

## Traditionally Modern

*In a world where the “cutting edge” often gets the most attention, traditional value investors Tweedy, Browne continue to prove that new isn’t always better.*

For those seeking portfolio managers who “eat their own cooking,” Tweedy, Browne Co. would certainly fit the bill. At year-end 2016, current and retired principals and their families, as well as employees, accounted for \$1.1 billion of the firm’s \$16.5 billion under management.

Investors inside the firm and out have been quite well served. Since its 1993 inception the flagship Tweedy, Browne Global Value Fund has earned a net annualized 9.3%, vs. 4.9% for the MSCI EAFE Index.

Following a tried-and-true process developed over the firm’s 97-year history, principals Thomas Shrager, John Spears and Bob Wyckoff see opportunity today in such diverse areas as auto parts, insurance, IT distribution, agricultural equipment and Chinese real estate. [See page 2](#)

### INVESTOR INSIGHT



#### Tweedy, Browne Co.

(l to r) Thomas Shrager, John Spears, Bob Wyckoff

**Investment Focus:** Seek companies whose stocks are statistically cheap and the “issues” causing the cheapness are deemed temporary or cyclical in nature.

## Bright Prospects

*Growth investors often count on earnings upside to drive returns, while value investors rely more on valuation gaps closing. Jed Nussdorf wants a balance of both.*

### INVESTOR INSIGHT



**Jed Nussdorf**  
Soapstone Capital

**Investment Focus:** Seeks companies capable of strong earnings growth when their stocks trade at multiples expected to augment, not dilute, the prospective return.

While Jed Nussdorf had only two years of full-time experience when he started his hedge fund in early 2005, he had a valuable ally in Joel Greenblatt’s Gotham Capital, which provided seed funding and took care of the operational aspects of the business. “It has made a real difference that I’ve been able to focus almost exclusively on investing rather than other things founders of investment firms have to worry about,” he says.

Combining elements of both value and growth investing, Nussdorf’s Soapstone Capital since inception has earned a net annualized 9.0%, vs. 7.8% for the S&P 500. Today he’s finding overlooked value in such varied areas as packaged foods, intermodal transportation, polymer resins and telecom infrastructure. [See page 10](#)

### Inside this Issue

#### FEATURES

#### Investor Insight: Tweedy, Browne

Bargain-shopping around the world and finding particular deals today in Hyundai Mobis, Hang Lung Group, Avnet and E-L Financial. [PAGE 2 »](#)

#### Investor Insight: Jed Nussdorf

In search of mispriced earnings-growth potential and seeing it today in J.B. Hunt Transport, AdvanSix, Zayo Group and Nestlé. [PAGE 10 »](#)

#### Uncovering Value: Oil-Dri

Finding exciting upside potential in probably one of the least-exciting businesses imaginable. [PAGE 17 »](#)

#### Uncovering Value: Dollar General

Are recent investor concerns over this consistently successful business and concept justified? [PAGE 18 »](#)

#### Editor's Letter

A brilliant contrarian move? Why your Editor-in-Chief is doubling down on value investing. [PAGE 19 »](#)

### INVESTMENT HIGHLIGHTS

INVESTMENT SNAPSHOTS	PAGE
<a href="#">AdvanSix</a>	<a href="#">14</a>
<a href="#">Avnet</a>	<a href="#">6</a>
<a href="#">Dollar General</a>	<a href="#">18</a>
<a href="#">E-L Financial</a>	<a href="#">8</a>
<a href="#">Hang Lung Group</a>	<a href="#">7</a>
<a href="#">Hyundai Mobis</a>	<a href="#">5</a>
<a href="#">J.B. Hunt Transport</a>	<a href="#">13</a>
<a href="#">Nestlé</a>	<a href="#">16</a>
<a href="#">Oil-Dri</a>	<a href="#">17</a>
<a href="#">Zayo Group</a>	<a href="#">15</a>

#### Other companies in this issue:

[AGCO](#), [CommScope](#), [Dufry](#), [Hyundai](#), [Motor](#), [Kia Motors](#), [LG Corp.](#), [MRC](#), [Global](#), [Ralph Lauren](#), [Tiffany](#), [UniFirst](#), [Wells Fargo](#)

# Investor Insight: Tweedy, Browne

Thomas Shrager, John Spears, Bob Wyckoff, Jay Hill and Olivier Berlage of Tweedy, Browne Co. describe how value investing is like duck hunting, why today they focus more on non-U.S. companies than U.S. ones, how valuation for them is a “two-part test,” and why they see mispriced upside in Hyundai Mobis, Hang Lung Group, E-L Financial and Avnet.

Your firm’s compendium, *What Has Worked in Investing*, is a must-read for value investors, young and old. We imagine its findings are a good place to start in talking about your basic strategy.

**Bob Wyckoff:** We are quite price-driven in our orientation as value investors, so our process often begins with screening across value metrics that allow us to cut a global universe down to what are likely to be more-interesting ideas. Most of our investments have characteristics that have been associated empirically with above-average investment rates of return over long measurement periods: a low stock price in relation to book value, a low price-to-earnings ratio, a low price-to-cash-flow ratio, an above-average dividend yield, a low price-to-sales ratio compared to other companies in the same industry, a significant pattern of purchases by insiders, a significant decline in share price. There’s a lot more to it of course, and individual analysts here put their own spin on it, but the basic selection criteria described in *What Has Worked in Investing* have been incorporated in Tweedy, Browne’s investment process for at least 60 years.

**Jay Hill:** We try to buy companies at two-thirds or less of a conservative estimate of what Benjamin Graham called intrinsic value, with intrinsic value defined as what the business would be worth in an acquisition or by estimating the collateral value of its assets and/or cash flow. As Bob said, the first part of the process is to find stocks that meet a statistical fact pattern we find interesting. Often when that’s the case the companies have, shall we say, issues. Our job is to determine if those issues are secular and more permanent, or whether they’re cyclical and otherwise temporary.

**Thomas Shrager:** Value investing is like going duck hunting. You sit in a blind and

wait for the ducks to come. If they come you shoot them down.

Can you generalize about what the “issues” tend to be that help create potential opportunity?

**JH:** Our investment in agricultural-equipment manufacturer AGCO Corp.

## ON VALUE INVESTING:

**It's like duck hunting. You sit in a blind and wait for the ducks to come. If they come you shoot them down.**

[AGCO] illustrates one common type of situation that attracts us. We started buying the stock in 2014 at a time when if you looked at long-term average revenues and profitability, you could make a very strong case that the company had normalized earnings power of at least \$4 per share, at a time when the stock was in the low-to-mid-\$40s. The earnings outlook then was much lower because the #1 determinant of agricultural-equipment demand is farm income and the #1 determinant of farm income is crop prices, and crop prices were – and still are – historically weak. So the near term was uncertain, earnings were declining and it was very difficult to know when that might turn.

But we were very comfortable that the big-picture trends around food consumption were a long-term tailwind that argued for even better than a reversion to the mean. The sell-side in these types of situations tends to value companies at peak multiples of trough earnings, and only shifts to the more mid-cycle earnings and valuation we use when there’s clear evidence the cycle has turned. Investing

with a longer-term view when that’s too uncomfortable for others often provides us with an attractive entry point.

**Olivier Berlage:** A similar and more-recent example would be LG Corp. [003550:KS], the giant South Korean conglomerate. There has been negative news at many of its key affiliates. LG Electronics has troubles with its smartphone offerings. LG Chem is seen to be facing headwinds in the petrochemical cycle. LG Household has issues to resolve with its cosmetics business in China.

In addition to heightened uncertainty at the company, we’re also finding somewhat of a negative halo around Korean companies in general, caused by all the political turmoil in the country in recent months, persistent worries over corporate governance, and ongoing concerns about competition from Japanese companies benefitting from the weak yen. (Incidentally, the current political upheaval may well lead to better corporate governance further down the road.)

We got interested when there were low expectations and systematically looked at the value of each of LG’s businesses on a more normalized basis. When we do that work, we arrive at a sum-of-the parts intrinsic-value estimate that is very close to the company’s reported book value of nearly ₩100,000 per share. That’s compared to a share price of around ₩58,000 when we first got involved and around ₩63,000 today.

**John Spears:** The stock was trading at just 60% of book value and 9x earnings and the company carried very little debt net of cash. For a business that you believe actually has a reasonably bright future, that’s very cheap. We may not know the timing of how that all will correct, but we believe it will. If it does we should benefit as shareholders.

**Have any ideas cropped up following the recent administration change in the U.S.?**

**TS:** This is not a new idea for us, but we did have an opportunity to add to our position in Kia Motors [000270:KS] when the stock went down, in no small part due to concerns of it being "Trumped" given the company's plans to expand production in Mexico and export to the U.S.

We don't have a clue what actual policy changes will happen and how they will affect Kia's business. But the company has made great strides on the operating front over the past decade – selling all over the world and improving product quality and reliability as well as customer satisfaction. Markets can make mistakes in taking a snapshot in time and extrapolating that far into the future. Businesses adapt and adjust. Maybe Kia exports to Europe out of Mexico, or it exports more cars to the U.S. from Korea under a bilateral free-trade agreement, or it builds a new factory in the U.S. There are ways it can adapt.

But because of policy-related concerns and other short-term issues, the stock trades at 60% of book, 6-7x earnings, with a 3% dividend yield and backed by a balance sheet with net cash, almost unheard of for a car company. You don't find many businesses with those characteristics around the world today, but in our experience when you do find them the odds are in your favor that things will work out.

**Where do your companies tend to fall on the quality spectrum?**

**JS:** If you look at stocks we've owned the longest and where we have the largest gains versus our entry prices, they have been in high-quality companies that generate spendable cash profits that they can put to good use. Like a Nestle [NESN:VX], or a Philip Morris International [PM] or a Johnson & Johnson [JNJ]. If you buy a quality business at a big discount to intrinsic value, you get the potential of a double dip – the gap to intrinsic value hopefully closes and then you can also benefit from the company compounding per-share value over a number of years.

