

McIntire Investment Institute

At the University of Virginia



Portfolio Overview and Questions/Answers

Prepared by MII Managers | 16 September 2010

Long: Philip Morris Intl. (NYSE: PM)

- Manufacturer of tobacco products sold in markets outside of the United States
- Spun off from Altria in March 2008



Thesis Points:

1. Cigarette industry has high barriers to entry and PMI has a strong moat
2. Volume growth in international markets
3. Brand portfolio is well-positioned for a shift towards “premium” brands
4. Strong and steady cash flows

Value-Added Research:

- Comprehensive survey of smoking and PMI products during study abroad trip
- Gauged supplier sentiment through local news sources

Market Misperception(s):

- Most investors underestimate PMI's potential to post strong volume growth



Long: Syniverse Technologies (NYSE: SVR)

- Central clearinghouse that translates and transmits data across incompatible communication networks
- Serves wireless voice and data systems



Thesis Points:

1. Growth in mobile traffic will benefit this operator-neutral intermediary.
2. Company's track record is a crucial comparative advantage
3. Increase in telecommunications technology increases opportunities

Value-Added Research:

- AT&T R&D Department
- Lawyer in US Telecommunications industry
- Telecom Infrastructure Start-up

Market Misperception(s):

- Market overestimates threat of wireless provider consolidation



Long: Yum! Brands (NYSE: YUM)

- World's largest restaurant fast food restaurant company, with over 36,000 restaurants around the world in more than 110 countries and territories
- Operates or licenses Taco Bell, Pizza Hut, Wingstreet, Long John Silver's, and A&W



Thesis Points:

1. Leading branding and presence in emerging markets, particularly China
2. Positive long-term outlook for all brands
3. Inexpensive nature of fast-food limits downside in recessionary times

Value-Added Research:

- Interviewed restaurant managers in China

Market Misperception(s):

- Underestimating brand strength in emerging markets



Long: Google (NASDAQ: GOOG)

- Global cloud computing, Internet search, and advertising technologies corporation
- Almost 99% of Google's revenue is derived from its advertising programs, with remainder coming from licensing and other sources
- Has 66% of US search engine market share



Thesis Points:

1. Strong human capital helps retain its position as technology leader and center of innovation
2. Large cash position allows it to fund many projects simultaneously
3. Continued growth in cloud computing

Value-Added Research:

- Discussions with engineering professors and Google employees

Market Misperception(s):

- Uncertainty over future of cloud computing
- Google's inability to diversify



Long: Diageo (NYSE: DEO)

- World's leading premium alcohol business with a diverse portfolio of lucrative brands such as Smirnoff, Johnnie Walker, Baileys, and Guinness
- Geographic diversity offers exposure into emerging economies

DIAGEO

Thesis Points:

1. Successfully expanded into emerging markets such as China and India
2. Employed aggressive mobile marketing campaign
3. Acquired and developed known and high margin brands

Value-Added Research:

- Conversations with bar owners
- Overseas experience

Market Misperception(s):

- Global recession causes consumers to buy non-premium brands



Long: Coach Inc. (NYSE: COH)

- Designer and marketer of luxury lifestyle accessories for women and men in the U.S. and internationally (primarily Japan)
- Product offerings include handbags, outerwear, sunwear, watches, and jewelry
- Two segments: direct-to-consumer (87% of sales) and indirect (13% of sales)



Thesis Points:

1. Niche in the premium accessories market
2. Growth (particularly in China)
3. Attractive valuation
4. Effective management
5. High margins/operational efficiency
6. Product expansion

Value-Added Research:

- Not available

Risks:

- Relying on fashion trends to drive sales
- Competition in accessories market



Long: Corrections (NYSE: CXW)

- CCA is the nation's largest owner and operator of privatized prisons in the United States,
 - 60 facilities including 44 company-owned facilities,
- 85,000 beds in 19 states and the District of Columbia.



Thesis Points:

1. With government jails full, states are hiring out to CCA which saves money and decreases overcrowding.
2. Always demand 1/142 citizens are in jail
3. Unique business strategy—build jail, then secure contract.

