely to meet the Street’s revenue and earnings expectations for the quarter ending in June. He also fired the head of sales and reorganized the sales organization. The market obviously didn’t like that, but there was nothing in the news that caused us to materially change our cash-flow assumptions, so we ended up increasing our stake significantly.

Oddly enough, when the actual June-quarter performance was released in early August, the numbers were bang on the original expectations before the CEO suggested otherwise. The stock moved up some on the news and we sold most of the shares we had bought just a couple months earlier. Through it all our intrinsic value estimate has been consistently around $75, so we still consider the shares quite attractively priced.

Is Fairfax Financial [FFH:TO] a different kind of holding for you?

AB: A number of people have said that, but we go through the same process with it that we do with every other company. It’s not a simple company, but there are some fundamental simplifying questions to answer. Do you think the investment team is going to continue to outperform the broad market and its competitors, and if so, by how much? Do you think there is as big an opportunity in India for them as [CEO] Prem Watsa believes? It’s like everything else, we try to distill it down to the free cash flow that’s going to come back to us and we believe that’s not being well appreciated by the market.

Describe a mistake you’ve made that has had an enduring lesson.

AB: One of my earlier mistakes was investing in a company primarily because I loved the industry, which was specialty pharmaceuticals. The company operated in the mature end of the industry, licensing existing products from big pharma and focusing on them in an effort to boost sales and cash flows. The lesson there was that while the industry matters, first and foremost it has to be about finding a company that outcompetes and outthinks its competitors and does the right thing. This company did none of that. We’ve had much better experiences with other specialty pharma companies since, but we’ve made sure to be completely aligned with their thinking and how they operated first.

Our problems are typically the result of our forecasts just turning out to be wrong. For example, we own a position in Evertech Technologies [ET:CN], a leader in selling high-quality broadcast equipment. It’s always had technologically superior products, but has been in a multi-year process of trying to sell more of a complete solution to its customers. That’s turned out to be more difficult to execute on the sales side than they thought and the results over the past couple of years have been below expectations. It may eventually turn out as well as we originally thought, but in the past year we’ve reduced our cash-flow estimates, resulting in about a 30% reduction in estimated intrinsic value. Over that time the share price hasn’t changed much, but we’ve cut our position roughly in half, to less than a 3% weight, as the expected return has fallen relative to other holdings.

Does the recent market volatility make you nervous at all?

AB: We’re really pretty good about not letting ourselves get overly positive or negative about the market in general. We spoke about Fairfax – listening to Prem Watsa speak, you might come away thinking you should sell all your public equities! We don’t totally ignore market levels, but if you look at our portfolio today, the long-term expected returns from the cash flows of the companies averages in the mid-teens annually. When you see that, it’s hard to make the argument we should be sitting in cash waiting for a pullback.

Part of thinking probabilistically for us is that there is a distribution of possible intrinsic-value outcomes for every company we own. Only one will occur, of course, but the less you pay for a stock, the fewer the outcomes on the distribution curve that are negative and the more that are positive. It’s the classic value-investing mentality: the cheaper the investment, the lower the risk and the higher the expected return. We have a portfolio of stocks in which we believe the odds are still very much in our favor. We’ll focus on that over how the wind is blowing at any given time in the market.
A lot has happened at Sysco since Nicholas Tompras recommended its shares 18 months ago on the expectation it would right its ship and reassert its market leadership. The stock is up, but Tompras’ conviction isn’t.

For years Sysco, which delivers food and related products to restaurants, hospitals and other institutions, generated handsome profits and high returns as it led the consolidation of a fragmented, if mundane, U.S. industry. But stung by lower-cost competition and restaurant-industry weakness, the company 18 months ago was in the process of remaking itself, key aspects of which were a costly business-process overhaul and the proposed acquisition of its #2 competitor, US Foods. Seeing unrecognized upside in both, Nicholas Tompras of Alpine Capital Research considered the shares, then $36.25, an attractive prospect [VII, April 30, 2014].

Also central to the thesis, he said then, was “that the company is going to have to pull out of its slump and perform better.” Given his confidence in management and the company’s unassailable market-leading position, he expected that to happen. But after the February release of Sysco’s fiscal second-quarter results, that expectation started to appear suspect. The company touted its expense savings since the end of its 2012 fiscal year, but over that period operating margins still declined from 5% to 3.7%. Absent the cost savings, margins would have fallen to 2%.

