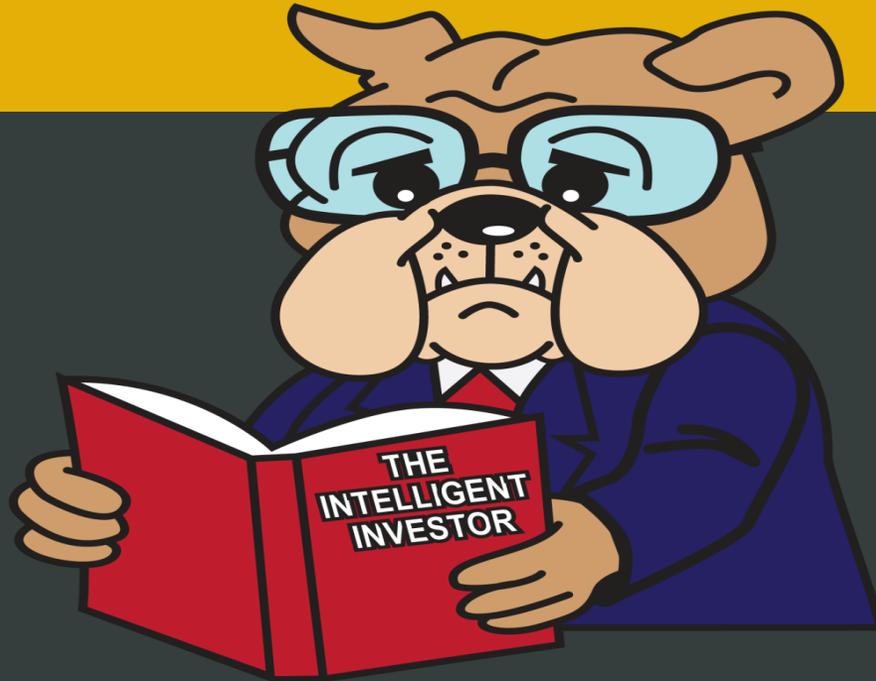


# BULLDOG INVESTMENT COMPANY



“Risk comes from  
not knowing what  
you’re doing”  
- Warren Buffett

**LOGIC • DISCIPLINE • VALUES**

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# What is Bulldog Investment Company?

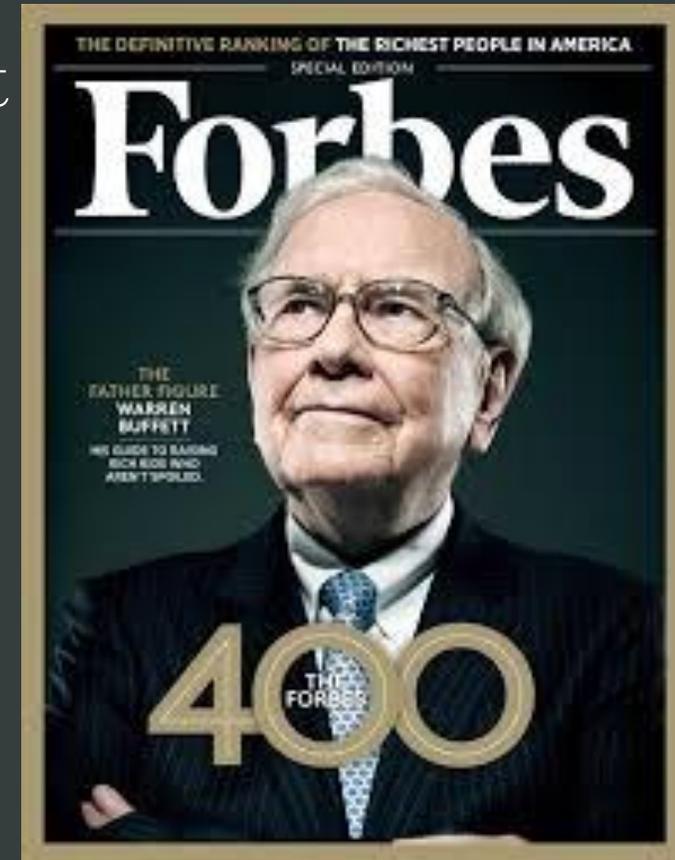


- Student Managed Portfolio
- Founded in 2009 as on-campus internship for:
  - *Critical Thinking*
  - *Financial Statement Analysis*
  - *Presentation Skills*
- NOT about stock trading
- Modeled after Warren Buffett's criteria

# Why Warren Buffett?



- Demonstrates success in business and ethical behavior are NOT mutually exclusive
- Compounded Berkshire Hathaway's market value 20% annually for 50 years
- Very *logical* & teachable approach
- Useful for all students upon graduation



# What Does Buffett Look For?



1. Can you **understand** the business?
2. Is the business **predictable**?
3. Is the business **consistent**?
4. Is there a **sustained competitive advantage**?
5. Is there a **valuation gap**?