At the other end of the spectrum, though, we will also buy into highly cyclical, junkier and low-return-on-capital companies. The stocks of these types of businesses often bob up and down, so we're just trying to buy them when they trade at a significant discount to what we think they're worth – in many cases also relative to book value or to net current assets – and then be very sensitive to getting

## ON NON-U.S. INVESTING:

**The reality has been that when it comes to entry-point pricing opportunities, we've found more value elsewhere.**

out if and when they reach intrinsic value. At the end of the day the portfolio is a mix in terms of quality, but in every case we're paying a price we believe is well below a conservative estimate of fair value.

**We see Tweedy, Browne today more as a non-U.S. investor than a U.S. one. Why did that happen?**

**BW:** We examine businesses all over the globe, focusing primarily on the developed world and the more developed of the emerging world. We've always liked the idea of having a bigger shopping aisle of opportunity, and the reality has just been that when it comes to entry-point pricing opportunities, we've simply found more value elsewhere. The equity culture outside the U.S. is still much less developed than it is in the U.S., which appears to us to result in a greater level of inefficiency.

**TS:** Remember what I said about ducks? We go where the ducks are.

**"Small market capitalization" is one of the stock characteristics highlighted in *What Has Worked in Investing*. Given the amount of assets you manage, can you invest in small companies to the extent you once did?**

**BW:** We have fairly broad diversification within our portfolios, with generally no one issue at cost accounting for much more than 3% of the portfolio. [Note: The flagship Global Value Fund at December 31, 2016 had 111 positions.] Part of that is our taking a more actuarial approach to portfolio management, focused on minimizing the risk of individual errors we're certainly going to make. We don't want to write just one policy for broken legs, we want to have a lot of them and then count on our underwriting to be more right than wrong over time.

Owning the number of positions we do also allows us to buy smaller and mid-size companies that collectively have an important role in the portfolio. But we take what the market gives us. Before the financial crisis, probably two-thirds of our money was in stocks with market caps less than \$5 billion. When the crisis hit in 2008, the whole universe was indiscriminately on sale and we ended up moving toward bigger, higher-quality businesses. If there were any trend today, I'd say it would tilt toward mid-size ideas, although not long ago we were in the market buying a couple auto-dealers in the U.K. with market values of \$200 to \$600 million.

**How would you characterize today's opportunity set for the global investor?**

**BW:** As a price-sensitive investor, it has been a tough environment. To give a sense of that, we recently did a global screen of nearly 5,800 non-financial companies with market values greater than \$300 million, positive free cash flow over the past 12 months, at least an 8% return on equity over the past 12 months, net debt to EBITDA of no more than 2.5x and a trailing EV/EBIT multiple of no more than 8x. Between 2010 and 2012, we would have had 650 to 800 companies meet that criteria. Today the number is 188, concentrated largely in retail, auto parts, homebuilding, airlines and precious metals. The odds are that we're in for a bit more volatility going forward – which can help us find the entry points we need – but it's not easy for us to put money to work right now.

### Has energy been of interest?

**JH:** We probably have a better-than-market exposure to energy, including big integrated players like Total [TOT] and Royal Dutch Shell [RDSA:LN] and oil-services companies like Halliburton [HAL] and MRC Global [MRC]. Not surprisingly, for E&P companies we try to be active when valuations on a price-per-barrel-equivalent basis are at very wide discounts to the cost of finding and lifting it out of the ground. For the service companies we're of course focused on activity levels and generally are looking to capitalize on normalization of the cycle.

### Is MRC Global an example of a typical smaller-cap holding?

**JH:** The market cap is just under \$2 billion, but it's a leader with a 30-35% North American market share in distributing a wide variety of pipes, valves and fittings to the U.S. energy-infrastructure industry. When we got involved in the summer of 2015 the shares were trading at a steep discount to our estimate of value based on normalized earnings and based on where comparable businesses had been bought out. On top of that, we thought – and still think – the company's market position provides it with a competitive advantage it can continue to build as it buys out at attractive valuations independent moment-and-pops. That gives it a secular growth angle in addition to the cyclical one that is driven by the improvement in U.S. well completions we expect with oil above \$50 per barrel. [Note: MRC shares traded recently at \$20.90, more than double early-2016 lows, but 65% of 2013 highs.]

### Has valuing companies on comparable M&A deals gotten you in trouble from time to time?

**JH:** Our valuation methodology is a two-part test: Is the stock cheap relative to private-market value and is it cheap on an absolute basis? In general we won't engage unless the owner-earnings yield – defined as net operating profit after tax

divided by enterprise value – is in excess of 8%. We include an absolute measure because we don't want to rely solely on what we might consider unsustainable M&A multiples.

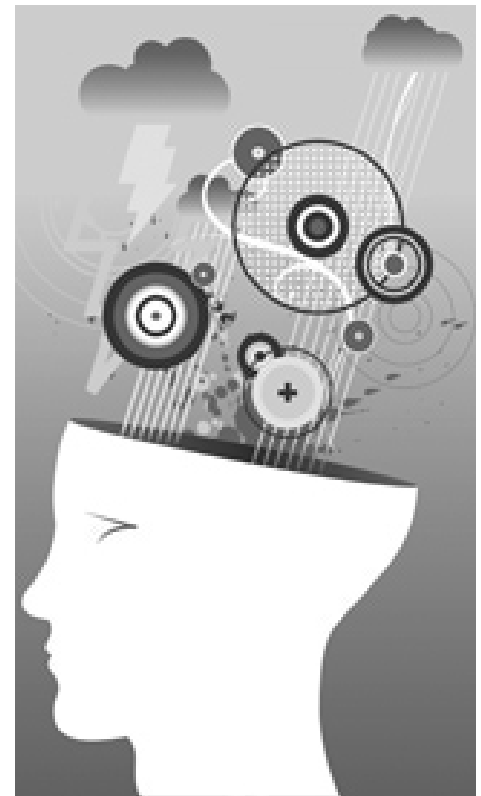
This is particularly relevant today. In 2016, according to Standard & Poor's, the average LBO of a target company with greater than \$50 million of EBITDA was done at an 11x EV/EBITDA multiple. That's the highest it's been since they started tracking the information in 2000. That's driven primarily by low interest rates, which we don't consider to be sustainable at current levels.

Last summer I spent a lot of time studying Tiffany [TIF]. The stock had fallen from \$80 to around \$60, and at that point it traded at roughly 8x EV/EBITDA, 10x EV/EBIT, a 16x P/E and at an owner-earnings yield just below 7%. Not terrible, but also not that exciting. But if you looked at the M&A comps, like Swatch acquiring Harry Winston in 2013, or LVMH buying Bulgari in 2011 or even Samsonite buying Tumi in 2016, you could easily make the case that Tiffany was trading at two-thirds of private market value. But it wasn't cheap enough on an absolute basis so we passed. That's not looking like the greatest decision at the moment, but it tells you something about our process. [Note: Tiffany shares trade today at around \$92.]

### Do you trade actively around positions?

**BW:** It varies. Take a position like Nestlé, which we've owned for over 20 years. It's one of those unusual businesses that has been able to compound its intrinsic value at a pretty attractive rate while there's been, in general, a fair to pretty attractive relationship between price and value. But sometimes the share price heads north or south of intrinsic value depending on the noise of the market or on how the business is doing on a near-term basis. For a compounder like this we'll add to the position when given an opportunity and trim from time to time when the price trades close to intrinsic.

Cyclical and slow-growth businesses come and go. They're often bought at



## BRAINSTORM WITH THE BEST

Through in-depth interviews, *Value Investor Insight* spotlights the strategies and current ideas of today's most-successful investors.

See why it's one of the best "value" investments you can make!

Sign up now for a one-year subscription

**SUBSCRIBE**

a big discount to book value and then traded out at book or a slight premium to book. We tend to go in and out incrementally, based on liquidity, but these are more “rents” than “owns.”

We noticed you recently sold your position in uniform-rental company UniFirst [UNF]. Isn't that a compounder?

JH: It is clearly a compounder, in a consolidated industry with highly recurring revenues and pricing power. But as Bob described, one of the reasons we've held Nestlé so long is that the relationship between the stock price and intrinsic value has stayed fairly attractive. In the case of UniFirst our base valuation was 11x EBITA, which translated into a \$123 share price. But the stock late last year went above \$140, trading at 13x EBITA on margins that we consider right around peak. We're unlikely to see much further benefit from unemployment coming down, or from energy prices declining. With the stock trading as far above our estimate of intrinsic value as it was and with the short-term outlook still so positive, we took the opportunity to sell.

We have a shared history [VII, September 30, 2011 and August 31, 2012] with global security-service company G4S [GFS:LN]. With ups and downs, the stock is about where it was when we first spoke about it and we see you recently added to your position. Lessons?

TS: It was my idea so I should own up to it. In hindsight, it has been a mistake. We're better than breakeven in the stock, but what we missed was how poorly the company was being run prior to changing management two and a half years ago. It was growing nicely around the world, but that masked how loosely run it was, which is a problem for a company with more than 600,000 employees and operations in more than 100 countries. New management is focused both on doing the little things right and on more strategically building out an integrated product mix that goes beyond just providing security

guards. Operating margins increased last quarter, which we haven't seen for some time. It's not the cheapest stock in the portfolio, but hope springs eternal and we do believe the company is moving in the right direction.

How do you handle your portfolios' currency exposure?

BW: We concluded a long time ago that while we can read a company's balance sheet, we're not nearly as capable of assessing a country's balance sheet. So as a general rule we don't make currency bets in client portfolios. We recommend that clients either choose to be fully hedged or fully unhedged against non-U.S.-currency exposure.

You've mentioned a couple South Korean stocks already. What's your investment case for Hyundai Mobis [012330:KS]?

OB: The company makes parts for Hyundai Motor and Kia Motors and also handles the logistics and distribution for their after-market parts and servicing. While auto-parts manufacturing is a fairly mediocre and cyclical business, the after-market business is quite profitable and a reliable cash-generating machine that now accounts for 19% of Hyundai Mobis's revenues and 54% of its operating profits.