Value Added Research:

- Corrections officers in NJ and GA

Market Misperceptions:

- Stock price decreases when they miss a contract. Short-term analysts underestimate long term growth
- Hidden real estate value

Long: Monsanto (NYSE: MON)

- Leading global provider of agricultural products.
- Seeds protect crops from insects, herbicides, and drought
- Half of total sales come from abroad



Thesis Points:

1. Increase in global food demand drives growth for Monsanto's products
2. Industry leadership provides sustainable competitive advantage
3. Excellent management team seeks out high synergy strategic acquisitions

Value-Added Research:

- Federal government employees with industry expertise
- Loan originator for local farmers

Market Misperception(s):

- Underestimating the need for products that increase farming efficiency as arable farmland becomes scarce



Long: DigitalGlobe (NYSE: DGI)

- Operates three satellites which provide imagery services to national security agencies, mining and oil/gas exploration companies, and disaster response
- National security with US government accounts for nearly 75% of revenue



Thesis Points:

1. Attractive industry: satellite imagery industry is a duopoly with high barriers to entry and significant government subsidies
2. Significant operating leverage: high fixed costs disappear after satellite is in orbit; marginal cost of taking a photograph is negligible

Value-Added Research:

- Conversations with UVa ITC and counterparts at other schools

Market Misperception(s):

- Analysts focus on DGI's defense and intelligence sales but potential growth is coming from commercial sales

Long: Western Digital Corp. (NYSE: WDC)

- Produces hard drives that collect and store digital information for businesses and individuals.
- Commands about 40% of the disk drive market
- Major competitor is Seagate



Thesis Points:

1. Corporate technology spending will soon increase, driving up demand
2. Industry is a duopoly with long-term growth potential
3. Large cash position enables company to capitalize on near-term catalysts

Value-Added Research:

- Institutional Technology Professional
- Companies and institutions delaying technology upgrades

Market Misperception(s):

- Threats of solid state storage devices and cloud computing are overblown

Long: Covanta Holding Corp. (NYSE: CVA)

- Provider of waste-to-energy (WTE) services to municipalities in the U.S. with a Northeast focus
- Operates 31 WTE facilities and processes 5% of the nation's waste



Thesis Points:

1. WTE is an attractive option in major municipalities
2. CVA is poised for expansion, both in the U.S. and abroad
3. CVA's superior operational record gives it a sustainable competitive advantage
4. Attractive industry

Value-Added Research:

- Industry experts
- Existing customers
- Future customers
- Industry press

Market Misperception(s):

- Relatively low barriers to entry in WTE industry (not true in Northeast)



Long: Steinway Musical Instruments, Inc. (NYSE: LVB)

- Musical instrument manufacturing conglomerate
- 98% of soloists chose Steinway Piano during 2007/2008 concert season
- Piano division accounts for most of LVB's revenue and EBITDA



Thesis Points:

1. Overlooked and out-of-favor small cap stock with inefficient pricing
2. Steinway's brand creates a formidable moat and sustained competitive advantage
3. International expansion and institutional sales will drive long-term growth

Value-Added Research:

- Musicians
- Steinway Salesmen
- Customers

Market Misperception(s):

- Premium pianos won't sell in a recession
- US and European piano markets are saturated
- Dealers have large inventories and can't help buyers finance new purchases

Long: Princeton Review (NASDAQ: REVU)

- Top name in admissions guidance and test-prep services
- Controls 23% of SAT test prep market



Thesis Points:

1. Turnaround plan: new management
2. Acquisition of Penn Foster Education Group diversifies Princeton Review's revenue base
3. Provides exposure to a growing and countercyclical industry

Value-Added Research:

- Test takers, for-profit colleges, and industry insiders

Market Misperception(s):

- Poor management will lead the company to destruction



Long: American Express (NYSE: AXP)

- A diversified global financial services company best known for its credit card, charge card, and traveler's check businesses
- AmEx cards have the highest market share of total dollar volume of CC transactions in the US (approx. 24%)



Thesis Points:

1. Competitive moat due to its strong branding, estimated to be worth \$15bn
2. Premium customers, premium services (2.57% average merchant discount rate)
3. Shortcoming of coverage is a growth opportunity

Value-Added Research:

- Spoke with merchants, concluding that merchants accept AmEx to meet demand
- Interviewed global marketing firms

Market Misperception(s):

- Overestimating macroeconomic difficulties and trends
- Merchants will defect to avoid high fees



Long: BlackRock (NYSE: BLK)

- One of the largest and most innovative investment management firms in the US
- BlackRock Solutions is a cutting edge risk management platform
- Recent acquisition of Barclays Global Investors doubled BLK's AUM



Thesis Points:

1. Strong growth potential remains with BlackRock Solutions
2. Growing presence in the Asia Pacific region fuels increasing AUM
3. Acquisition of BGI further extends BLK's product offering
4. Market leadership creates impermeable moat

