

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

What is Bulldog Investment Company?



- Open To All Majors
- Requires No Prerequisites or Knowledge of Investing
- Must Be Willing To Work Hard

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* approach as well as teachable



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
- Compelling value

Real Money



- Winning presentations funded with \$5,000 to \$20,000
- Not a simulation
 - *Unlike most undergraduate programs, we invest real cash*
- Mistakes costs money
- Wise decisions make money

Investment Strategies



Long-Term Compounders

Options Contracts

Cash-out Arbitrage

Long-Term Compounders



DOLLAR GENERAL

Omnicom



ORACLE®

Nestlé



BERKSHIRE
HATHAWAY

Long-Term Compounders: PepsiCo



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

Long-Term Compounders: PepsiCo



- Sales have grown 725% since 1984
- Profits have grown 1,902% since 1984
- ✓ **Predictable & Consistent**

Long-Term Compounders: PepsiCo

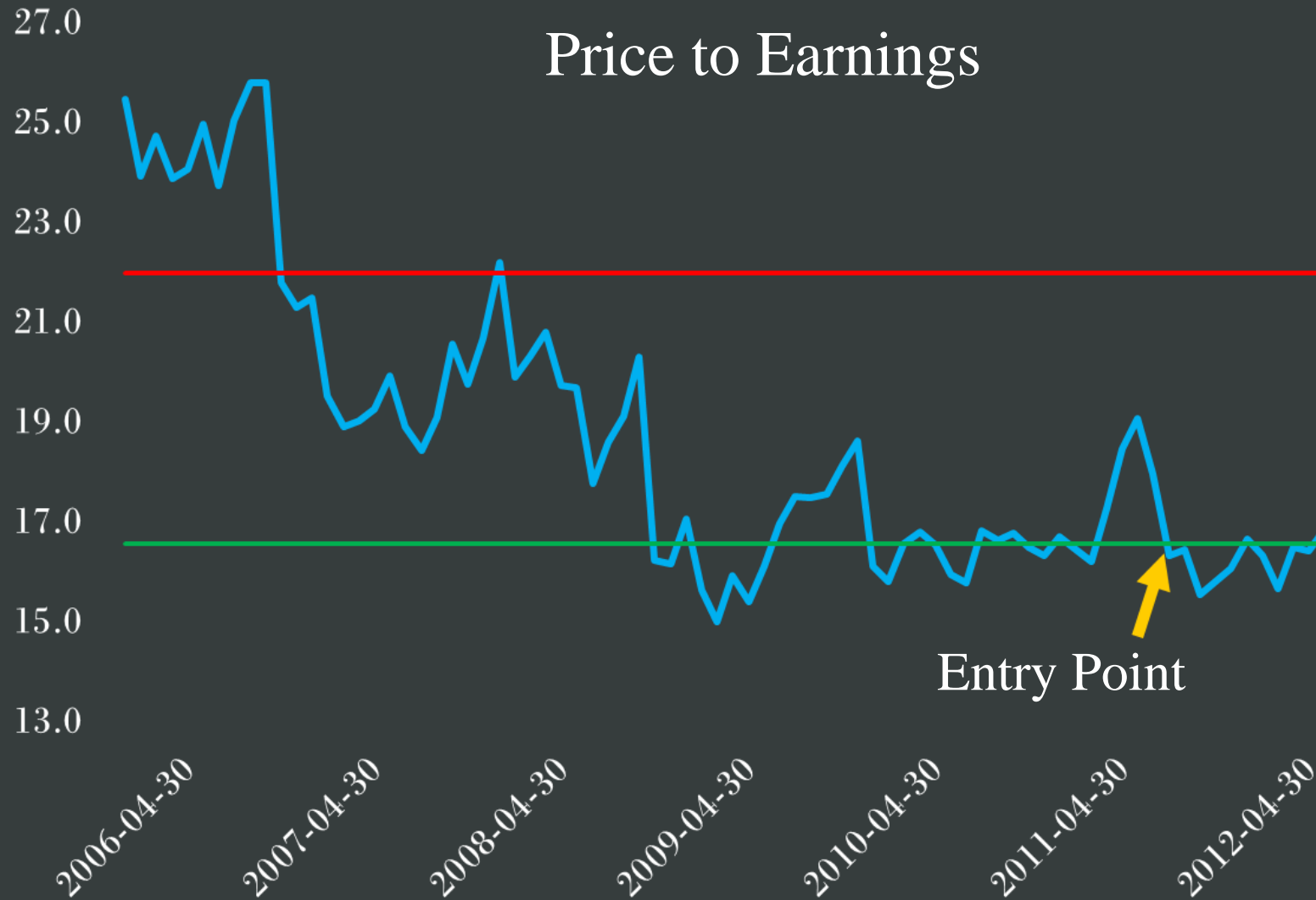


- Companies like Pepsi have “economic moats”
- There are four types of moats:
 - Intangible Assets
 - Switching Costs
 - The Network Effect
 - Cost Advantages