As Tom mentioned earlier in speaking about Kia, Korean car manufacturers have been gaining global market share through building better cars and investing in their sales and marketing footprints

INVESTMENT SNAPSHOT

**Hyundai Mobis**  
(Seoul: 012330:KS)

**Business:** Manufactures, markets and services a range of automotive parts, equipment and systems, primarily for South Korean carmakers Hyundai Motor and Kia Motors.

**Share Information**  
(@2/27/17, Exchange Rate: \$1 = ₩1,133):

<b>Price</b>	<b>₩255,500</b>
52-Week Range	₩229,500 – ₩293,500
Dividend Yield	1.4%
Market Cap	₩25.21 trillion

**Financials (TTM):**

Revenue	₩37.96 trillion
Operating Margin	8.1%
Net Profit Margin	8.3%

**Valuation Metrics**  
(@2/27/17):

	<b>012330:KS</b>	<b>S&amp;P 500</b>
P/E (TTM)	7.6	24.8
Forward P/E (Est.)	7.5	18.2

HYUNDAI MOBIS PRICE HISTORY



THE BOTTOM LINE

The market doesn't appear to appreciate either the quality of the company's customer base or the "reliable cash-generating machine" it has in providing after-market parts and servicing, says Olivier Berlage. Valuing its core business and its 20% stake in Hyundai Motor separately, he puts an estimated fair value on the shares of around ₩430,000.

Sources: Company reports, other publicly available information

both in developed and in emerging markets. They also have the scale to develop technology to compete if and when various autonomous-driving and electric applications take hold. All this obviously benefits Hyundai Mobis, which should continue to grow along with them.

The auto-parts business will move in fits and starts and negative news can impact the company's share price from time to time, as happened in January following the release of what were considered disappointing fourth-quarter earnings. In general, though, we believe the company has proven its ability over time to evolve its product mix to focus on higher-value-add products that better protect margins. As the after-market business continues to grow, that should provide a tailwind.

**Hyundai Motor has been working to simplify its complex cross-holdings structure. Do you have a view on how this plays out for Hyundai Mobis?**

**OB:** The restructuring scenarios tend to change over time, so we don't have a strong opinion on which scenario is most likely. But we do expect whatever happens to improve corporate governance across the group and make the individual and collective entities more transparent. That should only be positive for Hyundai Mobis's shares.

**At today's ₩255,000 price, how inexpensive do you consider the shares?**

**OB:** We separately value the core Hyundai Mobis business and the 20% stake in Hyundai Motor that it owns. For the core business we assume a 10x multiple on trailing-twelve-month earnings before interest and taxes [EBIT], which results in a per-share value of around ₩300,000. For the Hyundai Motor stake, we put a 10x multiple on what we believe is its normalized EBIT, valuing Hyundai Mobis's 20% holding at ₩130,000. A few other adjustments offset each other, so we arrive at a total fair-value estimate of ₩430,000, a 68% premium to the current price. If we assigned value to Hyundai Motor's financ-

ing business, which is clearly worth something, the estimate would be higher.

**You're valuing Hyundai Motor at a pretty significant premium to its current market value. Do you own it as well?**

**OB:** We do. As of year-end 2016 it was a top-20 holding in the Global Value Fund.

**Turning to the U.S., what interests you in distribution-company Avnet [AVT]?**

**JH:** Avnet's primary business, accounting for roughly 70% of EBIT, is selling semi-

conductors and related components to the 160,000 original-equipment manufacturers that purchase 30% of all semiconductors but are too small and spread out to be served by manufacturer direct sales forces. This is an attractive business, where the big distributors like Avnet, Arrow Electronics and WPG Holdings enjoy multiple competitive advantages. Their size allows them to purchase products on more favorable terms, they have deeper and more-efficient logistics capabilities, and their product expertise is valued by their customers and is relied upon for selection and purchase decisions.

**INVESTMENT SNAPSHOT**

**Avnet**  
(NYSE: AVT)

**Business:** Distributes and sells electronic components, data-storage products and embedded subsystems, and provides value-added information-technology services.

**Share Information** (@2/27/17):

<b>Price</b>	<b>46.24</b>
52-Week Range	38.16 – 51.50
Dividend Yield	1.5%
Market Cap	\$5.96 billion

**Financials** (TTM):

Revenue	\$25.92 billion
Operating Profit Margin	3.2%
Net Profit Margin	1.5%

**Valuation Metrics**  
(@2/27/17):

	<b>AVT</b>	<b>S&amp;P 500</b>
P/E (TTM)	15.4	24.8
Forward P/E (Est.)	11.7	18.2

**Largest Institutional Owners**  
(@12/31/16):

<b>Company</b>	<b>% Owned</b>
Vanguard Group	8.9%
BlackRock	7.2%
Blue Harbour Group	4.2%
Pzena Inv Mgmt	4.0%
Artisan Partners	3.5%

**Short Interest** (as of 2/15/17):

Shares Short/Float	2.6%
--------------------	------

**AVT PRICE HISTORY**



**THE BOTTOM LINE**

Two M&A deals in recent months – one purchase and one sale – have positioned the company as a pure play in a semiconductor-distribution business in which it has important competitive advantages, says Jay Hill. Applying a 10x EV/EBITA multiple to his estimates two years' out, he arrives at a near-term price target for the shares of \$59.

Sources: Company reports, other publicly available information

Last fall the company announced two deals that we believe position it well going forward. In September it announced it was selling its technology-solutions group, which distributes computer server, storage and networking products, to Tech Data for \$2.6 billion. That business has lower margins and lower growth and faces secular risks from cloud computing, so we were delighted to see it go.

Then in October the company completed a nearly £700 million acquisition of U.K.-based distributor Premier Farnell, reinforcing its biggest business and making Avnet pretty much a pure play in semiconductor-related distribution. The deal wasn't cheap at an EV/EBIT ratio of 14x, but there are significant cost synergies available and we think over the next 18 to 24 months operating income attributed to Premier Farnell can double.

**Does the cyclicity of the semiconductor business worry you?**

**JH:** The business is cyclical, but in our view is nowhere near the peak of the cycle. Gartner estimates that semiconductor sales should increase 3-5% annually through 2019. We think we're still in the early innings of rapid growth in more-connected devices – what people call the Internet of Things – which need semiconductors to capture and process data. Again using Gartner numbers, there are five billion connected devices today and that number is estimated to hit 20 billion by 2020. That should be good news for Avnet, which with a 13% global market share in semiconductor distribution is #2 behind Taiwan's WPG.

**At a recent \$46.25, how are you looking at valuation?**

**JH:** On a pro-forma basis, including expected deal synergies but subtracting \$40 million of restructuring expenses that Wall Street analysts are willing to ignore, we think Avnet within two years should generate annual EBITA of around \$780 million. Applying a 10x EV/EBITA multiple – where a number of comparable M&A

deals have been done – and subtracting pro-forma net debt of \$359 million, we estimate fair equity value at more than \$7.4 billion, or \$57 a share. Adding in another \$2 for Tech Data shares Avnet now owns, our price target looking out 12 to 18 months is \$59.

**Back to Asia, describe the potential you see in Hong Kong-based real estate developer Hang Lung Group [10:HK].**

**OB:** Hang Lung specializes in luxury shopping malls in China and we got particularly interested in early 2016 when the shares were beaten down by pessimism over a number of things, from a decelerating Chinese economy, to the anti-corruption crackdown in China that was hurting

demand for luxury goods, to increased Internet retail competition. Valuing the net assets at even very high cap rates of 7-8%, we thought the shares at around HK\$20 were priced at half what they were worth.

It's not as if the pessimism was without foundation, but in cases like this where the share price gets so removed from intrinsic value we find that if you believe in the management and the assets, value eventually wins out. Even with no discernible catalysts, time tends to be your friend.

**Talk about your belief in management.**

**OB:** The company is controlled by the Chan family, which built the business in China practically from scratch in about 15 years. They have a great eye for location

**INVESTMENT SNAPSHOT**

**Hang Lung Group**  
(Hong Kong: 10:HK)

**Business:** Develops, manages and invests in high-end commercial, office and residential properties in Hong Kong and mainland China, with key focus on luxury shopping malls.

**Share Information**  
(@2/27/17, Exchange Rate: \$1 = HK\$7.76):

<b>Price</b>	<b>HK\$31.95</b>
52-Week Range	HK\$20.05 – HK\$32.80
Dividend Yield	2.5%
Market Cap	HK\$43.16 billion

**Financials (TTM):**

Revenue	HK\$13.60 billion
Operating Margin	63.3%
Net Profit Margin	27.2%

**Valuation Metrics**  
(@2/27/17):

	<b>10:HK</b>	<b>S&amp;P 500</b>
P/E (TTM)	11.6	24.8
Forward P/E (Est.)	9.4	18.2

**10:HK PRICE HISTORY**



**THE BOTTOM LINE**

Macroeconomic concerns about the company's business in China are not without foundation, says Olivier Berlage, but he expects its long-term prospects to be driven primarily by rising incomes translating into higher demand for goods sold in its luxury malls. Using a 7.5% cap rate on the company's current rental income, he values its shares at HK\$42.

Sources: Company reports, other publicly available information

and then step-by-step develop the mall and often surrounding real estate with an eye to attracting high-profile retailers and high-quality office tenants that drive additional traffic to the mall. The results have been objectively quite good: Over the past ten years the company's book value has grown from just under HK\$19 per share to over HK\$55 per share.

Currently the company's malls in Shanghai and Shenyang are performing very well, while additional properties in Jinan, Wuxi, Tianjin and Dalian are all at various stages in the value-add process. If they can replicate their successes in even one or two more cities it would materially impact operating performance and drive significant shareholder value.

**How do you assess the broader political risks of investing in China today?**

**OB:** Hang Lung is based in Hong Kong, where corporate-governance safeguards are fairly well established. While trouble could erupt in China as it deals with a number of macroeconomic challenges, the fact remains that the middle class continues to grow rapidly there and they have proven to have an affinity for luxury goods like those sold in Hang Lung's malls. We believe that ultimately drives the investment case here, not the shorter-term ups and downs of the economy or political situation. That said, would we want half of our portfolio assets in China today? No.