# The Interpretation of Financial Statements



## WARREN BUFFETT

AND THE  
INTERPRETATION OF  
FINANCIAL STATEMENTS

*The Search for the Company with a Durable Competitive Advantage*



MARY BUFFETT & DAVID CLARK

Bestselling Authors of  
BUFFETTOLOGY

and

THE TAO OF WARREN BUFFETT

# The Numbers Tell A Story



- Analyze and interpret financial statements
- Remove qualitative bias



- Differentiate Good vs. Bad Companies

# Benefits to Students



- Internships lead to permanent jobs
- Presentation & critical thinking skills
- Scholarships
- Influential speakers on campus each semester
- Adds credibility, depth, and experience to resumes

# Competitive Structure



## Two teams

- Teams evaluate opportunities based upon Buffett's criteria
- Best idea presented to Board of Directors each month

## Winning presentation demonstrates:

- Command of financials
- Understanding of the business and industry
- Evaluation of competitive advantages
- Compelling value

# Real Money



- Winning presentations funded with \$5,000
- Not a simulation
  - *Unlike most undergraduate programs, we invest real cash*
- Mistakes cost money
- Wise decisions make money

# Investment Strategies



1. Long-Term Compounders
2. Options Contracts
3. Cash-out Arbitrage
4. Misunderstood companies

# Long-Term Compounders



Microsoft

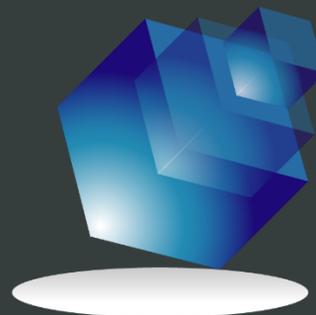


Walmart 



ORACLE®

Nestlé



BERKSHIRE  
HATHAWAY

# Long-Term Compounders: PepsiCo



- Food & Beverage Company
- Owns 22 “billion dollar” brands
- ✓ **Understandable**

# Long-Term Compounders: PepsiCo



- Sales have grown 716% since 1984
- Profits have grown 1,720% since 1984
- ✓ **Predictable & Consistent**

# Long-Term Compounders: PepsiCo



- Companies like Pepsi have “economic moats”
- There are four types of moats:
  - **Intangible Assets**
  - **Switching Costs**
  - **The Network Effect**
  - **Cost Advantages**

