

FIN450: Applied Portfolio Management
10-Oct-2007 Class Summary

Defense of Portfolio Recommendations:

-**Diagio** – **BUY** based on increase in spirits sales. Large stable company, expanding into emerging markets, surplus cash could fuel an acquisition. Tends to be non-cyclical, pay attention to margins, good dividend.

-**JoS A. Bank**- Pay attention to Short Interest, Margins, Inventory Turnover, New stores, Recession.

-**OSI** – Sold out of portfolio

-**ELRN**-waiting on mentor recommendation

-**BUD** – Huge market share, Competition from microbrewers, low growth,

-**BECN**- Pay attention to margins from lower prices, heavily levered,

-**Interactive Brokers**- Penny pricing fuels strong volume growth, discount broker, watch volumes going forward

Quick Updates:

NIC- Web Portal for state governments. 430 million market cap. Texas is coming up for a rebid, could add 30 million to revenue. P/E of 45. Risk of losing contracts. Very little competition. Look at the Texas Request for Proposal (RFP) in March of 2008.

ADY- Chinese dairy company. 322 million market cap. High P/E relative to industry. Stagnant growth. Special Purpose Acquisition Company (SPAC), hasn't been public long. Pay attention to capacity rolling out.

KWK- Quicksilver- Exploration and production in oil and natural gas primarily in Ft. Worth Basin area. 4.7 billion market cap. Growth is 20% vs. industry of 6%. Comps are BP. Net Income up 34%. Going forward, watch drilling estimates, success rates, limited geographically to Texas.

RIO- second largest diversified mining company in the world. 50% revenues from Iron ore. China is the main consumer. Revenue growth of 15% in the last few years. Watch demand from emerging markets, esp. China going forward.

BRK.B- Berkshire Hathaway- 2.35% of our portfolio. Warren Buffet may buy a stake in Bear Stearns. Holding company for a number of businesses including property and casualty

insurance. Concerns about who will take over for Warren and Charlie, and the ability to make new acquisitions.

ConAgra- We own 2500 shares. Large increase in CapEx (151 million) this quarter, restructuring. Own Healthy Choice, Eggbeaters, & Chef Boyardi brands. Margins are lower than industry average, the idea behind the restructuring is to bring their margins back in line.

Reminder: Start calling Brooke franchisees

Comments on upcoming cases:

-Forecasting Proformas: Pay attention to margins, put numbers in millions, use PEG ratio when comparing P/E ratios of high growth vs. low growth.

-For Garmin: pay attention to growth of automotive sales based on percentage of cars with GPS devices.

-Strengths and weaknesses: Explain how risks in the 10-K will affect the business. Competitive threats from TomTom.

-Purchased more Golden Meditech, Launchtech.

Kevin Rauckman, CFO and Treasurer of Garmin:

Overview: Global Supplier of Navigation, Communication, and Information Products.

-History of Successful growth: driven by vertical integration, worldwide presence

-4 Business Segments: Auto, Aviation, Outdoor, Marine

-2007 Revenue and EPS of 2.8 Billion and \$3.15. 58% and 34%.

-Background:

-MBA and BS from KU

-Worked for Allied Signal, came to Garmin in 1999.

More on Garmin:

-Revenue and Net Income CAGR 35% and 31% from 2000-2007

-Global Presence with over 7500 Employees.

-Taiwan is the base for manufacturing: Shijr(260,000 sq. ft.), Jhongli (250,000 sq. ft), and LinKou (580,000 sq. ft.)

-Product lifecycle:

Outdoor: 4-5 years

Marine: 6 years

Auto: 12-18 months

Aviation: 10 years

Marketing: Building the Brand – Spending 178 million on advertising.

Advantages: In every rental car except Hertz

Distributors: Best Buy, Circuit City, etc.

-Personal Navigation Devices: CAGR 58% in Europe vs. 128% in U.S. Market.