**With the shares now at just under HK\$32, do you still see plenty of upside from here?**

**OB:** Hang Lung Group is the parent company of Hang Lung Properties [101:HK], which makes up the bulk of its assets. So first we have to value Hang Lung Properties, using a much more conservative cap rate than the company does on its current rental income of HK\$7.8 billion. Using a 7.5% cap rate we arrive at a value for Hang Lung Properties of HK\$23 per share. That translates into about HK\$42 per share for Hang Lung Group. We try to be conservative as well by assigning minimal value to properties still under de-

velopment that do not yet generate significant operating income.

**Just curious, do you own Hang Lung Properties as well?**

**OB:** Here we chose just to invest in the parent company. It trades at a larger discount to our estimate of net asset value and we prefer to be closer in the ownership structure to the level of the shareholder family.

**What do you think the market is missing in Canadian investment holding company E-L Financial [ELF:CN]?**

**JS:** The company's assets fall into two primary buckets. Much of the value is in

a stock-and-bond portfolio held at the parent-company level and managed by a number of outside value-oriented managers. The remaining 25% or so of the value consists of an investment in Empire Life Insurance Company, which is a run-of-the-mill life and health insurer that typically earns a 10% return on equity.

**Why would this be mispriced?**

**JS:** We think it's neglect. There are large minority interests and complicated accounting and it takes some work to de-consolidate Empire Life from the balance sheet and see clearly the C\$890 per share pile of cash and securities that are left upstairs in the parent holding company. In addition, Empire Life includes realized in-

INVESTMENT SNAPSHOT

**E-L Financial**  
(Toronto: ELF:CN)

**Business:** Toronto-based holding company with primary operating segments focused on investment management (E-L Corporate) and life and health insurance (Empire Life).

**Share Information**  
(@2/27/17, Exchange Rate: \$1 = C\$1.319):

<b>Price</b>	<b>C\$735.00</b>
52-Week Range	C\$630.00 - C\$768.99
Dividend Yield	0.7%
Market Cap	C\$2.95 billion

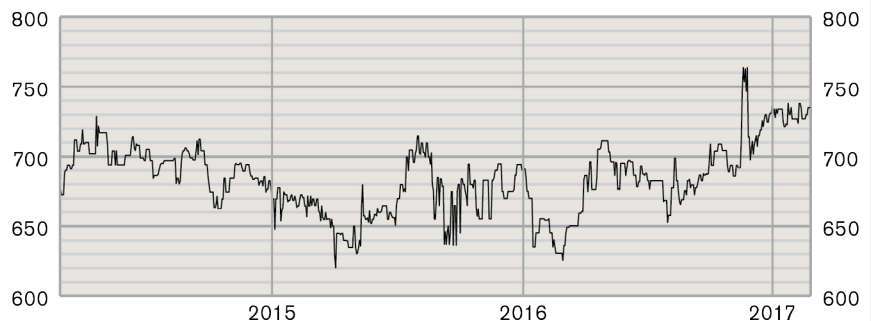
**Financials (TTM):**

Revenue	\$2.30 billion
Operating Margin	27.7%
Net Profit Margin	19.0%

**Valuation Metrics**  
(@2/27/17):

	<u>ELF:CN</u>	<u>S&amp;P 500</u>
P/E (TTM)	n/a	24.8
Forward P/E (Est.)	n/a	18.2

ELF:CN PRICE HISTORY



THE BOTTOM LINE

In deciphering the company's somewhat complex financials, John Spears believes the market is significantly mispricing the value of its assets and of the ongoing stewardship of its founding family. At today's price the stock trades at just 60% of tangible book value, for company that has increased book value at a 12.5% annual rate for nearly 50 years.

Sources: Company reports, other publicly available information

vestment gains and losses in its reported earnings, which can make it look extremely volatile.

**How have the company’s controlling shareholders, the Jackman family, treated minority shareholders?**

**JS:** They’ve done an excellent job managing the business. Since 1969 the holding company’s book value has compounded at an annualized rate of 12.5%. They’ve also bought and sold businesses with a seemingly good eye for price. At the end of 2015 they paid approximately book value to increase E-L Financial’s ownership stake in Empire Life to just over 98%. A couple years earlier they sold another held insurance company to Travelers for about a 40% premium to book. Overall we’re very comfortable with the family’s stewardship and keep track of their own trading in E-L stock. They’ve been buyers of late, paying between C\$650 and C\$695 per share for more than C\$100 million worth of shares.

**How cheap are the shares at today’s C\$735 price?**

**JS:** At the current price the stock trades for close to 60% of the latest reported tangible book value per share. One of the great things about buying so cheaply is the return leverage. If book value grows 10% and we paid 60% of book, we’re earning a 16.6% return on our entry price. On top of that the shares in the past have traded as high as 1.4x book value, so it’s not out of the question that they could again trade at book value or higher in the future.

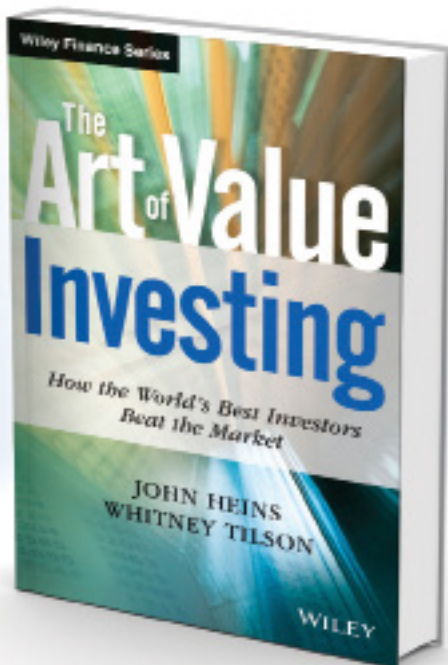
**One final question: Has the ongoing rise of passive investment strategies and algorithmic trading at all impacted how you do things?**

**BW:** Breaking that down a bit, there’s no question that well-constructed quantitative models can be tough competitors, but it hasn’t impacted our process or strategy. Automated buying and selling can impact how securities trade, but behaviorally

things haven’t fundamentally changed. Investors still overreact on the upside and the downside, and if anything, algorithmic trading often accentuates those moves and creates pricing opportunities for people like us to exploit.

We view rapid flows into passive strategies as a cyclical phenomenon which invariably distorts equity valuations in the later stages of a bull market. When we do have a difficult time in the equity market, as we invariably will, you’ll see a comeuppance for index funds and you’ll see active managers attract much more interest. A great “unwind” typically inures to our benefit as value investors due to relative out-performance.

Even John Bogle is lamenting the massive flows of funds from traditional index mutual funds into specialized ETFs that can be traded on a minute-by-minute basis. This may all seem a bit unsettling, but think back to 2009 when market commentators were hailing the “death of equities.” Stay tuned, things have a way of changing. [VII](#)



**The Reviews Are In...**

“I learned the investment business largely from the work and thinking of other investors. *The Art of Value Investing* is a thoughtfully organized compilation of some of the best investment insights I have ever read. Read this book with care. It will be one of the highest-return investments you will ever make.”

*William A. Ackman, Pershing Square Capital Management*

“An outstanding addition to the volumes written on value investing. Not only do the authors offer their own valuable insights but they have provided in one publication invaluable insights from some of the most accomplished professionals in the investment business. I would call this publication a must-read for any serious investor.”

*Leon G. Cooperman, Omega Advisors*

“I often judge a book by how many times I get my highlighter out and dog-ear pages. On that metric, this book is wonderful – simply packed with insight from some of the best long-term investors. Everyone will learn something from this book.”

*James Montier, GMO*

**Order Your Copy**   
of *The Art of Value Investing*

**Learn More**   
About *The Art of Value Investing*

# Investor Insight: Jed Nussdorf

Soapstone Capital's Jed Nussdorf explains the hierarchy of earnings-growth drivers he prefers, the "event-driven" situation he's finding increasingly attractive, why traditional value-based screens don't work for him, where's he's finding short opportunities today, and why he sees mispriced value in J.B. Hunt Transport, AdvanSix, Zayo Group and Nestlé.

**You've described your strategy as a balance between growth and value investing. Please explain.**

**Jed Nussdorf:** There are only three sources of return from owning an equity: the dividends you receive, the change in a proxy for valuation – such as earnings, EBITDA or free cash flow – and the change in the valuation multiple the market puts on that proxy. We consider each of those variables separately and are looking for investments that on a prospective basis can generate an internal rate of return in the high teens, without any benefit of multiple expansion. In addition, we want the valuation multiple to be more likely to augment rather than dilute the constant-multiple return. Put another way, we're effectively looking for IRRs in the mid-20% range, relying on changes in valuation multiples for no more than 20-25% of that.

Growth investors typically focus on the return from dividends and earnings. Value investors focus more on changes in valuation multiples. We try to balance the two, but with a clear emphasis on the company's performance rather than the market's perception of that performance driving our investment case.

**Prospective growth in any measure of earnings can come from various sources, from industry trends to company-specific initiatives. Is one source of growth more interesting to you than another?**

**JN:** We look for situations where the business fundamentals are at our back, which often means large addressable markets with good demand dynamics and/or a favorable or improving competitive context. Current examples of that would include our investments in bandwidth infrastructure and in intermodal transportation.

We'll invest in cyclical businesses such as chemicals, industrials and financials as

well. Obviously the emphasis there is to invest at the point where you have a cyclical tailwind and constant-multiple IRRs are robust, not the opposite.

I would generally say that the hierarchy of growth drivers we prefer is very similar to the hierarchy in the income statement. I'd much prefer to have the IRR driven by

---

## ON GROWTH DRIVERS:

**I would say that the hierarchy of growth drivers we prefer is very similar to the hierarchy in the income statement.**

---

revenue than by margin. I'd much rather it be driven by margin than financial engineering or changes in tax rates. Simplistically, the best and most robust investment cases for us are when the core driver of the IRR is growth in volume – customers want to buy more of whatever it is the company is selling. The typical turnaround, where through financial engineering or cost cutting the company is trying to produce higher profitability, is at the margin of lesser interest to us.