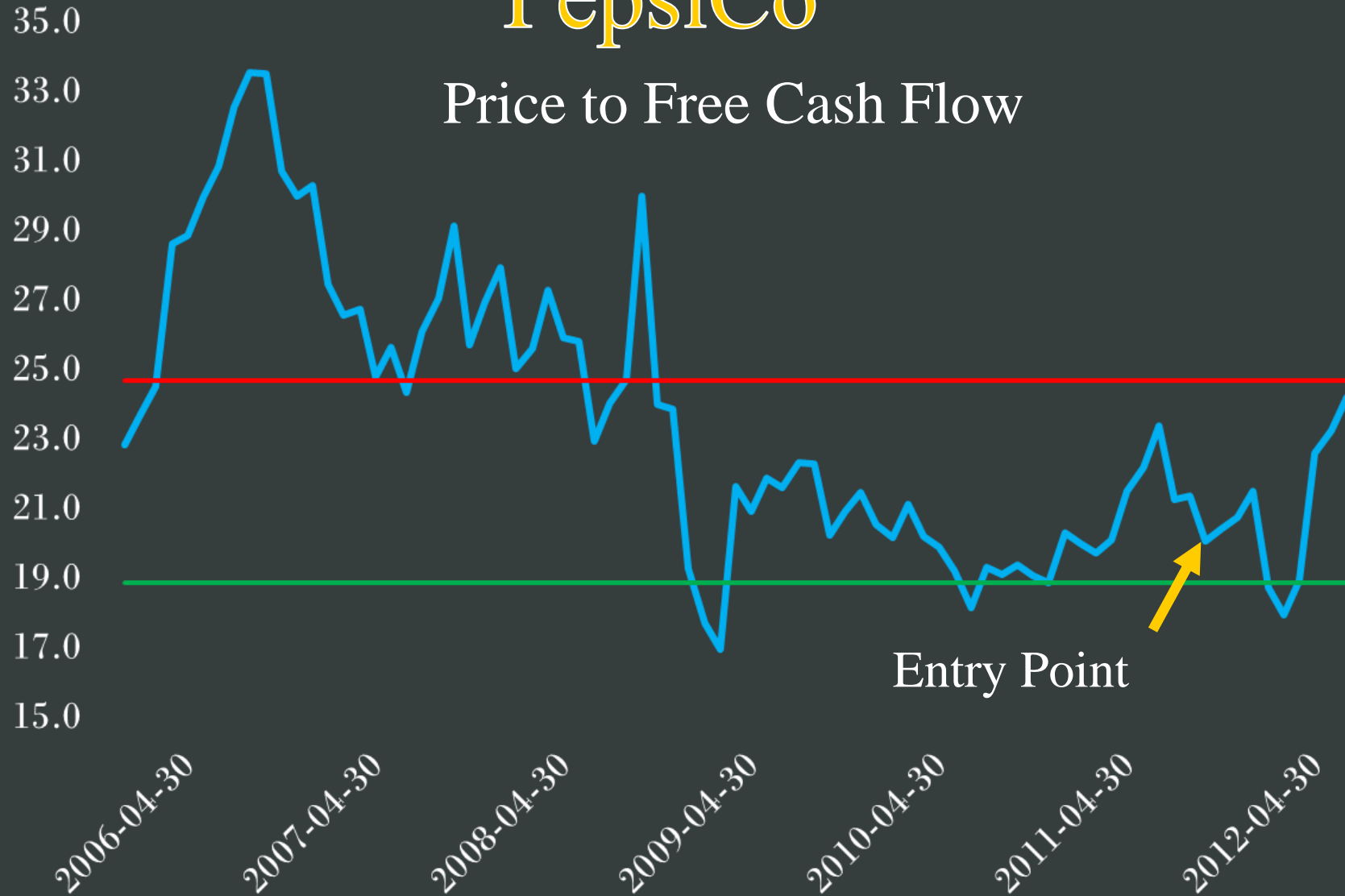


✓ Sustained Competitive Advantage

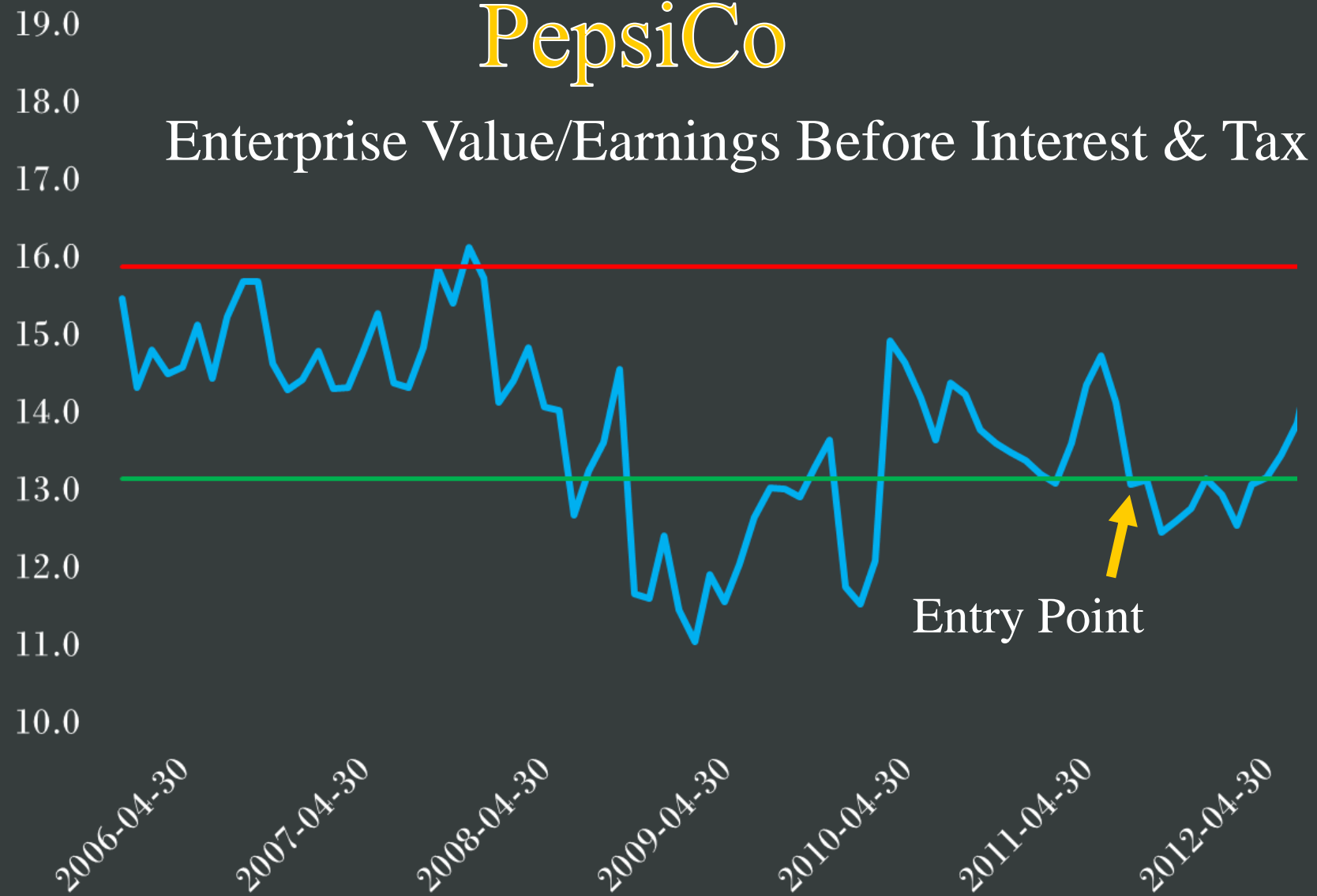
Long-Term Compounders: PepsiCo



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Long-Term Compounders: PepsiCo