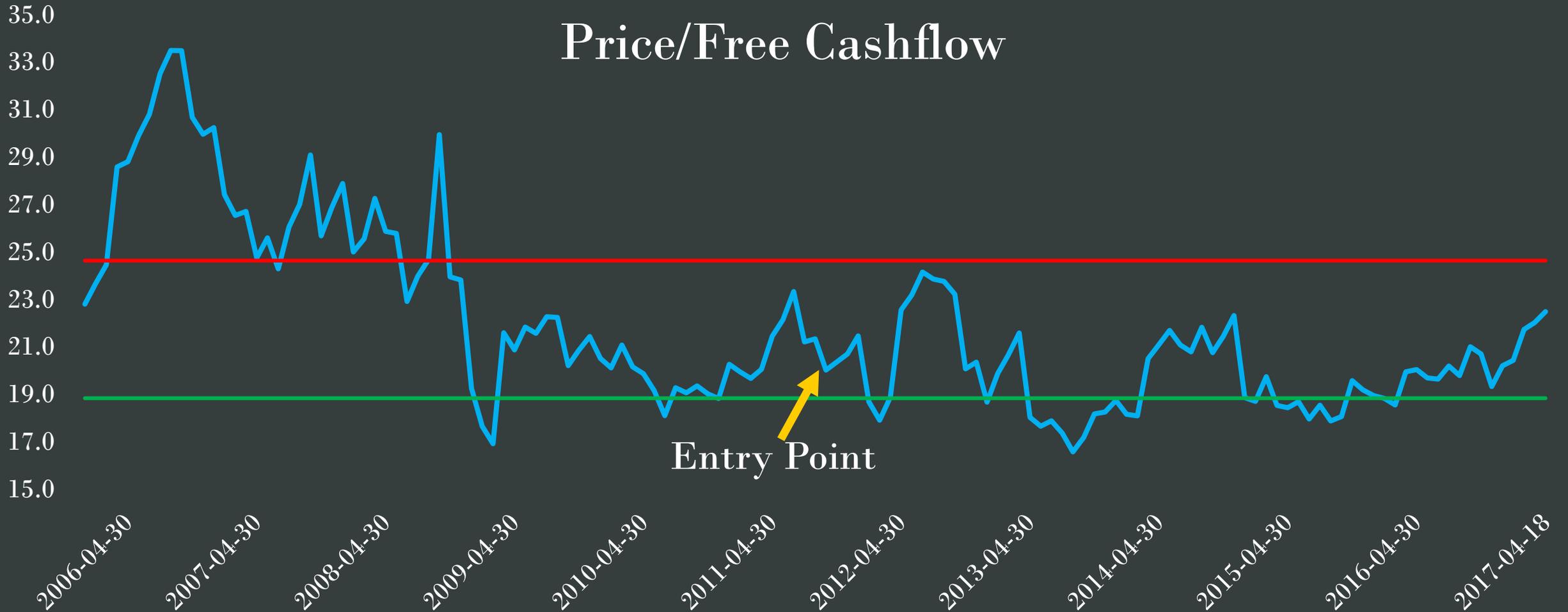


✓ **Sustained Competitive Advantage**

# Long-Term Compounders: PepsiCo



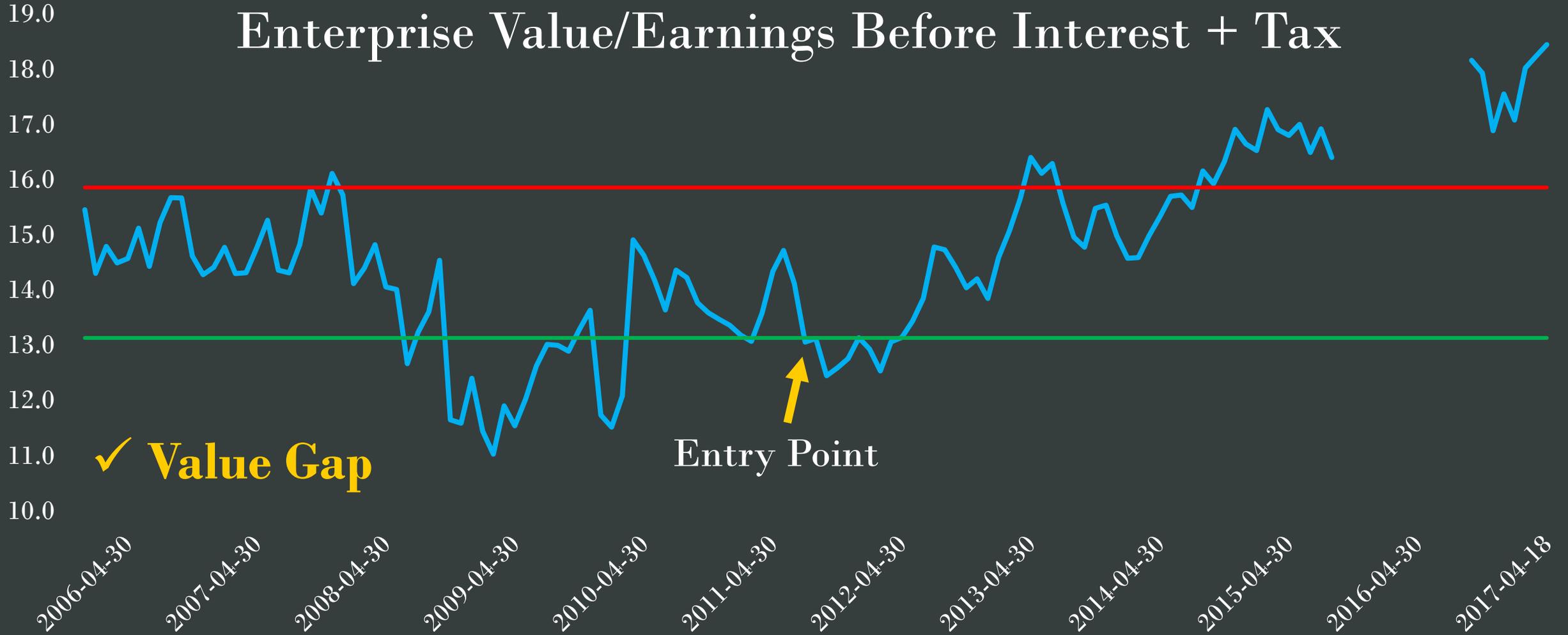
# Long-Term Compounders: PepsiCo



# Long-Term Compounding: PepsiCo



Enterprise