Value-Added Research:

- Contacted insiders, customers and experts in related fields

Market Misperception(s):

- Overreaction to current integration issues regarding BGI acquisition



Long: Winn-Dixie Stores (NASDAQ: WINN)

- 13th largest grocery chain in the United States with stores in Louisiana, Mississippi, Georgia, Florida, and Alabama
- Emerged from bankruptcy in 2006
- Pursuing an aggressive turnaround program by remodeling stores and introducing new private label and custom dietary products



Thesis Points:

1. Turnaround program is improving same-store sales and will lead to improved sales
2. Margin of safety exists as valuation prices in Doomsday scenario
3. Margin expansion, higher same-store sales, and possible acquisition all serve as catalysts

Value-Added Research:

- Store visits in Florida
- Price comparison of common grocery items across different chains

Market Misperception(s):

- Most investors underestimate the consumer response to WINN's new stores



Long: Ritchie Brothers Auctioneers (NYSE: RBA)

- World's largest live and online equipment auctioneer
- 75% of revenue from auction commissions and 25% by purchasing equipment to auction from a proprietary account or guaranteeing sale prices



Thesis Points:

1. Competitive moat due to its unrivaled global footprint and strong brand
2. Long-term growth potential and “smart growth” plan
3. Emergence of online and dealership auctions is not a serious competitive threat

Value-Added Research:

- Attended an auction in South Carolina and spoke with bidders
- Construction company interviews

Market Misperception(s):

- Overestimating macroeconomic difficulties



Long: Hemisphere GPS (Pink Sheets: HEM)

- Hemisphere makes global positioning system (GPS) for:
 - Ground based farming
 - Aerial farming/firefighting
 - Marine/Geographic GPS systems



Thesis Points:

1. Increased demand for crops world wide creates consistent sales for Hemisphere
2. Farmers are using technology; this will translate into more growth for Hemisphere
 1. Targeting international growth
3. Solid Management

Value Added Research:

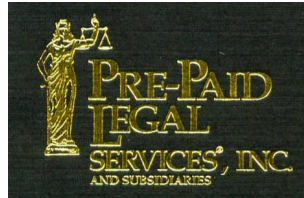
- Two professors specialized in Agriculture, two farmers, and an industry consultant

Market Misperceptions:

- They only appeal to small farmers when In reality they develop products for various applications.

Short: Pre-paid Legal Services (NYSE: PPD)

- Uses multi-level marketing to sell legal expense plans in the U.S.
- Legal plan covers 60 hours of phone consultation annually for certain civil matters with the one provider law firm in each state, but only 2.5 can be for pre-trial work



Thesis Points:

1. Misleading customer
2. Misleading sales associates
3. Pyramid nearing saturation
4. Extraordinary legal risk
5. Insider selling
6. Strong competition

Value-Added Research:

- FTC staff member
- Signed up to become sales associate
- Conversation with hedge fund manager who is long PPD

Market Misperception(s):

- Wall Street's focus on revenue and earnings expansion blinds it to the company's deceptive practices



Short: Garmin (NASDAQ: GRMN)

- Provider of navigation, communication and information devices and applications enabled by GPS
- Garmin's business segments: automotive/mobile, outdoor/fitness, marine and aviation
- Nuvi PND: 63% revenue 2009



Thesis Points:

1. Smartphone apps will cannibalize PND sales in the near-term
2. A late entry in the highly-competitive smartphone market will not meet expectations
3. Margins will deteriorate from scale reductions and declining ASPs as hardware becomes obsolete
4. Growth avenues are limited

Value-Added Research:

- Editor of GPS World
- Consulting firms

Market Misperception(s):

- Decline in PND market is structural, not cyclical, and represents a powerful secular headwind



Short: Blackboard (NASDAQ: BBBB)

- Provider of software applications and technology services to the education industry
- Software packages provide online learning portals and content
- Nearly 85% of revenue from the US in 2009



Blackboard



Thesis Points:

1. Open source solutions undermine the value proposition of BBBB's offerings
2. Higher education spending cuts hurt demand for new systems and upgrades
3. Wall Street growth expectations, based on historical performance, are unrealistic
4. High insider selling is a red flag

Value-Added Research:

- Conversations with UVa ITC and counterparts at other schools
- Open source competitive analysis

Market Misperception(s):

- Underestimating the threat of open source systems