**How do you generate ideas?**

**JN:** We don't run typical value-investor screens, which rarely generate ideas consistent with our approach. We're trying to find companies with strong prospective growth coupled with an asymmetric set of outcomes on valuation. I haven't found that screening for cheap stocks or those with poor recent price performance direct us to those types of companies.

We focus on five sectors: financial services, industrials, energy, consumer and TMT [technology, media and telecommunications]. The rationale for that is that

we believe specializing can develop domain expertise and that domain expertise can provide a competitive advantage.

Many of our ideas originate from the work we're doing in one of those five sectors. In early 2013 we invested in Level 3 Communications [LVL3], which operates one of the largest telecommunications networks in the world, supported by our view that the company would benefit from a secular surge in bandwidth demand, driven by increased adoption of cloud computing, big data and non-linear video consumption. As we better understood the landscape, that led to our investment in TelecityGroup, which provides the interconnection points that allow Internet traffic to move from one service provider to another. Ultimately that led to our final investment in the space, Zayo Group [ZAYO], which we'll talk about in more detail later. Zayo owns the last remaining independent fiber network in North America with a dense metro footprint and we expect it to benefit from the same positive thematic drivers.

**What keeps stocks like this from being fully priced or higher?**

**JN:** With Level 3, the company over its history had been consistently plagued by high leverage, dilutive equity raises and an inability to integrate acquisitions. That left investors fatigued and less willing to believe that new management could change the trajectory of the business.

In the case of Telecity, the company went through a turbulent cyclical period punctuated by the dismissal of its CEO. We saw supply and demand coming back into balance and the opportunity for better operating performance under new management. Most investors were focused on the past or immediate future without fully handicapping the prospective value of the assets if better managed.

With Zayo we began buying in the summer of 2015 when its stock came under pressure for non-fundamental reasons having mostly to do with the aftermath of what could best be described as a poorly executed private-equity-sponsored IPO. Even as the business was improving, there was selling pressure on the shares for reasons having little to do with how the company was doing.

**When we first spoke [VII, February 28, 2011] you mentioned looking for ideas around corporate “events” such as acquisitions, spinoffs or large-scale restructurings. Still true?**

**JN:** These types of situations can be interesting when there’s a potential change in the trajectory of a business or there’s uncertainty or opacity around how to understand the business going forward. With mergers in particular I think there is an increasing opportunity to find situations that may be less well understood, especially as M&A activity expands.

**Give a representative example or two.**

**JN:** In 2015 CommScope [COMM], a leading global provider of connectivity and infrastructure solutions for telecom networks, acquired the Broadband Network Solutions business of TE Connectivity. CommScope was #1 in most of the areas in which it competes and it was purchasing a business that was #3. We saw a positive industry backdrop driven by the ongoing densification of wireless networks, a really attractive horizontal merger predicated on reasonable synergies, a management team with a demonstrable track record of successful acquisition-related integration, and somewhat of a forced seller in TE Connectivity. It was the type of situation we’re seeing more often, where the market is slow to respond to the upside potential because it’s not immediately obvious to everyone what the company’s earnings capacity might be looking out two to three years. CommScope is still one of our top holdings and the thesis is still playing out.

Another good example would be Dufry [DUFY], the Swiss operator of duty-free and airport retailers. Over the past three years the company has continued to consolidate the duty-free business by buying two of its largest competitors, Nuance Group in 2014 and World Duty Free in 2015. The combination of the three has taken Dufry’s market share from around 7% of the business to 23-24%, and with that comes purchasing synergies, operating synergies and just a much stronger

---

## ON POTENTIAL IDEAS:

**With mergers in particular there's an increasing opportunity to find situations that may be less well understood.**

---

hand as the industry continues to consolidate. We thought – and continue to think – that the potential of all that was underappreciated by the market.

With respect to spinoffs, I’d say the opportunity set is somewhat weaker than it was five or six years ago. The ideal context for a spinoff is where sellers are indiscriminate, buyers are scarce, and the consequence is an unusually cheap valuation. That still happens, but less often. In fact, you’ll see spinoffs today that resemble IPOs, with road shows and plenty of Wall Street coverage.

The best old-style spinoff opportunity we’ve found in recent years is AdvanSix [ASIX], a manufacturer of polymer resins that was spun off from Honeywell in October of last year. Unlike many recent spins, the company went public without research coverage from any of the major brokerage houses. It had an initial market capitalization of 0.5% of its former parent, so index funds that held Honeywell were required to sell their AdvanSix shares. For active managers, the much smaller market cap meant large-cap holders of Honeywell were more likely to sell. Finally, AdvanSix chose not to provide earnings guidance for this year or beyond, which is a turnoff for

many investors who rely on third-party research for forecasts and valuation analysis. Collectively, all this created an imbalance of supply and demand for AdvanSix shares, which we believe has created an excellent opportunity.

**Describe how you organize your research.**

**JN:** When I got into the business I was given the advice that if you do three things and you do them consistently you can be in the top 1% of all analysts. The first was simply reading everything that is in the public domain – financial statements, transcripts, company presentations. The second was to build your own models from scratch. And the third was to get answers from the company on any questions that arise from the first two.

I’d say the second point, building your own models from scratch, has paid the most dividends. It forces you to really understand the key variables that will determine the financial performance of the company and the success of the investment, detail your specific assumptions about those key variables and then make your own forecasts. Obviously a great deal of field research informs our assumptions, but thinking through the key drivers is where we spend much of our time.

With CommScope, for example, the two most important variables by far are demand trends from both wireline and wireless networks for equipment, and the efficiency and effectiveness of the company’s acquisition-integration efforts. If we get those right our chances of investment success are dramatically higher.

The longer I’ve been doing this the more I’m convinced that not everyone does the three things I was told to focus on in a consistent way.

**What’s your time frame for valuation?**

**JN:** We identify the core metric on which to focus, typically earnings or free cash flow, and first calculate the IRR at a constant multiple looking over three to four years. Separately we would look at historical multiples on that core metric – or a

prospective range if it should be different – and calculate IRRs assuming the multiple changes. As I mentioned, we’re targeting constant-multiple IRRs in the high-teens and overall IRRs nicely above 20%.

**You made the case recently for taking “tactical” positions. Describe what you mean by that.**

**JN:** In the first half of 2016 we couldn’t find ideas that were consistent with our approach and didn’t initiate a single new core position. But we made a few investments that were much smaller in size and I have used the term tactical to describe the fact that while they weren’t likely to be in the portfolio in two to three years, I thought there was an interesting shorter-term opportunity. In general, tactical opportunities can have similar prospective IRRs, but are a bit more led by multiples than by earnings and dividends.

Sensata Technologies [ST] would be one example. The company makes sensors and controls for auto manufacturers and because we expect global auto sales to shrink modestly over the next two years, the stock didn’t offer a constant-multiple IRR we considered sufficient. But there was good visibility into improved margins as the company digested and integrated two large acquisitions, so we expected 2018 EPS of \$3.75 to \$4, compared to the mean consensus estimate of \$3.23. The investment was tactical in the sense that we didn’t think the market appreciated the earnings lift to come – the shares were priced at the lowest multiple of next-12-months earnings since the company went public in 2010. If the multiple reverted to even 12-13x and my earnings estimates proved correct, we’d have a very attractive and relatively short-term return.

We also took a tactical position in Goldman Sachs [GS]. The shares were offering only a low-to-mid-teens constant-multiple IRR, but traded at less than 90% of tangible book value and at the lowest earnings multiple in three years. We thought the market wasn’t giving the company adequate credit for the strength of its balance sheet and its potential to increase returns

on tangible equity that were at multi-year lows. Here the multiples started to correct sooner than we expected and we were out of the stock by the end of the year.

**Are you kicking yourself that you didn’t hold on to it longer?**

**JN:** No. We shifted money out of Goldman and into Wells Fargo [WFC] in the wake of the sales issues there and we’re happier to own Wells Fargo. We believe

## ON SHORT IDEAS:

**Many stocks in certain industrial sub-sectors appear to have peak multiples on peak operating performance.**

its constant-multiple IRR today is higher and the valuation skew is more attractive. Wells’ net interest margin is the lowest it’s been in a very long time – to the extent that goes from being a big headwind to neutral to eventually being a tailwind, its earnings would accelerate quite nicely. The stock solidly meets our IRR criteria today, while Goldman’s doesn’t.

**As a long/short fund, do you manage to a particular net-exposure range?**

**JN:** Our net exposures are primarily governed by the opportunity set. In the past year we’ve been finding more to do on the short side, so our net exposure overall is lower than usual at around 30%. From the peak of market in late 2007 until the end of last year it averaged in the low-40s.

**Can you generalize about where you’re finding short opportunities today?**

**JN:** In energy, we’re finding a number of companies on the upstream side where market participants appear excessively optimistic around the recovery in oil prices, in many cases pricing in \$85-per-barrel oil or higher. In industrials, a number of

sub-sectors are much closer to the peak of the cycle than the trough, and we’re finding a number of short opportunities where the stocks appear to have peak multiples put on peak operating performance.

In consumer businesses, mostly staples, we’re finding short ideas as well where peak multiples are being placed on peak earnings, especially when the earnings are high from unsustainable commodity-price or foreign-currency trends. Finally, in the financial sector, we’re seeing a number of insurance companies whose equity may be overstated because estimates of future liabilities are excessively optimistic.

**What’s behind your enthusiasm for J.B. Hunt Transport [JBHT]?**

**JN:** The thematic component here is our belief in the long-term growth story for intermodal freight transport, which accounts for 70% of J.B. Hunt’s operating income. The basic notion is that freight is transported in a single intermodal container that can be moved by ship, rail or truck. Intermodal transportation allows shippers to benefit from the “capillarity” of road-based networks while capturing the superior cost position of the railroads. It’s at least 3x as fuel efficient as end-to-end trucking – Hunt’s original business – and as much as 10x more labor efficient. Intermodal has increased market share but remains under-penetrated, representing less than 15% of the 85 million annual freight moves over 550 miles using road and rail networks in North America.