Value/Earnings Before Interest + Tax

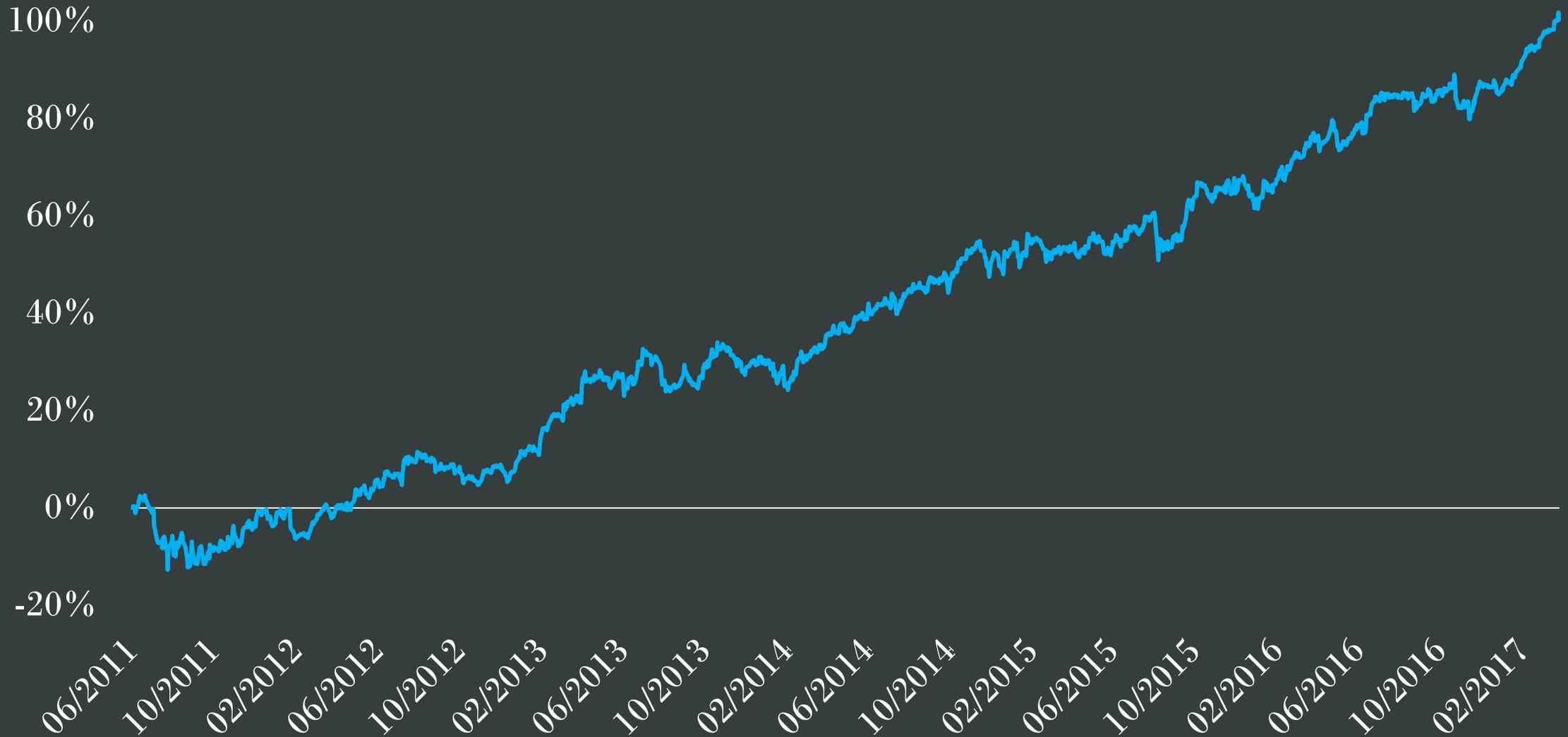


# Long-Term Compounders



- ✓ **Understandable Business**
- ✓ **Predictable**
- ✓ **Consistent**
- ✓ **Sustained Competitive Advantage**
- ✓ **Value Gap**

