Fully online investment conference, hosted by ValueConferences, June 28-29, 2016

Selected Session Highlights from Wide-Moat Investing Summit 2016

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.

HENRIK ANDERSSON, FUND MANAGER, DIDNER & GERGE

MANDOM CORPORATION (Tokyo: 4917) is one of Japan's most successful branded consumer goods companies, with a particularly strong franchise in its Gatsby brand. It manufactures and markets a variety of cosmetics products for men and women, with a particular focus on hair care and facial. The company derives about 60% of sales from the Japanese markets, 20% from Indonesia and about 20% from other-Asia. Whereas its market position in Indonesia is extremely strong thanks to a patient roll-out of a full-scale distribution apparatus since its entry in the early 1970s, Mandom's market share in the other Asian countries is more nascent. We believe the company follow the basic "playbook" in how to run a long-term oriented consumer brands company; constant brand innovation, continuous reinvestment in order to build brand recognition, focus on distribution and feet-on-the street to serve beauty salons and drug stores, and not being too aggressive on yearly price-hikes. Its market shares ranges from 70% (Indonesian hair care) to <10% (women cosmetics in other-Asia). We are of the strong opinion that Mandom really do invest for the future, without just paying lip-service. The owner-operator aspect is also vitally important and goes hand-in-hand with the previous point. The current CEO Motonobu Nishimura and his family owns >10% of the company, and he was instrumental in building up Mandom's Indonesian position. Mandom has grown sales by 5% and free cash flow by 13% in the last five years, despite heavy investments and currency headwinds from Indonesia. Despite some "Japanese" tendencies of inefficiencies (not the least the net cash position of 20% of market cap), we believe 5% organic sales growth accompanied by >10% FCF CAGR is a conservative base to start from.

http://www.valueconferences.com/2016/06/moat16-henrik-andersson/

JEFFREY STACEY, FOUNDING PARTNER, STACEY MUIRHEAD CAPITAL MANAGEMENT

POLARIS INDUSTRIES (NYSE: PII) is a manufacturer and marketer of on and off road vehicles including all-terrain vehicles(ATV's), snowmobiles and motorcycles. The company also supplies associated parts, garments and accessories. Polaris has strong market share positions in all of its product categories and it generates industry leading returns on assets and invested capital. It has increased its dividend per share for 21 consecutive years while maintaining a conservative dividend payout ratio. Polaris has also retired approximately one third of its shares outstanding over the last 15 years through on ongoing share repurchase plan and it has recently increased its share repurchase authorization significantly. At current prices, the shares are attractively valued at 13.1 times earnings. The company should be able to continue growing its top and bottom line at double digit rates over the long term through continued organic growth and bolt on acquisitions.

http://www.valueconferences.com/2016/06/moat16-jeffrey-stacey/

TODD SULLIVAN, GENERAL PARTNER, RAND STRATEGIC PARTNERS

KINDER MORGAN (NYSE: KMI) is the largest transporter of natural gas in the US. 38% of all natural gas transported in the U.S. flows through KMI's pipelines. It operates under long term "take or pay" contracts that largely insulate it from natural gas price fluctuations. Rather, the demand for natural gas is what drives results. The EIA estimates U.S. demand for natural gas will grow 20% between now and 2020. For the first time natural gas has become the primary input for electric production in the U.S., replacing coal. This trend looks highly unlikely to ebb anytime soon. Additionally, the U.S. has begun to export liquefied natural gas, further increasing demand. KMI is expanding oil pipeline facilities and organically funding its current capex and dividend plans. It currently trades at <50% of its 2015 valuation despite seeing no deterioration in results over that time. Rather, the stock price has acted as if the company is drilling for oil and gas versus simply transporting it.

http://www.valueconferences.com/2016/06/moat16-todd-sullivan/

ELLIOT TURNER, MANAGING DIRECTOR, RGA INVESTMENT ADVISORS

ENVESTNET CORP. (NYSE: ENV) strives to be investment advisors' chosen platform for technology-based solutions, combining three distinct business lines into one holistic platform. This company is well positioned for the transitions in client preferences and the regulatory regime in the wake of the financial crisis. An industry-wide fiduciary standard would be a major tailwind. Envestnet has two longer-standing businesses: its AUM/A business and its Tamarac software platform. More recently, the company acquired a third: Yodlee, for data aggregation. The AUM/A business is the largest segment, generating 80% of revenue prior to the Yodlee acquisition; now ~60%. We like this business because it is sticky, the allocation is diverse and stylistically agnostic, and the long-term growth profile approximates the 60/40 portfolio plus the household savings rate. As such, when it does reach a terminal growth state, its terminal growth should be faster than GDP, a rarity. Tamarac is a practice management and reporting platform for advisors that includes reporting, billing, rebalancing and other practical needs. Retention rates are between 97-98%, as advisors build their entire workflow around the platform, the learning curve is steep and the data accumulates exponentially over time. Their primary competitor was recently bought out for 18x EV/estimated EBITDA, with the rich multiple reflecting the high-margin nature of the business and the extended pipeline of growth. When Envestnet bought Yodlee, their 3rd line of business, the stock collapsed and created the present opportunity. Yodlee has built the premier platform for financial account aggregation, and Envestnet sees an opportunity to cross-sell these service and data to advisors. The stock dropped at the time for three main reasons: investor skepticism about a new line of business; Envestnet's downgrading of its long-term revenue growth target from 20+% to the high teens; and merger arb trades as this was a partly stock-based transaction. In effect, the entire cost of Yodlee, plus some, was subtracted from Envestnet's valuation, leaving the stock far too cheap for such a sticky business with a long growth runway.