While most intermodal marketing companies are customers of railroads and therefore subject to regular price increases, Hunt has been successful in structuring alliances with railroad partners like BNSF Railway, Norfolk Southern and Canadian National Railway that grant it revenue sharing and preferential loading. We believe that gives it an explicit, durable competitive advantage. It now has the largest intermodal business in North America and we believe its advantage in the secular-growth business is increasing.

What made the stock interesting again to us was the intermodal growth story

**INVESTMENT SNAPSHOT**

**J.B. Hunt Transport**  
(Nasdaq: JBHT)

**Business:** Provider of transportation, delivery and logistics services with a specialty in intermodal transportation executed through alliances with major North American railroads.

**Share Information** (@2/27/17):

<b>Price</b>	<b>100.12</b>
52-Week Range	75.71 – 102.38
Dividend Yield	0.9%
Market Cap	\$11.14 billion

**Financials** (TTM):

Revenue	\$6.56 billion
Operating Profit Margin	11.0%
Net Profit Margin	6.6%

**Valuation Metrics**

(@2/27/17):

	<b>JBHT</b>	<b>S&amp;P 500</b>
P/E (TTM)	26.3	24.8
Forward P/E (Est.)	21.0	18.2

**Largest Institutional Owners**

(@12/31/16):

<b>Company</b>	<b>% Owned</b>
Vanguard Group	8.1%
Wellington Mgmt	5.8%
Fidelity Mgmt & Research	4.7%
BlackRock	4.2%
Capital Research & Mgmt	4.1%

**Short Interest** (as of 2/15/17):

Shares Short/Float	5.2%
--------------------	------

**JBHT PRICE HISTORY**



**THE BOTTOM LINE**

Looking beyond cyclical headwinds, Jed Nussdorf believes the company will benefit from unique advantages in providing intermodal transport services that will continue to capture overall market share. Driven by annual EPS growth and dividends received, he expects over the next few years from today's price to earn an IRR on the shares in the high teens.

Sources: Company reports, other publicly available information

being temporarily knocked off course starting in 2014 when congestion from extreme winter weather cascaded through the system and then demand was hit by cratering oil prices. By 2015, Hunt's intermodal volume growth had slowed to its lowest level in a decade.

We didn't expect those issues to be permanent, and have in fact seen supply/demand dynamics in the system start to improve. Orders for Class A trucks, which are used primarily to move truck-load freight, fell last year to five or six year lows. New regulations coming into effect this year will require truckers to install

and use electronic logging devices, which should accelerate the retirement of older trucks where the costs to comply with the new rules are prohibitive. Finally, on the demand side, large retailers reduced inventories in 2016 and we think those reductions are mostly complete. We estimate in-bound freight to retailers needs to increase 6-7% just for them to maintain flat inventories. Contracting capacity and demand tailwinds should contribute to better pricing.

**How are you looking at expected return from the current \$100 share price?**

JN: We're expecting annual earnings-per-share growth over the next few years of 16-18%, so adding in the 1% dividend yield we have a high-teens constant-multiple IRR. The company has an effective tax rate of 38%, so the valuation analysis needs to consider the implications of tax reform. If the effective tax rate fell even to 25-30%, we think the company would earn \$5.75-6.00 per share in 2018, as tightening capacity improves margins and returns on invested capital. At the median historical multiple of 21x, the shares would be worth \$120-125 in a year. In the unlikely event that tax rates are unchanged, the fundamental drivers would remain intact and we think we'd still earn an attractive constant-multiple IRR.

**Coming back to the spinoff you mentioned earlier, describe your broader investment case for AdvanSix.**

JN: The company manufactures Nylon 6 and its primary precursor, caprolactam. Nylon 6 is a polymer resin used in the production of engineered plastics, fibers and films that are found in things like automotive and electronic components, carpet, and food and industrial packaging.

The global markets for Nylon 6 and caprolactam have undergone significant change in the past five years. Chinese manufacturers have entered the market and added roughly 20% to industry capacity, while demand for caprolactam has increased at a 3% annual rate. That's taken margins for Nylon 6 and caprolactam to historic lows. Through all that, however, AdvanSix remained highly profitable, with double-digit returns on invested capital. It remains the lowest-cost producer globally due to its scale, vertical integration and access to export terminals. In recent years that cost advantage has been enhanced by cheap natural gas, the primary raw material for the production of caprolactam.

Some big competitors have closed down capacity and Chinese capital expansion has slowed, so pricing has recovered quite significantly from trough levels. In early January AdvanSix raised caprolactam prices by about 12 cents per pound,

**INVESTMENT SNAPSHOT**

**AdvanSix**  
(NYSE: ASIX)

**Business:** Development and production of Nylon 6, a polymer resin used to produce food and industrial packaging, carpets, and automotive and electronic components.

**Share Information** (@2/27/17):

<b>Price</b>	<b>27.87</b>
52-Week Range	12.00 – 30.21
Dividend Yield	0.0%
Market Cap	\$849.6 million
<b>Financials</b> (TTM):	
Revenue	\$1.25 billion
Operating Profit Margin	9.4%
Net Profit Margin	5.9%

**Valuation Metrics**

(@2/27/17):

	<b>ASIX</b>	<b>S&amp;P 500</b>
P/E (TTM)	11.5	24.8
Forward P/E(Est.)	n/a	18.2

**Largest Institutional Owners**

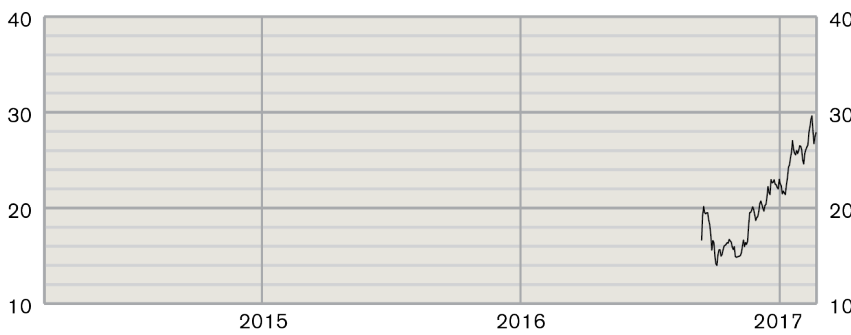
(@12/31/16):

<b>Company</b>	<b>% Owned</b>
BlackRock	10.1%
Firefly Value Partners	6.7%
Vanguard Group	4.9%
JPMorgan Inv Mgmt	4.7%
T. Rowe Price	3.9%

**Short Interest** (as of 2/15/17):

Shares Short/Float	0.8%
--------------------	------

**ASIX PRICE HISTORY**



**THE BOTTOM LINE**

As its industry's low-cost producer, the company has the most to gain as a global supply glut in its primary market lessens, says Jed Nussdorf. At the low-to-mid-teens multiple on mid-cycle EPS typically earned by peers, on his 2018 estimate the stock would trade around \$40. Tax reform in the U.S. could provide significant additional upside, he says.

Sources: Company reports, other publicly available information

an increase that was matched by BASF, the only other North American producer of consequence. That suggests capacity is closer to being in balance, which has material earnings implications. A 12-cent-per-pound price increase yields about \$100 million of incremental revenue for the company, which all else equal would add roughly \$2 per share to net earnings. We're not counting on the entire price increase to stick or that all other costs remain the same, but we believe it's reasonable to assume the company can earn in excess of \$3 per share over the next twelve months.

**The shares are up substantially in the past few months. Are they attractive at today's price of \$27.90?**

**JN:** We believe we're in the middle of the earnings cycle. In both 2011 and 2012 AdvanSix earned over \$5 per share. Most specialty chemical producers – especially low-cost producers – would trade at low-to mid-teens multiples of mid-cycle earnings. So 2017 earnings of \$3 per share should support a share value of \$40.

AdvanSix is also a full statutory tax payer at about 37%, and it imports almost nothing and exports have aver-

aged 25-30% of sales in recent years. So whether we're talking about corporate tax reform or a border-adjustment tax, AdvanSix is unusually well positioned for both. A corporate tax rate of 25% or border-adjustment tax legislation like that being discussed would each lift earnings by roughly \$1 per share, providing further upside to the stock.

**Why do you consider Zayo Group a good way to play the secular surge in bandwidth demand?**

**JN:** The company is a leading provider of bandwidth infrastructure in North America and Europe, including leased fiber-optic cable, fiber to cellular towers and small cell sites, dedicated wavelength connections, and Ethernet and IP connectivity.

Some historical context may be helpful in understanding the current opportunity. Zayo was founded in 2007 by Dan Caruso, with seed capital from seven private-equity firms. Caruso had been one of the founding executives of Level 3, where at one time or another he led most of its lines of business. After leaving Level 3 he led a buyout of ICG Communications, which he then sold to Level 3 in 2006. Since starting Zayo a year later, he and his team have assembled an enviable network, principally through acquisition, of fiber in key metro areas where barriers to add new capacity are high. With CenturyLink in the process of acquiring Level 3, there are no independent, national players left in the market other than Zayo.

Management has been extremely disciplined in the prices it has been willing to pay for acquisitions, and we believe the company's national footprint and scale have changed the trajectory of its business. It can go after opportunities that smaller fiber-network competitors can't. It also benefits from a colocation model where signing on additional customers that use the same fiber is done at high incremental margins. Over the past three years annual organic revenue growth has been 7% and EBITDA has grown at a compound annual rate of 18%, even as the company has reduced leverage.

INVESTMENT SNAPSHOT

**Zayo Group**  
(NYSE: ZAYO)

**Business:** Provider of communications infrastructure services, including leased fiber, bandwidth connectivity, colocation, and cloud computing in North America and Europe.