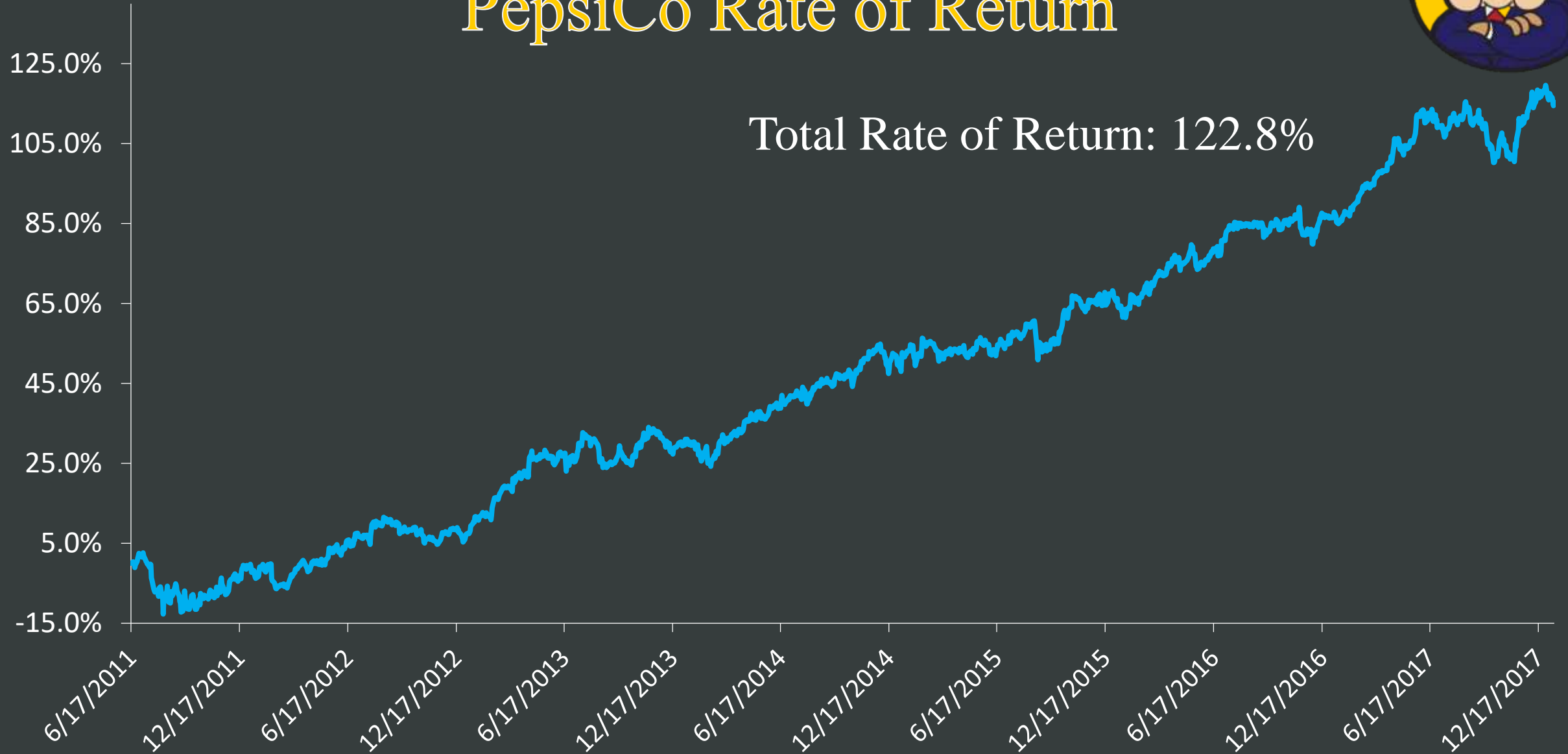
✓ Value Gap

Long-Term Compounders



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

Long-Term Compounders PepsiCo Rate of Return



Option Contracts



Strategically targets entry & exit points

Increases cash flow to the portfolio

Total option gains since inception of \$13,017.51 (or about 1% to 2% of additional return per year)