http://www.valueconferences.com/2016/06/moat16-elliot-turner/

DAVE SATHER, PRESIDENT, SATHER FINANCIAL GROUP

AXALTA COATING SYSTEMS (NYSE: AXTA), formerly known as DuPont Performance Coatings, may not seem like a typical "wide moat" business. After all, it makes paint. However, in observing Berkshire Hathaway repeatedly move into the Specialty Chemical arena, it got Dave Sather's attention. Dave determined that paint is an oligopolistic market. There are about four major players. Axalta, which has been in existence for 150 years, commands a 19% to 25% market share depending upon the sector. Furthermore, now that Axalta is an independent company, management is highly motivated to quickly expand while incorporated necessary efficiencies. The Brexit situation has made Axalta a more compelling opportunity as 65% of their business comes outside of the U.S. Dave's base case reflects a 20% return by 2017, and his best case reflects a 70% return by 2017.

http://www.valueconferences.com/2016/06/moat16-dave-sather/

SAHM ADRANGI, JORDON GIANCOLI, AND ISAAC AHN, KERRISDALE CAPITAL MANAGEMENT

S&P GLOBAL (NYSE: SPGI) owns a portfolio of high-quality businesses: S&P Ratings (#1 ratings agency), S&P Indices (3 of 5 largest ETFs tied to S&P), Capital IQ / SNL (market-leading provider of data and analytics for finance professionals), and Platts (#1 benchmark price reporting agency for commodities industry). S&P has an exceptionally strong business model, with leading S&P brand commanding high barriers to entry; issuers typically use at least two ratings agencies (and nearly always S&P + Moody's). The highly recurring revenue base helps to offset the perceived cyclicality of transaction levels (56% of ratings revenue non-transactional; 90% or more of revenue in Capital IQ, SNL and Platts from subscriptions). SPGI comps (MCO, MSCI, FactSet, OPIS) trade at premium valuations; SPGI trades at ~13x EV/EBIT, implying 33% upside.

http://www.valueconferences.com/2016/06/moat16-adrangi-giancoli/

DAVE BARR AND FELIX NARHI, PORTFOLIO MANAGERS, PENDERFUND CAPITAL MANAGEMENT

ONEX (TSX: OCX), founded in 1984, is one of North America's oldest and most successful private equity investment firms. Its investment platforms are focused on private equity (PE) and credit securities (CLOs). Despite its enviable performance in private equity (28% gross IRR since 1984) and the long-term outperformance of its stock, Onex remains an "under the radar" story in the US and is often misunderstood even by Canadian investors. Onex provides investors an opportunity to own a stake in a diversified group of market-leading private companies and credit securities alongside an aligned investment team with one of the best long-term track records in the industry. Onex manages its capital at no cost to stock holders because the fees generated from its fast growing third party capital exceed the cost of its corporate overhead. In addition, Onex shares 40% of the carried interest it generates from its third party investors with OCX shareholders. Taken together, OCX's long-term potential for compounding wealth is compelling. The math of Onex's per share NAV growth model, targeted at +15% annualized pace, should be achievable. The stock trades at a modest 10% premium to "hard" net asset value. Dave and Felix view this akin to buying a basket of well-managed, market-leading companies trading at price-to-tangible book value of 1.1x, with ample internal reinvestment opportunities at +15% ROIC. Onex's track record suggests that such a "portfolio" has market-beating potential.

QHR TECHNOLOGIES (TSXV: QHR) is a leading Electronic Medical Records (EMR) provider in Canada. QHR's Accuro product is the largest single EMR platform in Canada with 7,700 physicians on the platform (17% market share). QHR generated $29 million in revenue for the last twelve months (87% recurring) and has a 98% customer retention rate. QHR's competitive advantages are reinforced through a positive feedback loop: the more users are added to the platform, the better the platform becomes and the more users it attracts. QHR is expected to grow revenue both organically and from acquisitions. Organic revenue growth comes from acquiring new doctors (1,000 doctors per year), upselling Medeo (visual care module) and additional new products. As a single platform, incremental revenue drives strong incremental free cash flow margins. Dave and Felix like QHR for its leadership position in Canada, strong base of recurring revenue, improving margins, multiple growth levers, and reasonable valuation for a compounding business.