# Long-Term Compounders PepsiCo Rate of Return



# Option Contracts



- Allow us to strategically identify entry & exit points
- Increases cash flow to the portfolio
- Total option gains since inception of \$9,654 (or about 1% to 2% of additional return per year)

# Cash-out Arbitrage Requirements:



When one company announces a buyout of another

1. All cash deal
2. Friendly buyout
3. Few regulatory hurdles
4. Secured financing
5. Significant market price discount to cash out price

# Cash-out Arbitrage: Lexmark



- April 19, 2016 – Apex Technology & PAG Asia Capital announces acquisition of Lexmark
- Cash out price: \$40.49/share
- Entry price at \$36.50/share on August 1, 2016
- November 29, 2016 – Deal Completed

# Cash-out Arbitrage: Lexmark Stock Price



# Cash-out Arbitrage



<b>Arbitrage Opportunity</b>	<b>Gross Return</b>	<b># of Days Held</b>	<b>Annualized Rate</b>
<b>Bally Technologies</b>	<b>7.0%</b>	<b>86</b>	<b>29.6%</b>
<b>Blackboard</b>	<b>6.5%</b>	<b>49</b>	<b>49.1%</b>
<b>Bowne</b>	<b>5.5%</b>	<b>68</b>	<b>29.6%</b>
<b>Cleco</b>	<b>9.5%</b>	<b>130</b>	<b>26.4%</b>
<b>Cooper Tire</b>	<b>12.5%</b>	<b>221</b>	<b>20.8%</b>
<b>Lexmark</b>	<b>11.9%</b>	<b>121</b>	<b>35.9%</b>
<b>Motorola Mobility</b>	<b>4.6%</b>	<b>105</b>	<b>16.0%</b>

# Cash-out Arbitrage



<b>Arbitrage Opportunity</b>	<b>Gross Return</b>	<b># of Days Held</b>	<b>Annualized Rate</b>
<b>New Frontier Media</b>	<b>3.2%</b>	<b>42</b>	<b>27.7%</b>
<b>Orbitz</b>	<b>4.8%</b>	<b>111</b>	<b>15.7%</b>
<b>Planar</b>	<b>14.1%</b>	<b>60</b>	<b>84.6%</b>
<b>RDA Microelectronics</b>	<b>15.4%</b>	<b>57</b>	<b>98.6%</b>
<b>Wesco</b>	<b>-0.6%</b>	<b>50</b>	<b>-4.2%</b>
<b>Zhongpin</b>	<b>4.0%</b>	<b>38</b>	<b>37.9%</b>

# Misunderstood: International Business Machines



- Decreasing revenues
- Countless negative headlines
- Restructuring business segments

**BREAKING NEWS**

**IS WARREN BUFFETT WRONG?**

**21:33**

**IBM REVENUES ARE DOWN 17 STRAIGHT QUARTERS**

# The Reality: International Business Machines



- Revenues have declined due to sale of P/C, server and chip businesses.
- Business's cannot survive without IBM
- Largest patent portfolio in the world
- Transitioning to Cloud
- Unlimited possibilities with Watson

