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Selected Session Highlights from Wide-Moat Investing Summit 2015

Note: The following idea snapshots have been provided by the respective instructors or compiled by The Manual of Ideas using information provided by the instructors. The following is provided for educational purposes only and does not constitute a recommendation to buy or sell any security.

Pat Dorsey, Chief Investment Officer, Dorsey Asset Management

SILVERLAKE AXIS (Singapore: SILV) provides software and services for financial institutions. The main product is core banking systems, essentially the operating system for a bank. The company dominates Southeast Asia and has a small presence elsewhere. Local bank regulation leads to regional fragmentation. Very high switching costs create pricing power. Silverlake's founder owns ~65% of shares. The company pays out 100% of FCF and does not hoard cash like U.S. tech companies. The shares trade at a 4% cash return (based on FCF to EV). In Pat's view, Silverlake's market price implies zero value for new customer contracts.

http://www.valueconferences.com/2015/07/moat15-pat-dorsey/

Matthias Riechert, Portfolio Manager, Polleit & Riechert Investment Management

CIMPRESS (Nasdaq: CMPR) (formerly known as Vistaprint) is a disruptive innovator, specializing in print on demand and mass customization. It has a durable scale advantage, will compound for a long period in a large market and it is cheap. The shares trade at 14x price to an estimate of 2015 owners' earnings per share. CEO Robert Keane owns 5.5%; several value investors are invested: Prescott Investors (14%), Brave Warrior (7.7%), Arlington (3.5%). Cimpress produces individual personalized marketing products for small and micro businesses, graphic professionals and home & family. The company produces small, individual orders with the reliability, quality and affordability of mass production. More than 90,000 orders shipped per average day. Focus on lean manufacturing leads to constant improvements in manufacturing efficiency. Knowledge is protected by more than 200 patents. Core barrier-to-entry are economies of scale.

http://www.valueconferences.com/2015/07/moat15-matthias-riechert/

Dave Sather, President, Sather Financial Group

UNION PACIFIC RAILROAD (NYSE: UNP) is the largest railroad in the United States covering 32,000 route-miles throughout 23 states. This network gives it a 30% market share that covers the western 2/3rds of the US including the key west coast ports, Canada and Mexico. UNP operates in a duopoly with Burlington Northern Railroad where both rails benefit from the efficiencies associated with long distances between major hubs. This gives them a distinct advantage over substitute services offered via trucking. The dynamics of the rail industry as a whole have changed in the past 15 years due to more efficient locomotives and double-stacking of cargo. In an era where the broad market is priced to deliver zero return over the next decade, UNP is priced at less than a market multiple (16x earnings) with safety and stability--ie: a true wide moat. Due to short term weakness and pessimism in the transports as a whole, we think the long term investor is presented with a true wide moat business that should double over the next ten years while allowing investors to sleep well at night.

http://www.valueconferences.com/2015/07/moat15-dave-sather/

Stephen Dodson, Portfolio Manager, Bretton Fund

UNION PACIFIC RAILROAD (NYSE: UNP): Major North American rails today have a wide, structural moat. It is essentially impossible to build a new rail network from scratch: The California high-speed rail project is estimated to cost $70 billion for 500 miles of track (with eminent domain). The Amtrak high-speed Boston-to-DC proposal comes with an estimated cost of $151 billion and is estimated to take 25 years to complete for 400 miles of track. Meanwhile, Union Pacific has an enterprise value of less than $100 billion yet owns 31,000 miles of track. Rails are structurally the cheapest way to move large goods, as they use 75% less fuel than trucking for the same load. Rails are the only way to ship large, bulky goods (grain, aggregates). Delivery speed is catching up to that of trucks through new intermodal terminals. Rails are still priced 15-20% cheaper than trucking. UNP competes in a duopolistic market, with the only competitor, BNSF, also committed to annual price increases.