http://www.valueconferences.com/2016/06/moat16-barr-narhi/

Robert Deaton, Managing Partner, Fat Pitch Capital

TRIBUNE MEDIA (Nasdaq: TRCO) is a diversified media company whose primary businesses are local TV stations and the cable network WGN America. The company also owns a variety of non-core assets, such as a substantial real estate portfolio, investments in assets, including TV Food Network and CareerBuilder, wireless spectrum, and the digital data provider Gracenote. The company has a concentrated ownership base, with Oaktree co-founder Bruce Karsh serving as chairman of the board. Under CEO Peter Liguori, the company has shown an inclination and willingness to shed non-core assets and return capital to shareholders. Robert Deaton sees potential for the company to narrow its focus to the core businesses. Given values that should be attainable for the assets to be sold, investors could get the core businesses for a very attractive implied entry price.

http://www.valueconferences.com/2016/06/moat16-robert-deaton/

Michael Melby, Portfolio Manager, Gate City Capital Management

PICO HOLDINGS (Nasdaq: PICO) owns water rights in the southwestern United States and participates in the U.S. homebuilding market through its 56.9% economic interest in UCP, Inc. (NYSE: UCP). PICO owns significant water assets in key metropolitan areas such as Reno, Phoenix, and Las Vegas which should increase in value due to population growth, short water supplies, and ongoing drought conditions. The company's consolidation of UCP for accounting reasons distorts the balance sheet, as all debt attributed to PICO is actually held at UCP. Treating the UCP ownership stake as a marketable security reveals PICO as an asset-rich company with a clean balance sheet and an adjusted enterprise value of under $130 million. This represents a sharp discount to the book value of PICO's water assets and is likely a sizeable discount to the market value. Additionally, UCP could provide additional upside with the stock currently trading under 0.7x book value. Our sum-of-the-parts analysis suggests the company's portfolio of assets could be worth over $500 million or over

$20/share. We believe investors have exited the stock due the company's history of unwise capital allocation decisions and poor corporate governance. Recent shareholder activism has resulted in five new board members and a new strategic direction focused on monetizing assets and returning proceeds to shareholders – greatly reducing the risk of more capital allocation blunders. Overall, PICO provides investors with the opportunity to invest directly in water assets at a sharp discount to both book and market value.

http://www.valueconferences.com/2016/06/moat16-michael-melby/

Stephen Dodson, Portfolio Manager, Bretton Fund

HD SUPPLY (Nasdaq: HDS) is one of the largest industrial goods distributors in the US. It distributes maintenance, repair, and operations (MRO) goods for facilities, water infrastructure, and construction. A former roll-up, HD Supply is achieving scale and seeing significant operating leverage in all three of its businesses. Its growing materially faster than its markets, gaining share organically at will, in a large, fragmented market. As a route-based delivery business, its facilities maintenance business has a competitive advantage against new entrants, as well as attractive contribution margins for additional sales. Combined with lower interest payments, HD Supply's earnings are expected to grow significantly in the coming years, while the business trades for less than 11x 2017 earnings.

http://www.valueconferences.com/2016/06/moat16-stephen-dodson/

Charles Hoeveler, Managing Partner, Norwood Capital Partners

CARROLS RESTAURANT GROUP (Nasdaq: TAST) is a franchisee operator of Burger Kings in the US. Carrols operates ~720 restaurants, with plans to double its store base over the next four years. The company's unique Right of First Refusal for Burger King store purchases and operational excellence allow for 30%+ returns on capital through the growth phase. The company's moat is derived from its ability to both efficiently operate its stores (20%+ four-wall margins in its most mature stores), and the rebound in the Burger King brand driven by 3G Capital. Charles forecasts a mid-to-high 20s share three years from today as Carrols executes its high-return growth plan.

http://www.valueconferences.com/2016/06/moat16-charles-hoeveler/

Scott Miller, Founder, Greenhaven Road Capital

INTERACTIVE BROKERS (Nasdaq: IBKR) offers an opportunity to invest alongside an owner-operator who has built the largest online brokerage firm in the U.S. The company emphasizes automation and removing cost and friction from the business. Because of the software Interactive Brokers has built, the firm is able to offer the best service at the lowest price and yet have the highest margin. The company passes much of the savings on to customers to drive a growth rate that is higher than that of peers at a fraction of the cost. There is a long runway for growth and secular tailwinds as well. The shares are not cheap by traditional metrics. However, the company is overcapitalized and under-earning. A great product, a strong team, a growing market, with a fortress like balance sheet.

http://www.valueconferences.com/2016/06/moat16-scott-miller/

Christopher Karlin, Chief Investment Officer, Aquitania Capital Management

MARCUS & MILLICHAP (NYSE: MMI) is a national commercial real estate brokerage firm focused on properties in the $1-10 million price range. In addition to brokerage services, MMI also provides financing and research services. MMI has a leading market share in a highly fragmented market and benefits from its national footprint and longstanding customer relationships developed over its 45-year history. The equity has sold off significantly since late 2015 on macro concerns regarding rising interest rates and the real estate cycle. An unlevered company sitting on a pile of currently low-yielding cash that has proven its ability to remain profitable at cycle bottoms and has a 45-year history of navigating through a cyclical industry doesn't seem as scary as the consensus opinion would indicate. Chris believes there is upside in his base case of 28-57% to the recent quote and limited risk of permanent capital impairment, providing investors with a highly asymmetric reward-to-risk opportunity in a high moat business.

http://www.valueconferences.com/2016/06/moat16-chris-karlin/

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