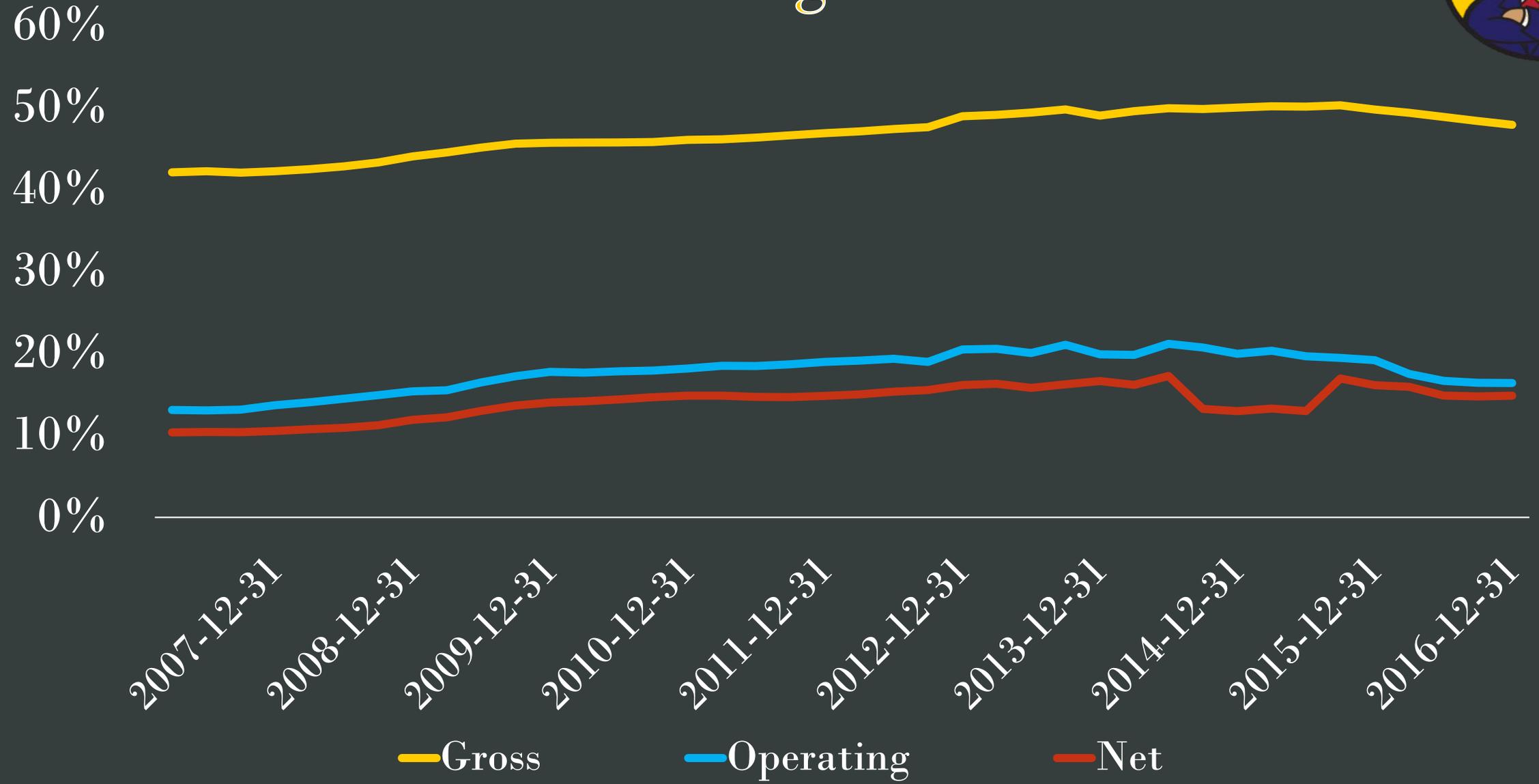
# The Reality: International Business Machines



- ROE increased from 15% to 74%
- ROA improved from 3.8% to 10.2%
- ROIC improved from 11% to 26%
- Operating Margins improved from 8% to 16%
- Net Profit Margins improved from 4.4% to 14.8%
- IBM is a smaller, more focused and more profitable business.

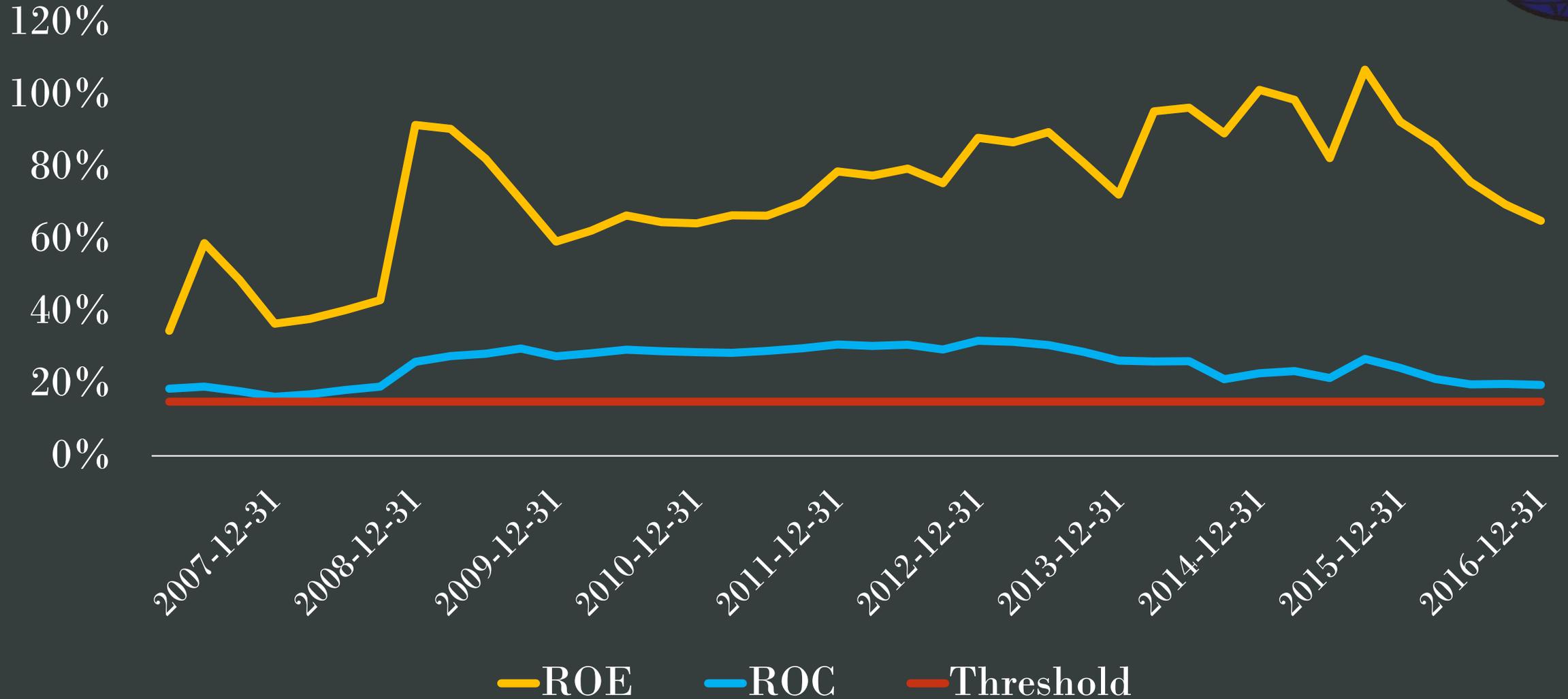


# Margins





# Returns



# The Reality: International Business Machines



<b>Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>Unrealized Gain</b>
2/3/2014	\$174.13	\$170.58	-2.04%
11/4/2014	\$163.26	\$170.58	4.48%
7/6/2015	\$164.91	\$170.58	3.44%
11/9/2015	\$135.22	\$170.58	26.15%