Tompras dove deeper into the current industry dynamics, finding that many of the challenges to margin improvement remained, such as a customer mix shift toward lower-margin fast-casual restaurant chains and increasing competition for independent local restaurant customers from smaller specialty distributors and wholesale stores. More worrying to him, however, was that management may have become more of the problem than the solution. “Good management responds to competitive conditions,” he says, “and that wasn’t happening as we’d expected.”

As he came to that conclusion, in June a federal judge ruled in favor of the Federal Trade Commission’s effort to block the US Foods merger, further calling into question the company’s ability to turn itself around. When he then revalued the shares with less optimistic margin assumptions, he came to a fair value in the mid-$30s, right around the then-current price. With the pillars of his investment thesis falling away, he decided to sell.

But the story wasn’t quite over. Lacking an obvious replacement investment, he held off from selling and in August Trian Partners disclosed it had taken a 7% stake in Sysco and soon thereafter two of its representatives were named to the company’s board. Tompras had done an analysis of what the shares might be worth if an activist came along to shake things up, and he concluded the fair value in that case wasn’t much higher than the then-$41 share price. He sold his entire position.

While Alpine Capital earned a mid-teens annualized return on its Sysco position since buying it in 2011, that lagged the market’s return over the period and Tompras doesn’t consider the investment a success. “What it shows is how buying with a margin of safety can help you overcome disappointing corporate performance,” he says. As for Trian coming along when it did, he adds: “A little luck to boost our return doesn’t hurt either.”
Rediscovery

Investment opportunity can arise when stocks in a given industry are painted with the same negative brush even though individual-company specifics differ. Might that be the case today for global TV programmer Discovery?

After a charmed run, shares of U.S. content-media companies have been beaten up in recent months, due to increasing competitive threats to the traditional golden-goose pay-TV bundle as well as worries over ratings and advertising revenues. Viacom shares are off 44% from their 52-week high. CBS stock is down 39% from its high.

Also caught in the downdraft: Discovery Communications, the Silver Spring, Maryland-based programmer whose popular networks such as the Discovery Channel, TLC and Animal Planet sport an eclectic mix of non-fiction shows, from MythBusters and Deadliest Catch, to Pit Bulls and Parolees and Breaking Amish. Priced at just under $38 a year ago, the company’s non-voting Class C shares currently trade below $25.

Mark Meulenberg of Charlottesville, Virginia’s VNB Wealth Management believes the pessimism in Discovery’s case is overdone, in part because he expects its domestic business to be more resilient than expected, but also due to its unappreciated, but thriving, international efforts that currently account for 50% of total revenue. “We think this is a classic case of the baby being thrown out with the bath water,” he says.

In the U.S., Discovery is in a unique position because its viewer ratings continue to improve and its 12-13% of pay-TV viewership is significantly greater than its 5% share of the subscriber fees paid for programming by distributors such as Comcast and DirecTV. As that gap narrows when old distribution contracts run off and new ones are signed, Meulenberg expects the company’s U.S. distribution revenues over the medium term to increase at a high-single-digit annual rate. He also believes the company will be less susceptible to subscriber losses, as the popularity of its content should keep it in even skinnier pay-TV bundles and allow it to generate compensating direct-to-consumer revenues as necessary. While he’s not counting on buoyant U.S. advertising growth, he doesn’t see it as a negative either, especially as ratings technology from industry standard-bearer Nielsen more accurately captures viewership across multiple platforms and access points.

The real driver of value, however, is the company’s international business, which has increased its operating earnings at a nearly 25% annual clip over the past six years and which Meulenberg believes still has a long growth runway ahead. Because Discovery typically owns its programming and the content is fact-based and informative, it tends to be relatively easily and cheaply repurposed for international markets. In addition, many of those markets have considerable growth potential due to increasing pay-TV penetration rates. Sub-

---

**Investment Opportunity**

Investment opportunity can arise when stocks in a given industry are painted with the same negative brush even though individual-company specifics differ. Might that be the case today for global TV programmer Discovery?