http://www.valueconferences.com/2015/07/moat15-stephen-dodson/

Henrik Andersson, Fund Manager, Didner & Gerge

CARL ZEISS MEDITEC (XETRA: AFX) is a unique business in many ways. What stands out is its sole focus on the ophthalmology (eye) market, which is in a multi-decade growth phase, and the company´s emphasis on reinvestments of cash flows to increase its competitive position over time. Carl Zeiss´s planning horizon stretches out generations, in people and in products. The company is a global leader in microsurgery and ophthalmology; encompassing cataract surgery, age related conditions, neurosurgery, intraocular lenses and eye diagnostics. Some people see the Zeiss-family ownership of 65% as a negative aspect, we view it as a guarantee for keeping the time-arbitrage advantage intact. Currently at an appetizing valuation due to headwinds in its systems business, hedging losses from currency swings and lack of overall margin progression during 2014, the presentation will cover why one need to look beyond these factors and the face multiple of 19x 2016 earnings in order to “see clearly” the opportunities that Carl Zeiss brings. Our normalized level of free cash flow – always calculated with a conservative bent – points toward a 10% implied annual rate of return.

http://www.valueconferences.com/2015/07/moat15-henrik-andersson/

Jeffrey D. Stacey, Chairman & CEO, Stacey Muirhead Capital Management

FAIRFAX FINANCIAL HOLDINGS (TSX:FFH) is a global property & casualty insurance company whose corporate objective is to build shareholder value by achieving a high rate of compound growth in book value per share over the long term. Since the company started in 1985, book value per share has grown at an annual compounded growth rate of 21.1%. The company had net premiums written of $6.3 billion in its most recent fiscal year and achieved a combined ratio of 90.8%. with underwriting profits of $552 million. The company is controlled by V. Prem Watsa and he and his investment team have an excellent long term investment track record managing the insurance company investment portfolios which totaled $26.2 billion at year end. The company has made an offer to purchase Brit PLC and recently formed Fairfax India Holdings Corporation with over $1 billion in capital to invest in India. With Fairfax shares currently trading at approximately 1.25 times book value per share and at only 7 times its 2014 earnings, we believe the share price is undervalued.

http://www.valueconferences.com/2015/07/moat15-jeffrey-stacey/

Christopher Pavese, Chief Investment Officer, Broyhill Asset Management

SEAWORLD (NYSE: SEAS) is in a difficult position today. Disney and Universal are at the top of their game at the same time the company is facing a barrage of negative publicity. But we have seen this movie before. The company faced very similar challenges in 2010 and despite elevated competition, attendance and revenues rebounded strongly from trough levels until recently. Today, the market is valuing the company at a trough multiple on trough earnings. Chris Pavese thinks that's a mistake. He sees plenty of downside protection at the current price, which is approaching levels where it was last taken private. The replacement cost on these assets is estimated at $5 billion. Chris Pavese estimates fair value closer to 50% higher than the current price and 2x over time. And shareholders are getting paid over 4% to wait in the interim.

http://www.valueconferences.com/2015/07/moat15-christopher-pavese/

Todd Sullivan, Managing Partner, Rand Strategic Partners

CALLAWAY GOLF (NYSE: ELY): The golf industry is essentially a duopoly. Taylor-Made (Adidas) and Callaway dominate the industry. With its purchase of Adams Golf, Taylor-Made took control of the industry from 2008-2013. In 2013, Callaway made some moves that reversed that trend and possibly began a fundamental shift in the golf business. (Callaway once dominated the golf industry until a series of missteps in the early 2000s caused it to yield that title to Taylor-Made. Two key problems were the elimination of the popular "Big Bertha" driver and the purchase of Titleist golf balls.) In 2012 Callaway hired Chip Brewer who had just finished the turnaround of Adams Golf (later acquired by Taylor-Made). Brewer is widely thought of as the #1 CEO in the golf industry. Since his hire, ELY sales increased 14% in 2013 and 5% in 2014. Taylor-Made saw sales increase 3% in 2013 and crater 28% in 2014 (Nike golf was flat). Brewer brought back the Big Bertha driver and expanded the brand into irons. In both 2013 and 2014 ELY began capturing significant market share. ELY currently trades at 0.85x revenue (if we include the 2015 TG revenue of 20%*$250 million, that drops to 0.73x).