Put contracts are cashed secured and call options are covered

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: Fortress Investment Group



- February 15, 2017 – SoftBank Group announces acquisition of Fortress Investment Group
- Cash out price: \$8.08/share
- Entered on 11/2 and 11/15 at an average price of \$7.83
- December 27, 2017 – Deal Completed

Cash-out Arbitrage: Fortress Investment Group



Weighted Average Number of days held: 49

Gross Return: 3.16%

Annualized Return: 24.8%

Cash-out Arbitrage



Arbitrage Opportunity	Gross Return	# of Days Held	Annualized Rate
Bally Technologies	7.0%	86	29.6%
Blackboard	6.5%	49	49.1%
Bowne	5.5%	68	29.6%
Cleco	9.5%	130	26.4%
Cooper Tire	12.5%	221	20.8%
Fortress Investment Group	3.16%	49	24.8%
Lexmark	11.9%	121	35.9%
Motorola Mobility	4.6%	105	16.0%

Cash-out Arbitrage



Arbitrage Opportunity	Gross Return	# of Days Held	Annualized Rate
New Frontier Media	3.2%	42	27.7%
NXP Semiconductors	21.8%	382	20.8%
Orbitz	4.8	111	15.7%
Planar	14.1%	60	84.6%
RDA Microelectronics	15.4%	57	98.6%
TerraForm Global	3.58%	153	9.93%
Wesco	-0.6%	50	-4.2%
Zhongpin	4.0%	38	37.9%