---

**Valuation Metrics**

<table>
<thead>
<tr>
<th>DISCK</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E (TTM)</td>
<td>15.4</td>
</tr>
<tr>
<td>Forward P/E (Est.)</td>
<td>11.8</td>
</tr>
</tbody>
</table>

**Largest Institutional Owners**

<table>
<thead>
<tr>
<th>Company</th>
<th>% Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanguard Group</td>
<td>7.7%</td>
</tr>
<tr>
<td>Jackson Square Partners</td>
<td>5.6%</td>
</tr>
<tr>
<td>State Street</td>
<td>4.0%</td>
</tr>
<tr>
<td>BlackRock</td>
<td>3.9%</td>
</tr>
<tr>
<td>Vulcan Value Partners</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**Short Interest**

| Shares Short/Float | 2.0% |

---

**The Bottom Line**

The market is underestimating the resilience of the company’s U.S. business as well as its growth potential outside the U.S., says Mark Meulenberg. At what he considers a reasonable 17-18x multiple of the $2.60 to $2.80 in free cash flow per share he expects the company to earn within three years, the shares would roughly double from today’s price.

---

**Uncovering Value: Discovery Communications**

---

**Institutional Ownership**

<table>
<thead>
<tr>
<th>Company</th>
<th>% Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanguard Group</td>
<td>7.7%</td>
</tr>
<tr>
<td>Jackson Square Partners</td>
<td>5.6%</td>
</tr>
<tr>
<td>State Street</td>
<td>4.0%</td>
</tr>
<tr>
<td>BlackRock</td>
<td>3.9%</td>
</tr>
<tr>
<td>Vulcan Value Partners</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**Short Interest**

| Shares Short/Float | 2.0% |

---

**Rediscovery**

Investment opportunity can arise when stocks in a given industry are painted with the same negative brush even though individual-company specifics differ. Might that be the case today for global TV programmer Discovery?

---

**INVESTMENT SNAPSHOT**

**Discovery Communications** (Nasdaq: DISCK)

**Business**: Owner and operator of television networks reaching nearly three billion subscribers worldwide, under such brands as Discovery, Animal Planet and Eurosport.

**Share Information** (@9/29/15):

- Price: 24.70
- 52-Week Range: 24.08 – 37.37
- Dividend Yield: 0.0%
- Market Cap: $17.98 billion

**Financials** (TTM):

- Revenue: $8.44 billion
- Operating Profit Margin: 33.7%
- Net Profit Margin: 16.6%

**Valuation Metrics** (@9/29/15):

<table>
<thead>
<tr>
<th>DISCK</th>
<th>S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E (TTM)</td>
<td>15.4</td>
</tr>
<tr>
<td>Forward P/E (Est.)</td>
<td>11.8</td>
</tr>
</tbody>
</table>

**Largest Institutional Owners** (@6/30/15):

<table>
<thead>
<tr>
<th>Company</th>
<th>% Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vanguard Group</td>
<td>7.7%</td>
</tr>
<tr>
<td>Jackson Square Partners</td>
<td>5.6%</td>
</tr>
<tr>
<td>State Street</td>
<td>4.0%</td>
</tr>
<tr>
<td>BlackRock</td>
<td>3.9%</td>
</tr>
<tr>
<td>Vulcan Value Partners</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**Short Interest** (as of 9/15/15):

| Shares Short/Float | 2.0% |
scriber growth in Latin America, Eastern Europe and India, for example, has been running at 15-20% per year and shows no signs of abating.

The company has also made significant investments outside the U.S. in both content and distribution, most notably through European sports network Eurosport, in which it bought out its minority partner, TF1 Group, in July. Under Discovery’s stewardship, Eurosport has been building its portfolio of programming, focusing less on the highest-ticket soccer-league rights and more on lower-profile sports like skiing, cycling and tennis, in which viewer interest is high in many of its markets. One higher-profile recent move: buying for €1.3 billion all TV and multi-platform broadcast rights in Europe for the four Olympic Games to be held from 2018 to 2024. Meulenberg is expecting such investments to help drive up both subscriber fees and advertising revenue, contributing to overall annual top-line growth for Discovery outside the U.S. of nearly 10% over the next five years. As the investment spending moderates over that time, he expects operating margins to grow even faster.