http://www.valueconferences.com/2015/07/moat15-todd-sullivan/

Robert Robotti, President, Robotti & Company

SUBSEA 7 (Oslo: SUBC) is Robotti & Company's highest conviction investment idea. The firm believes that the shares will more than double within two to three years. Subsea 7 is a global leader in a niche industry with a sustainable competitive advantage. The market underestimates the barriers to entry shared by the 3 Tier-1 competitors. The dislocation of oil prices should accelerate consolidation opportunities and further differentiate the Tier-1 competitors. Backlog dynamics are in place to create a runway for significant growth. Shares of the business today trade at a single-digit multiple of current and normalized earnings. *Note the disclosure and disclaimer contained in the presentation available at the following link.*

http://www.valueconferences.com/2015/07/moat15-robert-robotti/

Robert Deaton, Managing Partner, Fat Pitch Capital

BLACK STONE MINERALS (NYSE: BSM) has mineral and royalty interests on 17 million acres across 41 states. There are over 40,000 producing wells on their properties. The company actively leases minerals to third party operators, with approximately 18% of acreage is leased. Its strategy includes acquiring additional mineral and royalty interests in oil and natural gas properties. Black Stone also participates in low risk drilling opportunities in plays that generate attractive returns. The company maintains a conservative capital structure and manages the business for the long term. The share price implies a yield of ~6%. $1.35 per-share minimum quarterly distribution in 2019 produces a yield to cost of ~8%. The company has large optionality to: improvement in oil and gas prices; greater productivity from existing leased properties; additional leasing (realizing economics on some of the 83% of acreage not leased); and potentially accretive acquisitions.

http://www.valueconferences.com/2015/07/moat15-robert-deaton/

Paul Lountzis, President, Lountzis Asset Management

PREFERRED SECURITY: WFC 6.5% SERIES Q PFD (FRAP): Depositary shares each representing a 1/1,000th Interest in a share of Series Q Non-Cumulative Perpetual Preferred Stock; issuance date: September 15, 2013; initial public offering price: $25.00 per depositary share; NYSE Symbol: WFC.Q; earliest permitted redemption date: September 15, 2023; noncumulative dividends: paid quarterly in arrears on March 15, June 15, September 15, and December 15 of each year, commencing on September 15, 2013, when, as and if declared, at a rate per annum equal to 5.85% from September 15, 2013 to, but excluding, September 15, 2023, and thereafter at a floating rate per annum equal to three-month LIBOR plus a spread of 3.09%; liquidation preference: $25 per depositary share; dividend payment: $1.46252 per share; 60 million shares outstanding; current yield: 5.73%; yield to call: 5.47%.

PREFERRED SECURITY: AXP 5.20 SERIES B PFD (FRAP): Depositary shares each representing a 1/1,000th Interest in a share of Series B Non-Cumulative Perpetual Preferred Stock; issuance date: May 15, 2015; initial public offering price: $1000 per depositary share; NYSE symbol: AXP.B; earliest permitted redemption date: November 15, 2019; noncumulative dividends: paid semi-annually in arrears on May 15, and November 15 of each year, commencing on May 15, 2015, when, as and if declared, at a rate per annum equal to 5.20% from March 15, 2015 to, and including November 15, 2019, and thereafter at a floating rate per annum equal to three-month LIBOR plus a spread of 3.428%,quarterly in arrears on February 15, May 15, August 15, and November 15, beginning on February 15, 2020; liquidation preference: $1,000 per depositary share; dividend payment: $5.20 per share; 750,000 shares outstanding; current yield: 5.239%; yield to call: 5.41%.