# Our Sell Criteria:



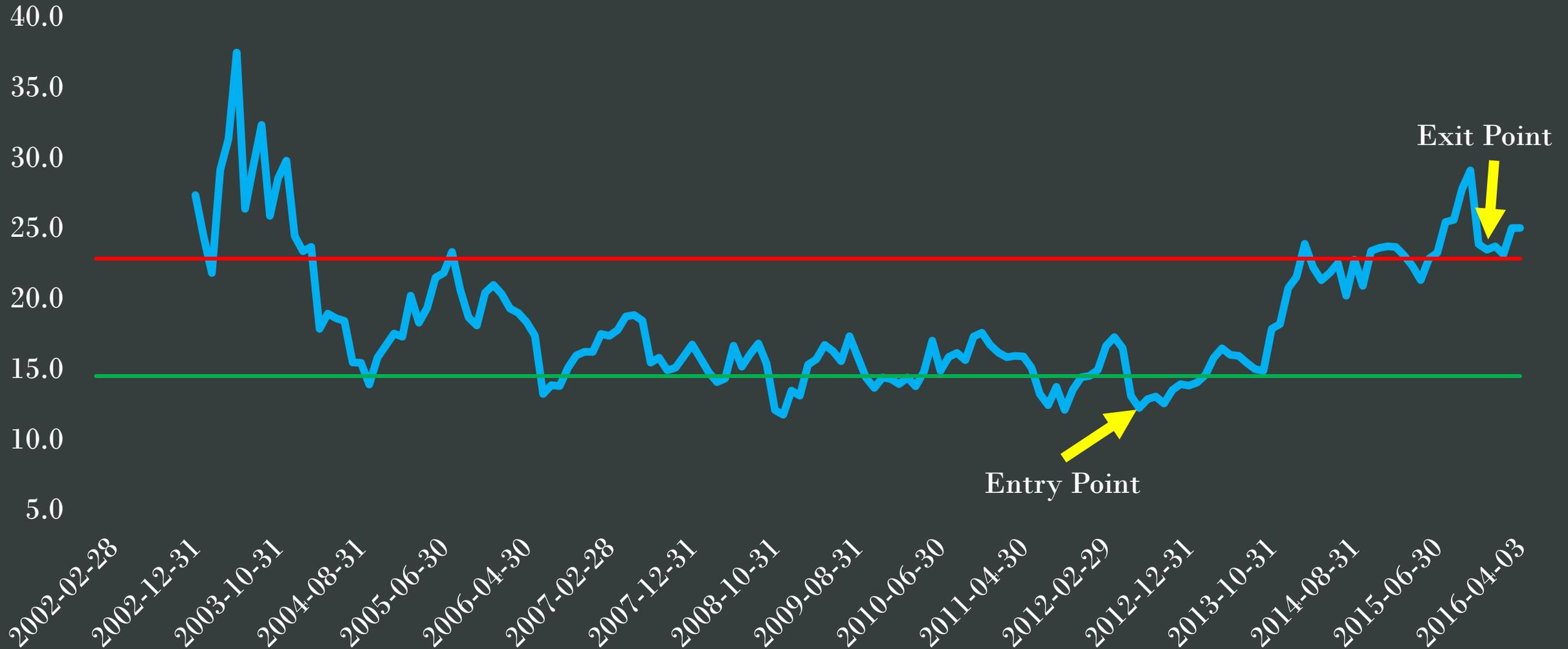
Issues that merit further research:

- Historically high valuations
- Dramatic increases in debt
- Decreasing profitability margins

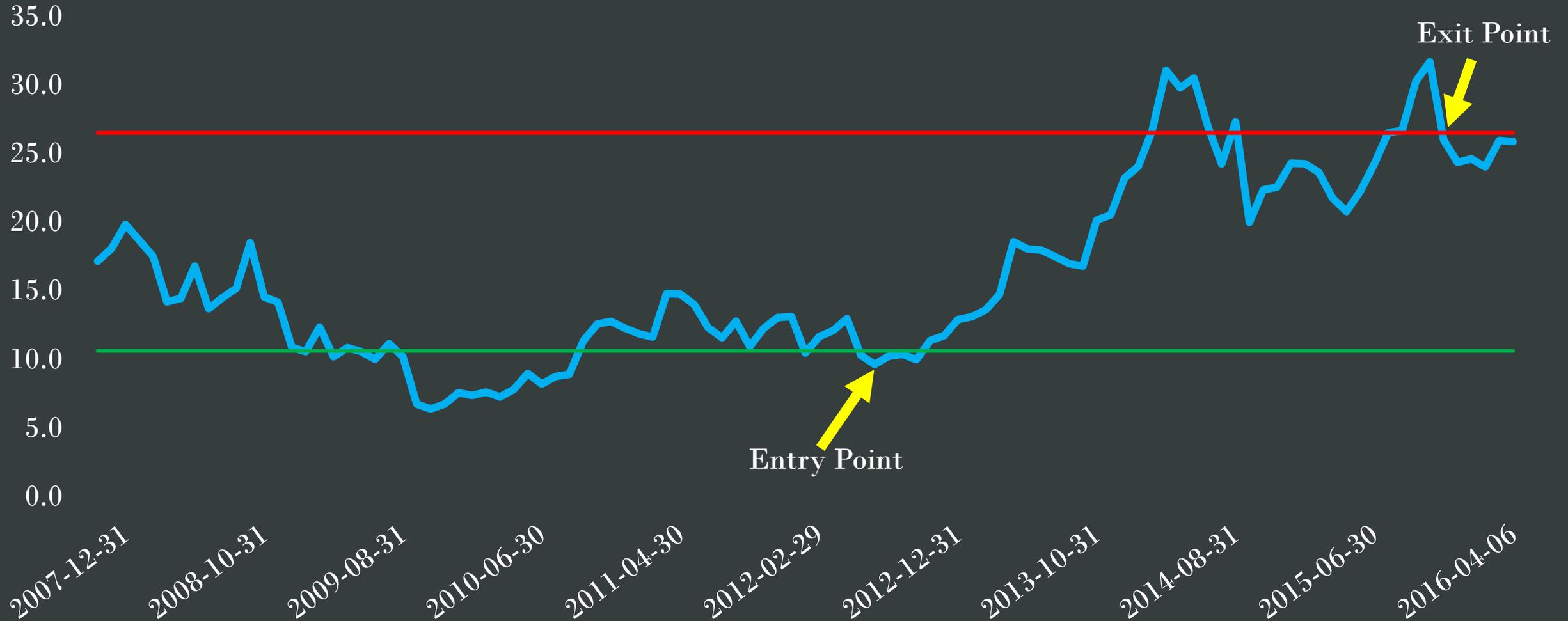
Always Remember:

- Any company can become overvalued
- Do NOT fall in love with an investment

# Advanced Auto Parts (AAP) Price/Earnings

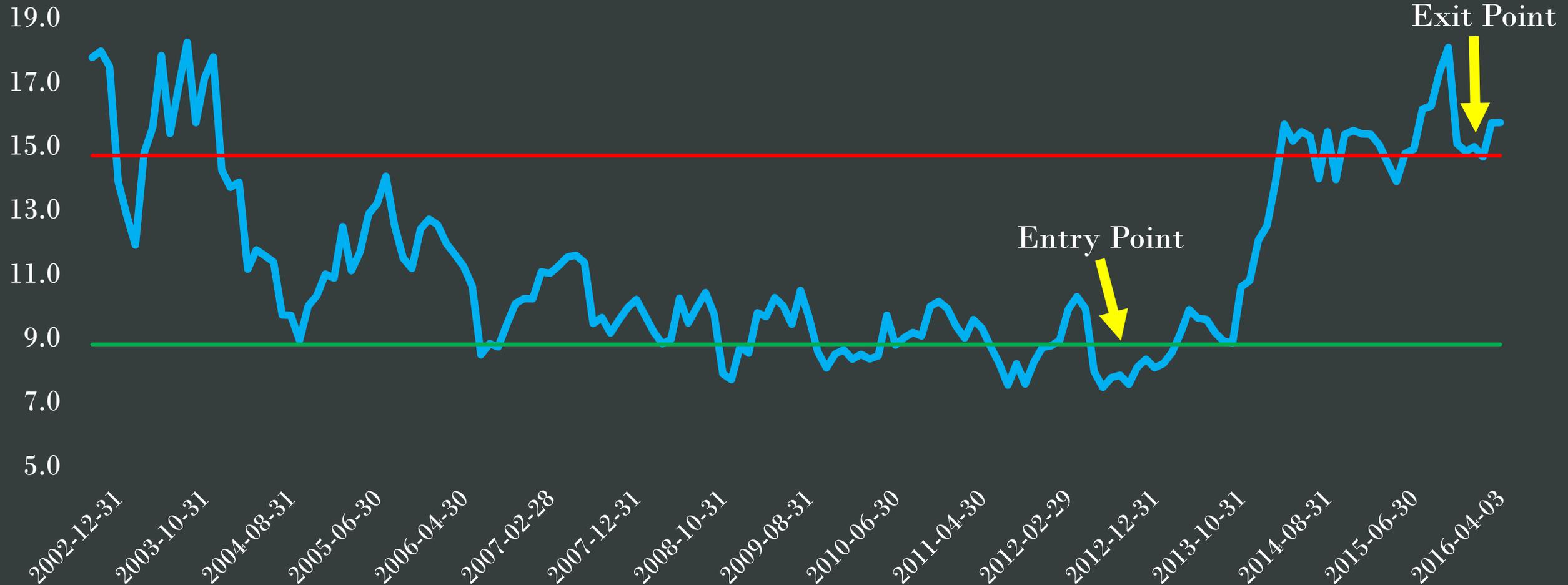


# Advanced Auto Parts (AAP) Price/Free Cashflow



# Advanced Auto Parts (AAP)

## Enterprise Value/Earnings Before Interest & Tax

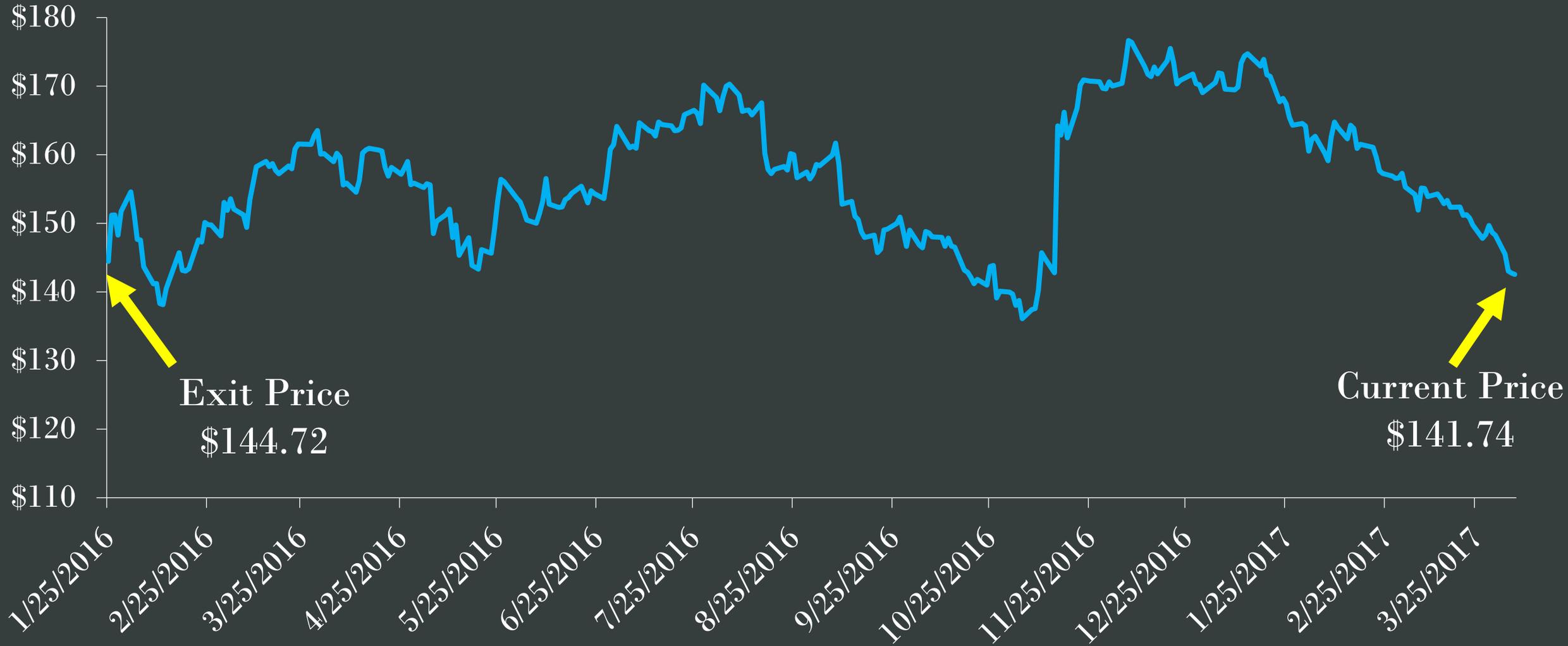


# Advanced Auto Parts (AAP) Performance



- Entered in October 9, 2012 at \$69.93/share
- Sold on January 25, 2016 at \$144.72/share
- Rate of Return: 107%

# AAP Stock Performance Since Sell



# Bulldog Investment Company

## Portfolio Performance



- Year To Date: +3.61%
- Portfolio Value: \$315,335

# Bulldog Investment Company

## Portfolio Performance



- 52 Week Returns: +13.67%
- 3 Year Returns: +9.99% per year or +33% cumulatively
- 5 Year Returns: +13.5% per year or +88% cumulatively

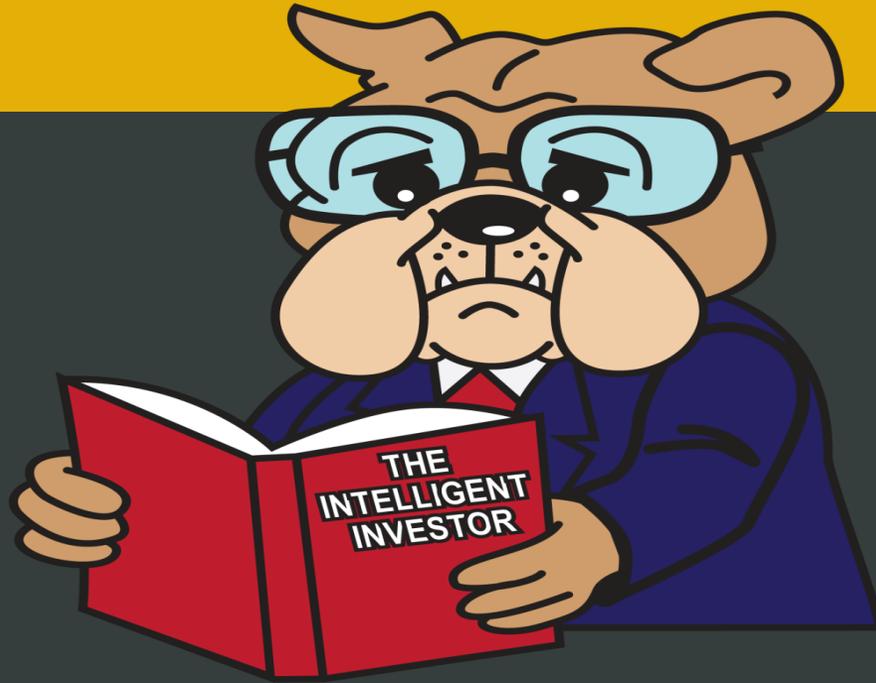
# Bulldog Investment Company

## Portfolio Performance



- Portfolio Value: \$315,335
- Year To Date: +3.61%
- 52 Week: +13.67%
- 3 Year Returns: +10% per year or +33% cumulatively
- 5 Year Returns: +14% per year or +89% cumulatively
- Since Inception: +14.37% per year or +173% cumulatively
- Total Gains Since Inception: \$136,791

# BULLDOG INVESTMENT COMPANY



“Price Is What You Pay.  
Value Is What You Get”  
- Warren Buffett

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