**Share Information** (@2/27/17):

<b>Price</b>	<b>31.50</b>
52-Week Range	23.25 - 35.65
Dividend Yield	0.0%
Market Cap	\$7.64 billion

**Financials** (TTM):

Revenue	\$2.00 billion
Operating Profit Margin	16.8%
Net Profit Margin	(-0.7%)

**Valuation Metrics**

(@2/27/17):

	<b>ZAYO</b>	<b>S&amp;P 500</b>
P/E (TTM)	n/a	24.8
Forward P/E (Est.)	73.3	18.2

**Largest Institutional Owners**

(@12/31/16):

<b>Company</b>	<b>% Owned</b>
Capital Research & Mgmt	7.1%
Dodge & Cox	6.0%
Vanguard Group	4.6%
SPO Partners	4.4%
Third Point LLC	2.9%

**Short Interest** (as of 2/15/17):

Shares Short/Float	4.7%
--------------------	------

**ZAYO PRICE HISTORY**



**THE BOTTOM LINE**

The company's national footprint in providing U.S. bandwidth infrastructure has changed the trajectory for it in this secularly growing business, says Jed Nussdorf. He expects high-single-digit organic growth, modest margin expansion and accretive capital allocation to drive a high-teens constant-multiple IRR in the shares over the next two years.

Sources: Company reports, other publicly available information

Coming back to management and its ability to create value: since 2007 the company has raised \$1.1 billion of equity capital, which even at today's undemanding valuation is worth \$7.6 billion.

**Trading at \$31.50, how are you looking at the prospective rate of return on the shares?**

**JN:** Given the secular demand in the market, an attractive business model and what we consider very capable management, we believe high-single digit organic growth, modest margin expansion and

accretive capital allocation can generate a high-teens constant-multiple IRR over the next two years. With respect to valuation, Zayo currently trades at 10x EV/EBITDA, which is at the low end of its historical range and well below the 15-20x at which private transactions have occurred. If the multiple normalizes or approaches recent transaction multiples, our return would be much higher than the constant-multiple expectation.

**Now for something completely different, explain your thesis for global food giant Nestlé [NESN.VX].**

**JN:** Nestlé is the largest food and beverage company in the world, with leading positions in coffee, bottled water, dairy, nutrition, prepared foods, confectionary, and pet care. Its best-known brands include Nescafé, Perrier, Dreyer's, Gerber, Maggi, Kit Kat and Purina. I've long admired the company for the strength of its brands and market positions around the developed and emerging world.

In recent years the company's earnings growth has lagged its peers. Organic revenue growth has slowed for the entire industry due to weakness in emerging markets and commodity deflation. But while many of Nestlé's peers cut sourcing and advertising costs to drive margin expansion, it meaningfully increased advertising and R&D to drive volume growth. Generally consumer-staples industry leaders have EBIT margins in the low- to mid-20% range, compared to 15% for Nestlé.

As a result of all this investors have become increasingly fatigued. Nestlé is now among the top three underweight names in developed Europe and the shares trade near their lowest relative valuation to the S&P 500 since 2009.

**What makes that all change?**

**JN:** We actually believe the catalyst for change has arrived in the form of new CEO Ulf Mark Schneider, who in January became the first outsider to run the company in 95 years. He comes from Fresenius, a German healthcare company with €28 billion in sales, where he had a track record of setting ambitious targets and regularly exceeding expectations. Over his term as CEO, Fresenius' share price rose by more than 12x, a rate of better than 20% per year.

Since coming on board Schneider has recommitted the company to returning to mid-single-digit organic revenue growth within the next couple of years and has confirmed already-set goals to take out something on the order of 2 billion Swiss francs in costs by 2020. We believe this is a case where the combination of a company with incredible franchise strength and leadership with an incredible track

## INVESTMENT SNAPSHOT

**Nestlé**  
(Zurich: NESN:VX)

**Business:** Largest global food and beverage company, with brands including Nescafé, Perrier, Poland Spring, Dreyer's, Gerber, Carnation, Kit Kat and Purina.

**Share Information**

(@2/27/17, Exchange Rate: \$1 = CHF 1.01):

<b>Price</b>	<b>CHF 74.30</b>
52-Week Range	CHF 67.00 – CHF 80.05
Dividend Yield	3.1%
Market Cap	CHF 231.23 billion

**Financials (TTM):**

Revenue	CHF 89.47 billion
Operating Margin	14.7%
Net Profit Margin	9.1%

**Valuation Metrics**

(@2/27/17):

	<b>NESN</b>	<b>S&amp;P 500</b>
P/E (TTM)	27.1	24.8
Forward P/E (Est.)	20.2	18.2

**NESN:VX PRICE HISTORY****THE BOTTOM LINE**

Investors are "fatigued" with the company's performance, says Jed Nussdorf, at just the time he expects that performance to improve under new management. Driven by organic growth, an improvement in lagging margins and smart capital allocation, he expects to earn a mid-teens constant-multiple IRR in the stock over the next two to three years.

Sources: Company reports, other publicly available information

record will ultimately pay off handsomely for shareholders.

**The shares have gone nowhere over the past two years. What upside do you see from today's price of around 74.50 Swiss francs?**

**JN:** We expect a mid-teens constant-multiple IRR over the next two to three years, driven by 4-5% organic sales growth, 4% from the combination of the dividend yield and share repurchases, and the balance from improvement in margins. If the operating performance is there, there's additional potential from multiple expansion – the shares have historically traded at a 25-30% premium to the S&P 500, compared to just 10% today. We haven't

modeled it, but we also see further return upside from the firepower Nestlé has to do accretive M&A.

The defensiveness of this stock also has considerable appeal. While I don't have a particular political view that's worth sharing, I do think there's higher-than-normal risk of economic stress over the next couple of years from rising nationalism and protectionism. Nestlé's valuation has been quite counter-cyclical, trading at its highest premiums relative to the S&P 500 in periods of high market turbulence. I believe it can provide a form of portfolio insurance if financial-market storm clouds gather.

**Describe a mistake you've made in the recent past and any takeaways from it.**

**JN:** In 2015 we bought shares of Ralph Lauren [RL], optimistic about its prospects given new leadership, an iconic brand, what we considered a demonstrable opportunity for margin recovery, and an undemanding valuation.

Two key assumptions we made were that comp-store sales would modestly improve and that margins, which had deteriorated, would begin to improve because of a variety of initiatives the company was pursuing. In fact, comp-store sales have declined materially, which despite various efforts derailed any margin upside as well. It's safe to say this was a mistake that did not go according to plan.

The diagnosis? Our batting average hasn't been high in the retail sector and it's possible that it doesn't play to our strengths. It may be that other investors have superior data than we do. We may have a harder time assessing product life-cycles in more fashion-based businesses. If you've been able to consistently succeed in certain areas and done less well in others, it probably makes sense to focus on the former and deemphasize the latter.

**You handled everything on the investment side of your business for 11 years before hiring an analyst last year. Why change?**

**JN:** When the market swooned in mid-2015, I found myself working at an unsustainable pace of 75 to 80 hours a week for months in a row. I didn't think that was good for my partners and I didn't think it was good for me, and I concluded I needed additional resources to help me prosecute the opportunity set.

That's not an easy decision to make when you have your own firm and have been the only one working on "product" for 11 years. It took some time to find the right person, but I was fortunate last year that David Cohen, whom I'd known for 15 years since we were summer interns together at George Weiss Associates in 2001, became available. We knew each other well, have collaborated many times over the years on research, and have a very similar process and approach. I couldn't be more pleased with how it's going. **VI**

# Cat Out of the Bag?

*Exciting but overlooked growth opportunities that attract discerning investors' attention need not only be in technology or Internet companies. Witness Oil-Dri Corp.'s aggressive move to expand in cat litter. By Ori Eyal*

A not-uncommon situation that attracts discerning investors is when a company has a high-potential business ready to blossom, especially at the point where investments in it exceed returns. That's exactly the situation Needham Funds' portfolio manager John Barr sees today in Oil-Dri Corporation of America.

The Chicago-based company, founded in 1941, made its name selling industrial sorbent products made from clay minerals primarily to industrial and manufacturing customers that used them to keep plant floors clean. It has since expanded into a number of other areas, including fluid purification, crop protection and sports-field maintenance. But the high-potential opportunity that has Barr most excited? "Investors either don't know the company at all or don't yet realize the magnitude of its ongoing transformation around cat litter," he says.

Oil-Dri, in fact, is one of the world's largest manufacturers of cat litter, an opportunity Barr believes is still in the early innings. Of particular note is the company's line of Cat's Pride Fresh & Light litter, which provides 2x-longer odor control while weighing 25% less than traditional products. The company has 20% of the lightweight "scoopable" cat-litter market and is gaining share in the category, which is itself taking a larger share of overall litter sales. Within five years Barr believes the company's overall annual sales can increase by \$200 million – from their current \$260-million level – almost entirely from branded and private-label cat litter.

To capitalize on this opportunity Oil-Dri is spending heavily on advertising and promotion, which has hurt profitability and disappointed investors. Operating margins in its retail and wholesale segment are running at around 3%, but Barr believes they're closer to 10% before the investment spending and may reach at least 15% as the scale of the business expands. He credits management for taking a long

view: "Dan Jaffee, the CEO and grandson of the founder, acts like a business owner, innovating, investing for the long term and ignoring Wall Street analysts." He has that luxury because the Jaffee family controls over 80% of the voting rights via its ownership of B-class shares.

Also taking a long view, Barr believes the company within five years, driven by cat-litter success, can earn at least \$5 per share. He thinks at that point that its growth and profitability profile could warrant at least a 15x multiple, resulting

in a \$75 share price, more than double today's \$35.60. He would not be surprised if large competitors like Nestlé, Clorox or Church & Dwight would try to buy the company, although he says the Jaffee family would be very unlikely to sell. As for downside protection, he believes the company's clay mines, located in several U.S. states and holding some 350 years' worth of proven-and-probable reserves at current production levels, could very likely be worth more than the company's current market capitalization. [VII](#)

## INVESTMENT SNAPSHOT

### Oil-Dri Corp. (NYSE: ODC)

**Business:** Manufactures and markets sorbent products used in industrial, automotive, agricultural, petcare and other applications.