http://www.valueconferences.com/2015/07/moat15-paul-lountzis/

Steven Kiel, Chief Investment Officer, Arquitos Capital Management

SWK HOLDINGS (OTC: SWKH) provides funding to health care-related companies in a variety of ways including royalty streams, debt financings, preferreds, and customized offerings. It trades at only 1.1x book despite having massive Net Operating Loss (NOL) carryforwards and despite receiving 13% to 15% returns on the financing they provide. The company recently received a large capital injection. Because of that, the current income statement does not fully reflect the value of the company.

http://www.valueconferences.com/2015/07/moat15-steven-kiel/

Elliot Turner, Managing Director, RGA Investment Advisors

EBAY (Nasdaq: EBAY) is a simple sum-of-the-parts situation, with a catalyst—the upcoming spin (slated for early July). EBAY Marketplaces and PayPal have their own unique moats, and both are deeply misunderstood for a variety of reasons. The implied market values were recently around 7.5x for Marketplaces and 12.5x for PayPal.

Marketplaces is an outstanding, under-appreciated business. It has operating margins north of 30% and throws off over $2b of FCF. The company has faced challenges in the past few years, seeing it's growth rate slow from double digits down to the low to mid-single digits. Meanwhile its shares are priced for negative growth. As for what makes the moat: marketplaces benefits from a tremendous network effect, with a global emphasis where buyers and sellers can meet and reliably trust that they will get the receiving end of their bargain, all the while Marketplaces itself takes no inventory risk. In short, it is a capital lean model with long-term staying power.

PayPal is where most of the investor attention is focused, yet still, people underrate the business. While everyone is worried about Apple Pay as a competitor, they miss that a) Apple Pay is simply a layer and b) PayPal has some extremely strong traits that are strengthening. The company has ~$10.5 billion of float that the market for now ignores, as the company accounts for it both as an asset and liability, thus overstating total assets and confusing investors. No one talks about float at all, though recently the company hinted that OPM will give it a big cost of capital advantage (there is more depth behind this I am excited to speak about). It has similarities to a bank deposit base or an insurance float, though considerable differences from each. On the revenue growth side, there are 3 levers the company can pull: user growth, charges per user, dollars charged per transaction. Each is moving in the right direction, creating a compounding effect, while there is one drag: take rate. There is considerable concern about the take rate in the analyst community, though I believe this is misguided. Despite the take rate atrophy, the company is still growing at 15-19% annualized on the top line, with SG&A leverage. What people really miss is that take rate will only atrophy at its present pace if and only if payment volume growth continues. This is so because the merchants for whom PayPal is giving the big discounts are the big retailers who only recently became a focal point of management. In short: there are several sources of a moat here: network, regulatory & float.

http://www.valueconferences.com/2015/07/moat15-elliot-turner/

Christian Ryther, Portfolio Manager, Curreen Capital

TGS NOPEC (Oslo: TGS) licenses seismic surveys to oil and gas explorers, and is a superior business operating in a cyclical industry, going from strength to strength as its competitors rise and fall with the cycle. TGS Nopec's business model is superior to its large competitors', and TGS has scale advantages over its smaller copy-cat competitors. The company has a clean balance sheet and generates strong returns on capital even at the exploration industry's cyclical nadir. As in the past, this oil downturn is allowing TGS Nopec to profitably gain meaningful market share. At a better than 5:1 upside/downside, the market is currently offering this wide-moat investment at a great price.