Total Average Return of Cash-out Arbitrage



Total Arbitrage Transactions: 16

Average Annualized Return: 32.7%

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) Performance



- Acquired CARQUEST on January 3rd, 2014

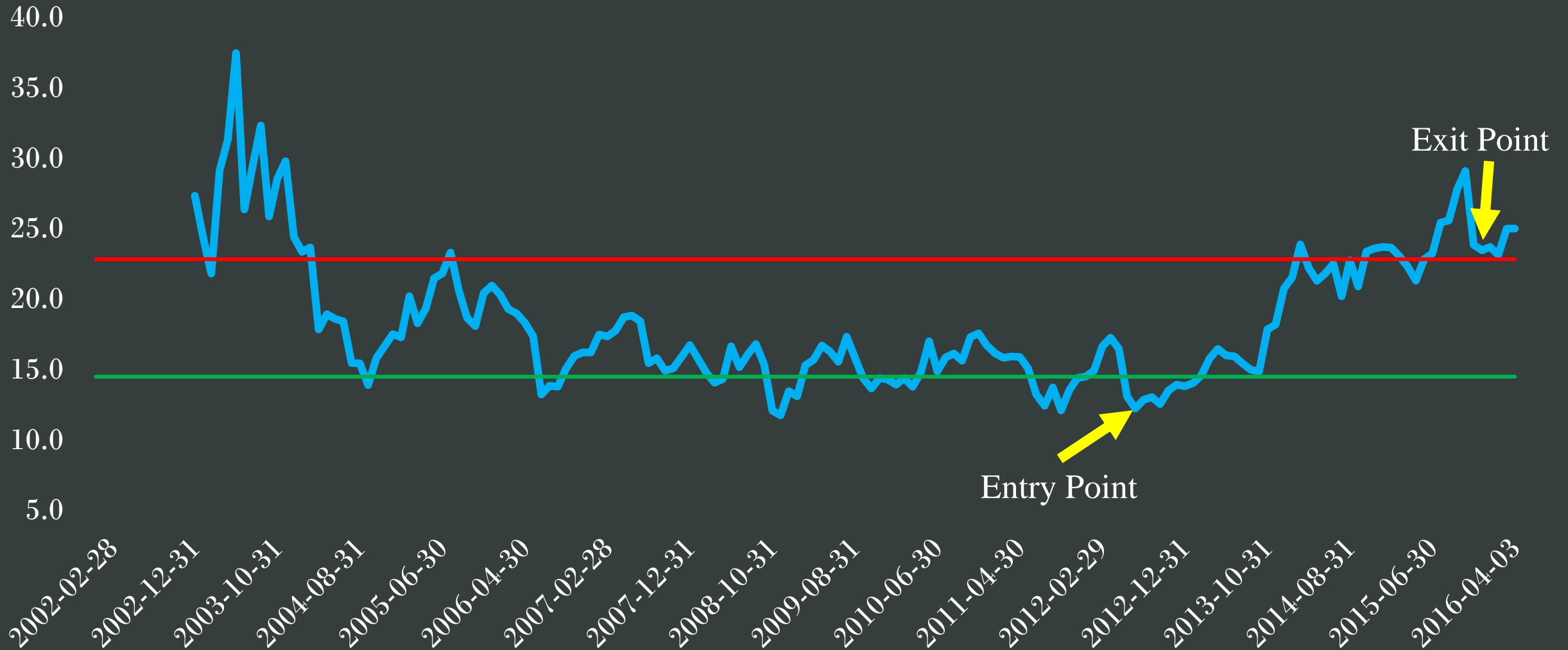
Advanced Auto Parts (AAP) Performance



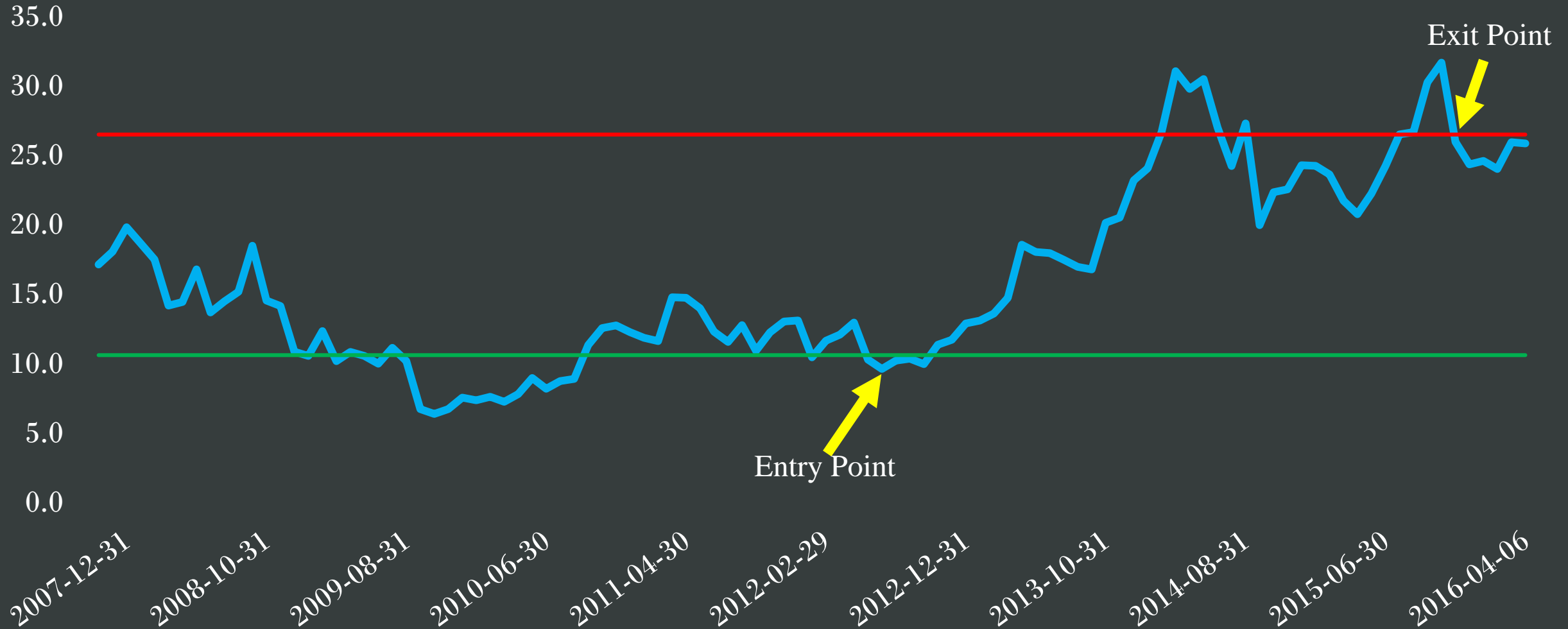
Over the next 2 years:

- Long-term Debt nearly tripled
- Return on Equity fell from 38% to 17%
- Operating and Net Profit Margins were declining
- Inventory Turnover, Asset Turnover, Cash Conversion cycle were worsening
- Replaced Long-Time CEO

Advanced Auto Parts (AAP) Price/Earnings

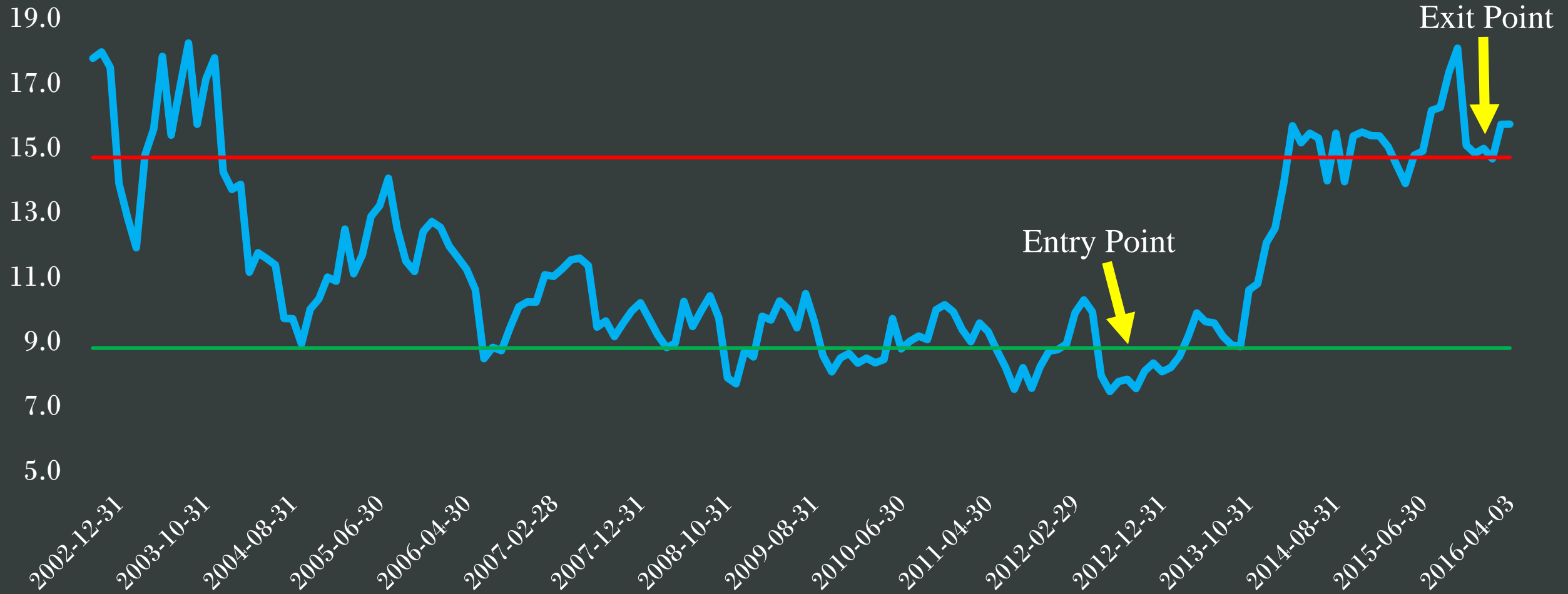


Advanced Auto Parts (AAP) Price/Free Cashflow



Advanced Auto Parts (AAP)