### Share Information (@2/27/17):

<b>Price</b>	<b>35.61</b>
52-Week Range	29.89 – 40.94
Dividend Yield	2.5%
Market Cap	\$258.9 million

### Financials (TTM):

Revenue	\$261.1 million
Operating Profit Margin	4.1%
Net Profit Margin	3.9%

### Valuation Metrics

(@2/27/17):

	<b>ODC</b>	<b>S&amp;P 500</b>
P/E (TTM)	25.4	24.8
Forward P/E (Est.)	n/a	18.2

### Largest Institutional Owners

(@12/31/16):

<b>Company</b>	<b>% Owned</b>
T. Rowe Price	12.1%
Gamco Inv	10.1%
Renaissance Tech	8.3%

### Short Interest (as of 2/15/17):

Shares Short/Float	0.6%
--------------------	------

### ODC PRICE HISTORY



### THE BOTTOM LINE

Heavy investments in its high-potential cat-litter business have weighed on operating margins, but John Barr expects the money to prove well spent. At 15x the \$5 in EPS he believes the company can earn within five years the shares would more than double.

Sources: Company reports, other publicly available information

# Stretching Your Dollar

*Even the most-successful business concepts face challenges that cause investors to question whether – or for how long – the good times might be over. Is the concern today over dollar-store giant Dollar General justified?*

While many money managers have likely never shopped in one, the “dollar-store” concept has paid off nicely for investors in the concept’s top practitioner, Dollar General. Targeting towns with less than 20,000 people and core customers with an average household income of \$40,000, the company offers one-quarter of the items – mostly branded consumables – found in a typical grocery store, but attempts to price at parity with Walmart, at a 15% discount to grocery stores and at 30% below pharmacies. Its slogan: “Save time. Save money. Every day!”

The results have been anything but low-end. Dollar General now sports some 13,000 U.S. locations, annual sales in excess of \$21 billion and consistent mid- to high-teens returns on capital. It's proven capable of prospering in good times and bad, with a remarkable 26 years and running of annual same-store-sales growth.

Despite its formidable past, Wall Street punished the company’s stock starting in August of last year after it committed the sin of reporting a 1% increase in monthly same-stores sales vs. a consensus 3% expectation. From a high of nearly \$97 in July, DG stock fell as low as \$67 in October. Was the run of success over?

Madison Investments’ Adam Sweet argues decidedly not. He says the market’s concern about the company rests on three factors – food deflation, financial pressures on its core customer and potentially higher labor costs from new overtime rules – that he ultimately expects to prove cyclical, temporary and/or easily offset.

He also considers the company’s growth potential fully intact. With their appeal of more convenience and lower prices, he expects dollar stores to continue to take share from grocery stores and pharmacies, and that DG will at least maintain its 40% share of the growing small-store discount market. He says that can translate into mid-single-digit company square-footage growth for a decade.

With continued same-store growth, operating leverage enhanced by a zero-based budgeting program and efforts to reduce product “shrink,” and share repurchases, he believes management’s low- to mid-teens earnings growth target is reasonable.

Key competitive threats? Top industry rival Dollar Tree is “highly rational,” he says, and is likely to prosper along with Dollar General rather than at its expense. Wal-mart last year abandoned its directly competing “Express” concept. Amazon seems interested in building a physical

footprint to sell consumables, but it appears to be focused in that effort on high-end consumers and dense urban markets – not at all Dollar General’s milieu.

What are DG shares more reasonably worth? Assuming it trades at what he considers a conservative 18x the \$5.25 in EPS he expects next fiscal year, the stock would trade at \$95, versus today’s \$76.80. “Our goal is to invest in quality companies at reasonable prices and watch them compound in value,” he says. “We think that’s exactly what we’re doing here.” **VII**

## INVESTMENT SNAPSHOT

### Dollar General (NYSE: DG)

**Business:** Discount retailer of consumables and general merchandise through more than 13,000 convenience stores in 43 U.S. states.

### Share Information (@2/27/17):

<b>Price</b>	<b>76.79</b>
52-Week Range	66.50 – 96.88
Dividend Yield	1.3%
Market Cap	\$21.21 billion

### Financials (TTM):

Revenue	\$21.26 billion
Operating Profit Margin	9.4%
Net Profit Margin	5.7%

### Valuation Metrics

(@2/27/17):

	<b>DG</b>	<b>S&amp;P 500</b>
P/E (TTM)	18.0	24.8
Forward P/E (Est.)	16.3	18.2

### Largest Institutional Owners

(@12/31/16):

<b>Company</b>	<b>% Owned</b>
T. Rowe Price	9.5%
Vanguard Group	6.1%
State Street	4.5%

### Short Interest (as of 2/15/17):

Shares Short/Float	2.4%
--------------------	------

### DG PRICE HISTORY



### THE BOTTOM LINE

Adam Sweet believes the issues concerning the market about the company should prove temporary and that its growth potential remains fully intact. At what he considers a conservative 18x his fiscal 2018 earnings estimate, the shares would trade at closer to \$95.

Sources: Company reports, other publicly available information

# Doubling Down on Value Investing

While much has changed in the world of investing since Whitney Tilson and I launched *Value Investor Insight* 12 years ago almost to the day, the goal we articulated for the publication in the Editors' Letter of that first issue [VII, February 23, 2005] hasn't changed at all:

There's no lack of information out there for investors. Sell-side research from less-than-independent brokerage firms. Effusive TV anchors treating minute-to-minute market moves as sport. Magazines touting the "Best 10 Stocks to Buy Now!" Newsletters claiming proprietary "systems" that will "Triple Your Money in Six Months!"

Our belief in launching *Value Investor Insight* is that savvy investors want and deserve more. They deserve a publication that ignores the hype and delivers clear and concise information that helps them make better investment decisions. They deserve a publication that explores the process of great investing, by providing direct access to the best

investment thinking from the most successful investors.

What has changed, of course, is the role and stature of the active investor. Twelve years ago passive, quantitative and smart-beta strategies accounted for nowhere near the estimated 35% of assets under management they do today. Our idol, Warren Buffett, didn't devote nearly as much time in interviews and his annual Berkshire Hathaway letter to extolling the virtues of index funds. The active investor – professional or not – who buys stocks one at a time based on deep fundamental research is back on his or her heels as never before.

I don't bemoan or question any of that. Money managers in aggregate will by definition continue to underperform index funds, and too many of them don't deserve the fees they charge for the product they deliver. What hasn't wavered for me, however, is the belief that a disciplined, consistently applied value-investing strategy – based on fundamental research and on paying a significant discount to a conservative estimate of a company's intrinsic value – can and will win the day as well as the future.

That's why Whitney and I are more confident than ever in the future of VII, which has continued to thrive through ups and downs in the market and as value investing goes temporarily in and out of favor. We're investing in the product and your ability to access it, as you'll see as we roll out enhancements in coming months.

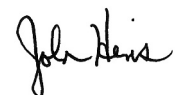
Personally, I have even further doubled down on value investing. In August I added a new job to my current one, as the C.T. Fitzpatrick Professor of Value Investing at the University of Alabama. It's a long story how that came about, but our perhaps immodest goal is to build an academic and experiential program at the university around value investing that is one-of-its-kind at the undergraduate level in the U.S. I will be teaching two classes as part of a formal value-investing specialization, overseeing a highly functioning student group that currently manages a

\$500,000-plus investment portfolio, and will pursue multiple paths to spread the gospel of value investing and build an estimable franchise devoted to it. I welcome any input from VII readers on how to pull it all off!

One new initiative planned for next month is the Capstone Student Investment Conference [CSIC], patterned after many successful investment conferences around the country but created primarily for students. Featured speakers at CSIC, to be held in Tuscaloosa, Alabama on March 25th, include Howard Marks of Oaktree Capital, David Herro of Oakmark Funds and Murray Stahl of Horizon Kinetics. [We are making the conference available as well to UA alumni and select others, including subscribers to VII. If you're interested, please visit CSIC's website [here](#).]

I talk to successful value investors all the time and still believe in Warren Buffett's conclusion from his seminal 1984 *Forbes* article, "The Superinvestors of Graham-and-Doddsville," that it's not by chance that the best investors over long periods of time tend to follow core value-investing principles. The benefactor of the program at the University of Alabama, C.T. Fitzpatrick [VII, September 28, 2012], is just one case in point. After nearly 20 years at Mason Hawkins' Southeastern Asset Management, he started Birmingham-based Vulcan Value Partners in 2007 and through nothing more complicated than superior investment performance has built the firm from the ground up over ten years to having nearly \$13 billion in assets (and prudently closing nearly all strategies to new investors).

I'm honored to help manage C.T.'s investment in a field whose principles not only inform what I consider the best way to invest, but also, I'd humbly submit, inform a well-lived life. VII



**Value Investor Insight™** is published monthly at [www.valueinvestorinsight.com](http://www.valueinvestorinsight.com) (the "Site"), by Value Investor Media, Inc. Co-Founder and Chairman, Whitney Tilson; Co-Founder, President and Editor-in-Chief, John Heins. Annual subscription price: \$349.

©2017 by Value Investor Media, Inc. All rights reserved. All Site content is protected by U.S. and international copyright laws and is the property of VIM and any third-party providers of such content. The U.S. Copyright Act imposes liability of up to \$150,000 for each act of willful infringement of a copyright.

Subscribers may download Site content to their computer and store and print Site materials for their individual use only. Any other reproduction, transmission, display or editing of the Content by any means, mechanical or electronic, without the prior written permission of VIM is strictly prohibited.

**Terms of Use:** Use of this newsletter and its content is governed by the Site Terms of Use described in detail at [www.valueinvestorinsight.com](http://www.valueinvestorinsight.com). See a summary of key terms on the following page of this newsletter.

**Contact Information:** For all customer service, subscription or other inquiries, please visit [www.valueinvestorinsight.com](http://www.valueinvestorinsight.com), or contact us at Value Investor Insight, 1655 N. MacFarland Boulevard., Suite 171, Tuscaloosa, AL 35406; telephone: 205-722-2197.

## General Publication Information and Terms of Use

*Value Investor Insight* and *SuperInvestor Insight* are published at [www.valueinvestorinsight.com](http://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/termsfuse](http://www.valueinvestorinsight.com/misc/termsfuse). 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.