http://www.valueconferences.com/2015/07/moat15-christian-ryther/

Chris Karlin, Chief Investment Officer, Aquitania Capital Management

COMMSCOPE (Nasdaq: COMM) is a leading provider of connectivity solutions for wired and wireless networks. On January 28, 2015, COMM announced its intent to acquire the Broadband Network Solutions business of TE Connectivity (TEL) for $3.1b. This transformative deal will increase COMM's revenue base by 50%. From an investment perspective, pro forma CommScope exhibits characteristics of an attractive spin off but with a lower risk profile owing to an experienced management team at COMM which has already proven their ability to successfully manage M&A integration risk, delivering cost synergies in excess of expectations and aggressively deleveraging the business. The pro forma CommScope is an earnings growth story powered by cost reduction and deleveraging which should benefit from the secular tailwind of rising demand for broadband capacity.

http://www.valueconferences.com/2015/07/moat15-chris-karlin/

Charles Hoeveler, Managing Partner, Norwood Capital Partners

LAWSON PRODUCTS (NYSE: LAWS) is a North American distributor of consumable products to the maintenance, repair and operations (MRO) market for industrial, commercial and government customers. The overall MRO market is ~$200 billion, but LAWS participates in a $20-$25 billion “vendor managed inventory” niche. LAWS serves over 70,000 customers and distributes ~300,000 products including fasteners, tools, aftermarket auto supplies, etc. The approach is high-touch and service-oriented where LAWS sales people monitor, order, unpack and refill products for their customers, resulting in 60%+ gross margins. LAWS management is outstanding. CEO Mike DeCata took the helm in 2012 after turning around Chefs Warehouse, another distribution business. He and CFO Ron Knutson routinely make sales calls and meet daily with senior management to review key performance indicators at a branch and SKU level. As new salespeople become more productive and incremental sales leverage the fixed cost base, Charles thinks LAWS can double EBITDA margins over the next few years. Additionally, LAWS benefits from a low cash-tax rate and is capital light, so cash flow per share can compound at over 30% over the next few years. Valuation is an undemanding 9.5x 2016E FCF.

http://www.valueconferences.com/2015/07/moat15-charles-hoeveler/

Arvind Mallik and Jonathon Fite, Managing Partners, KMF Investments

CLOUD PEAK ENERGY (NYSE: CLD) is one of the largest coal producers in the United States. As a “pure-play” focused on thermal coal in the prolific Powder River Basin in Wyoming and Montana, CLD is the lowest-cost producer of thermal coal. In addition to this low-cost producer “moat”, CLD also possesses the strongest, most liquid balance sheet in its industry. With cash in excess of 60% of its market cap, no near-term debt maturities, and a large, untapped credit line, CLD is positioned to manage through the current, severe downturn in the coal market. Priced at 0.3x book value and 3x earnings, CLD is a wide-moat company in deep value territory. As CLD’s earnings recover to conservative (not peak) levels, shares could rise from $5 to its book value of $18. Potential catalysts could include a recovery in US natural gas prices, a weakening of the US dollar to help penetrate the large Asian export market, and astute capital allocation including share buybacks or acquisitions of distressed assets.

http://www.valueconferences.com/2015/07/moat15-mallik-fite/

David Barr, Chief Investment Officer, PenderFund Capital Management

ESPIAL (Toronto: ESP) is a leading provider of user experience software solutions to TV service providers and smart TV consumer electronic manufacturers. The company has deep intellectual property in an industry undergoing massive disruption. FY14 revenue was $20 million, an increase of 59% year over year. Espial is an emerging compounder with low balance sheet and valuation risk. The shares trade at 2016E EV/revenue of 1.8x, EV/EBITDA of 6.4x, and P/E of 15x.

http://www.valueconferences.com/2015/07/moat15-barr-narhi/

Felix Narhi, Portfolio Manager, PenderFund Capital Management

SYNTEL (Nasdaq: SYNT) is a Top 10 India-centric IT outsourcer. The company has a superb track record of compounding wealth, a solid and defensible business model in a growing industry, and talented management. The shares trade at an attractive valuation (~17x earnings vs. a median of ~25x for India-centric IT peers).