How could such improved performance translate into upside for share-holders? From revenue growth, operating leverage, a declining overall tax rate as non-U.S. profits increase as a percentage of the total, and continued share buy-backs totaling 5% of shares outstanding per year, Meulenberg believes Discovery within three years can earn $2.60 to $2.80 in free cash flow per share. That’s up from consensus estimates for the current fiscal year of $1.70 to $1.80. At the 17-18x multiple he believes a company with such high returns – average returns on tangible capital have exceeded 50% – and attractive global growth opportunities would deserve, he pegs intrinsic value three years out at $45 to $50 per share.

While there are plenty of external risks to his thesis as the television ecosystem evolves – namely around how well Discovery continues to be paid for its content – Meulenberg is confident the company will avoid homegrown mishaps. He considers Chief Executive Officer David Zaslav a first-class operator, who is also backed by a board that includes master capital allocator John Malone, who through ownership primarily of super-voting Class B shares has nearly 30% voting control of the company.

“The market seems to be acting here as if the game is over for the stock,” says Meulenberg. “We think it’s more likely to still be in the early innings.”
For many investors the first bargain-hunting stop in a market downturn like the one we appear to be in is their own portfolios. It makes perfect sense, as buying on weakness requires the strong conviction that can come from “knowing what you own.”

An alternative place to prospect for ideas is the portfolios of the leading investors we follow through SuperInvestor Insight. The table below offers one such take, listing the 12 stocks owned as of June 30 by at least six star investors – the roster of which includes such luminaries as Baupost Group, Pershing Square Capital and ValueAct Capital – that have fallen the most from their 52-week highs.

The S&P 500 is down 12% from its 52-week high, so there's more than market weakness behind many of the stock-price declines. The shares of Valeant Pharmaceuticals, for example, have fallen 35% in just the past two weeks, hit by criticism – and the threat of a subpoena – from U.S. lawmakers relating to the company’s drug-price increases. Caught up in the same negativity – and the real possibility that its share price had gotten ahead of its business prospects – shares of Allergan, the most widely held stock among SuperInvestors, fell 17% over the past two weeks and are off 26% from their July high.

The energy-price swoon has continued to batter Cheniere Energy's stock. Originally created to import natural gas into the U.S., the company – which in 18 years of operation has never made an annual profit – has since reversed course and spent heavily on infrastructure that as of next year will allow it to start exporting liquefied natural gas under already-signed, high-value contracts. While the market appears to have lost all patience – the shares are off 41% since March – nine SuperInvestors still owned large stakes as of June 30. A prominent one, Icahn Capital, recently named two representatives to Cheniere's board and days ago disclosed that it had upped its stake in the company from 9.6% to 11.4%.

The biggest bust among star-investor holdings: SunEdison, the world’s largest developer of renewable-energy projects. The complicated company continues to rapidly expand its capacity as a producer primarily of solar and wind power, betting that cheap financing, growing end-user demand, and scale and technology improvements will ultimately pay off in long-term profits. That day does not appear nigh: on $778 million in net sales through the first six months of this year, SunEdison reported a net loss of $635 million.

To subscribe to SuperInvestor Insight, please click here or call 866-988-9060 (toll-free).