Enterprise Value/Earnings Before Interest & Tax

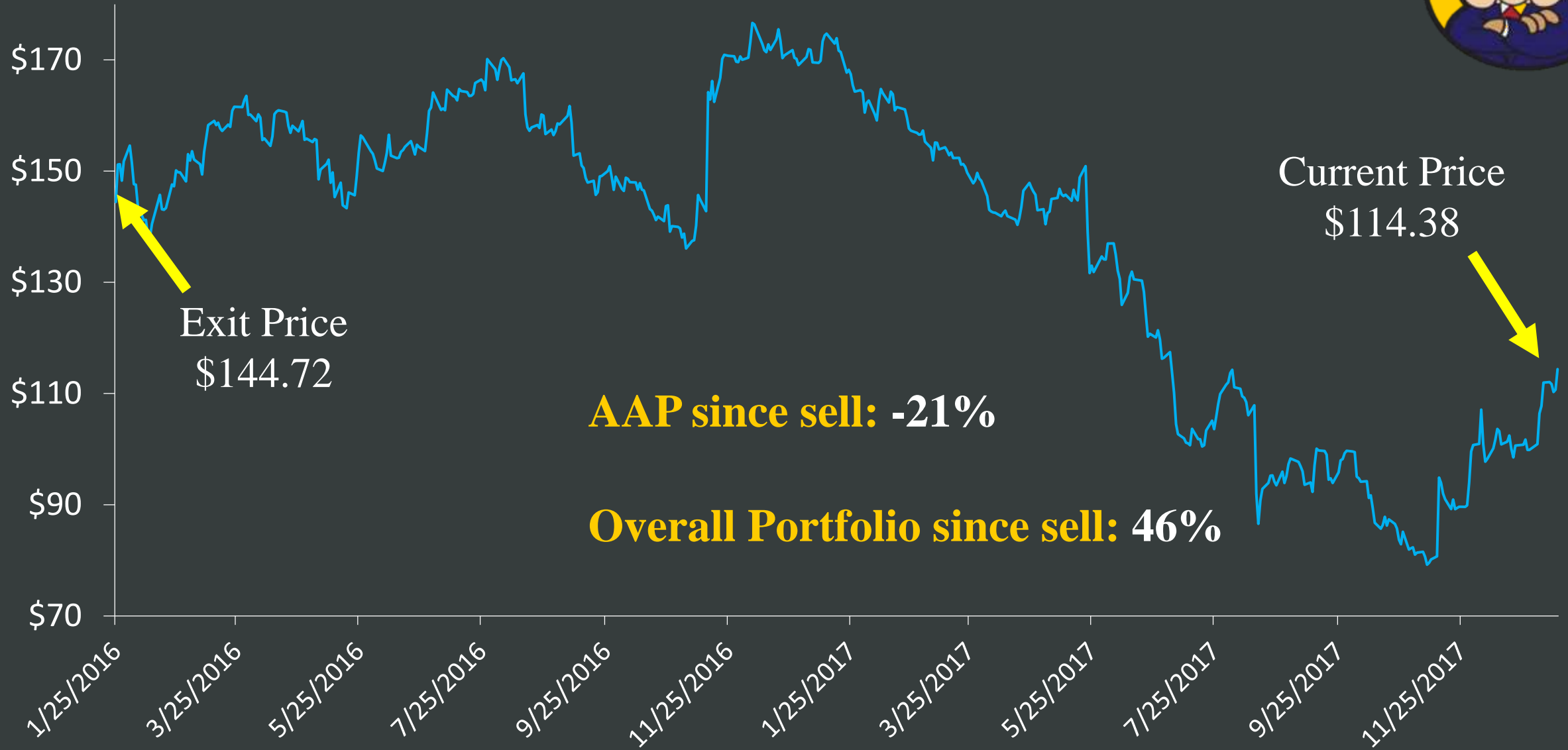


Advanced Auto Parts (AAP) Performance



- 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



- 52 Week Returns: +22.6%
- 3 Year Returns: +10.6% per year or +35% cumulatively
- 5 Year Returns: +15.6% per year or +106% cumulatively

Bulldog Investment Company

Portfolio Performance



- Portfolio Value: \$380,581
- 52 Week: + 22.6%
- 3 Year Returns: + 10.6% per year or +35% cumulatively
- 5 Year Returns: +15.6% per year or +106% cumulatively
- Since Inception: +17.2%* per year or +274% cumulatively
- Total Gains Since Inception: \$234,038

*Time Weighted Rate of Return



Time-Weighted Total Rates of Return of Our Portfolio vs. Benchmark



BULLDOG INVESTMENT COMPANY



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

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