http://www.valueconferences.com/2015/07/moat15-barr-narhi/

Ben Claremon, Research Analyst, Cove Street Capital

CARROLS RESTAURANT GROUP (Nasdaq: TAST) is the largest Burger King franchisee in the U.S. The company has a unique relationship with Burger King and the management team at investment firm 3G Capital. There are 2 Burger King employees on Carrols' Board, Burger King corporation owns 21% of the stock, and Carrols has a right of first refusal option that provides the company a unique opportunity to buy any Burger King franchise within a specified territory. The company has the goal of owning 1000 stores—as compared to 663 as of the end of Q1 2015—through a disciplined process in which Carrols pays a low cash flow multiple and then improves the acquires stores' margins by implementing best practices. While the stock may look a little levered currently and may appear to not generate much free cash flow, when required remodels are complete and the recent acquisitions start to contribute, Carrols will generate substantial free cash flow and EBITDA. From a $10.50 price today ($365 million market cap), we think the stock is worth in the mid-teens but that number could be much higher depending on how fast the company can get to 1000 stores.

http://www.valueconferences.com/2015/07/moat15-ben-claremon/

Eric Boroian, Portfolio Manager, Focus Asset Managers

ELIS (Paris: ELIS) is the European leader in business support services and facility management. It operates mainly in Flat Linen, Workwear, and Hygiene/Well-being appliances. The company employs a simple model: it owns linens and uniforms, and rents them while also providing maintenance services. Elis requires a more substantial asset base than do most service companies (processing, distribution etc). This results in much higher operating margins (mid teens) than most service businesses. The business benefits from an attractive industry structure (strong barriers to entry, moderate buyer power, low supplier power). The company holds a dominant position in key markets (France, Switzerland, Brazil), very high renewal rate (94%). Elis was a private equity-led IPO in early 2015 with very little coverage. Eric views it as one of France's widest moat businesses, yet it has started trading at discount to comparable peers. Management has the ability to deleverage/refinance, thus improving the EPS profile. It also has the ability to use the balance sheet to further consolidate markets and enter new markets. The company has multiple long term sales growth and margin drivers (new markets, new products etc). The shares trade at a P/E of 16x and EV/EBIT of 13x.

http://www.valueconferences.com/2015/07/moat15-eric-boroian/

Adrian Saville, Chief Investment Officer, Cannon Asset Managers

MASTER DRILLING (South Africa: MDI) is a global leader in the raise boring market, operating in Southern Africa, Latin America, Europe, and the U.S. The company has proprietary technology and is owner-managed under Danie Pretorius. It has grown EBITDA at a CAGR of 20% over five years. It earns ROE of ~16% while trading at a P/E ratio of 12x.

ZAMBEEF (London: ZAM) is one of Zambia's largest integrated agri-businesses, founded in 1994. The company has West African operations in Nigeria and Ghana and employs 5,860 people. The equity has a market value of only $28 million. The company has $280 million in revenue; it reported a loss in 2014, due to soya bean prices and African swine fever. Zambeef has sold its Zamanita subsidiary to Cargill for $26 million. The shares trade at a forward P/E of 16x.

http://www.valueconferences.com/2015/07/moat15-adrian-saville/

Koon Boon Kee, Managing Editor, The Moat Report Asia

HU LANE ASSOCIATE (Taiwan: 6279) is Asia ex-Japan's largest maker of terminal connectors in automobiles and motorcycles, a mission-critical part dubbed the "nervous system" of cars whose electronic content is rising. While it is considered a Tier-2 auto parts supplier, Hu Lane directly participates in the design process of Tier-1 suppliers for most of its automotive terminal products to be "designed-in" and, as a result, enjoys sole supplier rights during the first 2-3 years following a new model launch. In addition, HL has changed its sales model in China from a distributor model to direct selling, forging Tier-1 relationships with the major Chinese automakers. It accounts for over 50% of automotive terminal connectors used by emerging electric vehicle maker BYD (1211 HK).

http://www.valueconferences.com/2015/07/moat15-kb-kee/