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Industry</th>
<th>Price@ 9/29/15</th>
<th>52-Week Low</th>
<th>52-Week High</th>
<th># of Portfolios That Own</th>
<th>Price vs. 52-Week High</th>
</tr>
</thead>
<tbody>
<tr>
<td>SunEdison</td>
<td>SUNE</td>
<td>Solar Energy</td>
<td>6.66</td>
<td>6.56</td>
<td>33.45</td>
<td>6</td>
<td>(-80.1%)</td>
</tr>
<tr>
<td>Cheniere Energy</td>
<td>LNG</td>
<td>Liquefied Natural Gas</td>
<td>48.50</td>
<td>46.23</td>
<td>82.32</td>
<td>9</td>
<td>(-41.1%)</td>
</tr>
<tr>
<td>Valeant Pharma.</td>
<td>VRX</td>
<td>Pharmaceuticals</td>
<td>158.08</td>
<td>111.41</td>
<td>263.81</td>
<td>10</td>
<td>(-40.1%)</td>
</tr>
<tr>
<td>Hertz</td>
<td>HTZ</td>
<td>Vehicle Rental</td>
<td>16.23</td>
<td>14.85</td>
<td>25.72</td>
<td>7</td>
<td>(-36.9%)</td>
</tr>
<tr>
<td>21st Century Fox</td>
<td>FOX</td>
<td>Media/Entertainment</td>
<td>25.88</td>
<td>22.85</td>
<td>37.83</td>
<td>6</td>
<td>(-31.6%)</td>
</tr>
<tr>
<td>Liberty Global</td>
<td>LBTYA</td>
<td>Cable Services</td>
<td>42.49</td>
<td>39.95</td>
<td>58.66</td>
<td>7</td>
<td>(-27.6%)</td>
</tr>
<tr>
<td>Allergan</td>
<td>AGN</td>
<td>Pharmaceuticals</td>
<td>252.10</td>
<td>208.64</td>
<td>340.34</td>
<td>15</td>
<td>(-25.9%)</td>
</tr>
<tr>
<td>General Motors</td>
<td>GM</td>
<td>Automobiles</td>
<td>29.15</td>
<td>24.62</td>
<td>38.99</td>
<td>7</td>
<td>(-25.2%)</td>
</tr>
<tr>
<td>eBay</td>
<td>EBAY</td>
<td>Online Retail</td>
<td>24.08</td>
<td>19.50</td>
<td>29.35</td>
<td>10</td>
<td>(-18.0%)</td>
</tr>
<tr>
<td>Charter Communications</td>
<td>CHTR</td>
<td>Cable Services</td>
<td>167.36</td>
<td>137.51</td>
<td>199.00</td>
<td>7</td>
<td>(-15.9%)</td>
</tr>
<tr>
<td>Bank of NY Mellon</td>
<td>BK</td>
<td>Financial Services</td>
<td>38.44</td>
<td>35.06</td>
<td>45.45</td>
<td>6</td>
<td>(-15.4%)</td>
</tr>
<tr>
<td>FleetCor Technologies</td>
<td>FLT</td>
<td>Payment Services</td>
<td>140.62</td>
<td>121.42</td>
<td>165.67</td>
<td>6</td>
<td>(-15.1%)</td>
</tr>
</tbody>
</table>

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2015.
General Publication Information and Terms of Use

Value Investor Insight and SuperInvestor Insight are published at www.valueinvestorinsight.com (the “Site”) by Value Investor Media, Inc. Use of this newsletter and its content is governed by the Site Terms of Use described in detail at www.valueinvestorinsight.com/misc/termsofuse. For your convenience, a summary of certain key policies, disclosures and disclaimers is reproduced below. This summary is meant in no way to limit or otherwise circumscribe the full scope and effect of the complete Terms of Use.

No Investment Advice
This newsletter is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This newsletter is distributed for informational purposes only and should not be construed as investment advice or a recommendation to sell or buy any security or other investment, or undertake any investment strategy. It does not constitute a general or personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. The price and value of securities referred to in this newsletter will fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of all of the original capital invested in a security discussed in this newsletter may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.

Disclaimers
There are no warranties, expressed or implied, as to the accuracy, completeness, or results obtained from any information set forth in this newsletter. Value Investor Media will not be liable to you or anyone else for any loss or injury resulting directly or indirectly from the use of the information contained in this newsletter, caused in whole or in part by its negligence in compiling, interpreting, reporting or delivering the content in this newsletter.

Related Persons
Value Investor Media’s officers, directors, employees and/or principals (collectively “Related Persons”) may have positions in and may, from time to time, make purchases or sales of the securities or other investments discussed or evaluated in this newsletter.

Whitney Tilson, Chairman of Value Investor Media, is also a principal of Kase Capital Management, a registered investment adviser. Kase Capital Management may purchase or sell securities and financial instruments discussed in this newsletter on behalf of certain accounts it manages.

It is the policy of Kase Capital Management and all Related Persons to allow a full trading day to elapse after the publication of this newsletter before purchases or sales are made of any securities or financial instruments discussed herein as Investment Snapshots.

Compensation
Value Investor Media, Inc. receives compensation in connection with the publication of this newsletter only in the form of subscription fees charged to subscribers and reproduction or re-dissemination fees charged to subscribers or others interested in the newsletter content.