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Value Investor INSIGHT

The Leading Authority on Value Investing

Stick to the Fundamentals

Thyra Zerhusen excels at identifying unexpected upside – in companies performing relatively poorly and in those where everything seems to be in pretty good shape.

INVESTOR INSIGHT

Thyra Zerhusen
Fairpointe Capital

Investment Focus: Seeks companies whose stocks appear to either significantly undervalue potential future growth or overvalue potential future challenges.

Thyra Zerhusen faced two big obstacles in securing her first equity analyst job at Chicago's Harris Bank. One, she didn't really know what an equity analyst did. Two, the hiring manager at the firm had made it known he would never hire a woman. "Miracles do happen," she says.

If there were any initial doubts about her investing skill, they have long been laid to rest. Her Fairpointe Capital now manages more than $3 billion and the mid-cap value strategy she has run since 1999 has earned a net annualized 11.4%, vs. 9.1% for the Russell Midcap Index.

Attracted to situations where short-term noise drowns out long-term potential, Zerhusen and team see opportunity today in such areas as rail equipment, beer, traditional media and airlines.

Mid-cap stocks, your area of expertise, have generally performed well versus bigger and smaller peers over time. Why would you argue that's been the case?

Thyra Zerhusen: We do believe there are some structural advantages to investing in mid-caps. Versus small companies, we think mid-caps are generally less risky because their business models are more established, their capital structures are more mature and their management teams are more experienced. Because they're not growing as fast as small companies, their stocks generally trade at lower valuations.

Versus large companies, mid-caps often have higher growth potential and are more likely acquisition targets. Our strategy in particular gravitates to more-focused companies with strong market positions and solid balance sheets, the types of firms other companies want to buy. They're also firms that don't generate much corporate-finance business, so Wall Street research may be more apt to overlook them. Since 2008, the incidence of takeovers in our portfolio has been 20% higher than in the S&P MidCap 400 index.

Overall, if you look at the past 20 years, mid-caps have outperformed. The S&P MidCap index has increased at a 10.0% annualized rate since 1999, vs. 5.8% for the larger-cap S&P 500 and 8.4% for the smaller-cap Russell 2000.

You describe access to management as an important benefit of investing in mid-caps. Why is that important to you?

TZ: We want to be material shareholders in each portfolio company and have full opportunity to engage with management. Because we focus so much on long-term strategy and opportunity, we spend our time with management talking about where they're taking the business and why. In our mind, you can only develop a real understanding of that from sitting down with them, as opposed to just reading financial reports and earnings-call transcripts. They generally appreciate that we take a fundamental, long-term approach, and are also more apt to listen to us when we – as we often do – offer our own perspective on what they should be doing.

While we don't like to overpay for them, we love growing companies that over time can become large-caps. That often happens because there is a visionary founder or CEO who can articulate where things are going and is capable of steering the company in that direction. To give an example, years ago we saw that in Jensen Huang of Nvidia [NVDA]. We had bought the stock in the lower-teens and for some time it went nowhere. It then started to click and moved up to $17 or $18 and we thought, "That's pretty good, maybe we should take profits and move on." But we then had Jensen in our office for two hours and he described why he believed this was just the tip of the iceberg for the graphics-processing chips the company sold and that he couldn't imagine selling out to an IBM or Intel, which had been rumored at the time. He had all of his money in Nvidia stock. We held on to our shares and ended up selling out at a multiple of the price at the time, primarily because the market capitalization got too big for us. [*Note*: NVDA shares, as high at $290 last October, recently traded around $155.]

What are some Nvidia-like stocks you own today?

TZ: We like to find companies with products or services that are critical to customers' success and make their businesses more efficient and profitable. Having proprietary technology or other sustainable competitive advantages is also very important.

Broadly speaking we would put companies like Cree [CREE], which makes innovative lighting and semiconductor products, and Akamai Technologies [AKAM], whose technology optimizes online content and application delivery, in this category. Akamai's founder and CEO, Tom Leighton, was in our offices earlier this month and we believe has an exciting vision for where he's taking the company that isn't well recognized by the market.

Jean Orr: Another good example is Teradata [TDC]. In a world where massive amounts of data are being generated, there is a premium on software and services that facilitate the analysis of that data, and we believe Teradata's proprietary technology puts them in a unique position to capitalize on the era of big data. It's in the middle of a transition away from selling turnkey systems toward providing subscription cloud services, and while we believe the underlying business is strong, the accounting impact of that transition can make the financials look not-so-great in the interim. As the reported results better reflect the underlying business, which we expect as we go through the year, we think the business's long-term potential will start to be better recognized in the share price.

Describe how you generate ideas.

Marie Lorden: Ideas come from everywhere, but it's typically valuation that attracts our attention. We screen on quantitative criteria including top-line growth, balance sheet strength, and valuation multiples relative to the company's own history, to competitors and to the market. The common theme tends to be that investors are focusing on some short-term issue or issues in a company that we believe has a compelling long-term story.

Some fairly recent examples of that?

Brian Washkowiak: In the latter half of last year we established a position in Owens Corning [OC], which manufactures insulation, roofing and fiberglass composites. We've owned the company in the past and believe it has the potential to benefit from both organic end-market growth and a proven ability to take market share over time. The stock had been trending fairly sharply down through most of 2018, but in our view the problems were primarily transitory, from things like fixable manufacturing issues at a couple of plants and relatively good weather negatively impacting the roofing business. There were also heightened concerns about the health of the housing-construction market, which we consider more cyclical than permanent. [*Note*: At around $55 at the end of 2018's third quarter, Owens Corning shares recently traded at just over $50.]

TZ: Another representative example would be Manpower [MAN], the temporary-staffing business. The stock can be sensitive to what is considered important news at the time, but which doesn't tend to impact the company's revenues and margins over the long term. The shares fell sharply around the advent of Brexit, for example, and while we missed it then, we got another chance last year when they traded off due to uncertainty surrounding changes to French labor subsidies that support temporary staffing. We thought any impact from that would be more than offset by upside elsewhere, including from the strong labor environment in the U.S. [*Note*: Manpower shares at the end of September traded at around $86; they closed recently at $84.50.]

Would you say there are any industry or sector themes in your portfolio today?

JO: Every idea stands on its own, but we do own a number of what are considered traditional media companies, including Meredith [MDP], Tegna [TGNA] and the New York Times Co. [NYT]. We believe the business models for local TV stations in the U.S. remain compelling even in today's media landscape and that unique

Thyra Zerhusen

Breaking Barriers

Founded in 2011 by co-CEO and Chief Investment Officer Thyra Zerhusen, most of Fairpointe Capital's 15 employees are women, including the firm's other co-CEO, three portfolio managers and the director of research. Among their thoughts on women making their way in the financial industry:

Thyra Zerhusen: "I always recommend having a solid technical background, such as in science, math or engineering. I didn't know much about the stock market when I started out, but I had experience in analysis and problem solving that proved extremely valuable."

Marie Lorden, portfolio manager: "You need to find mentors, men or women, who take the time to teach. There are a number of initiatives under way, but we as an industry also need to do a much better job on outreach to women at younger ages."

Sara Hostalet, research analyst: "I'm lucky at Fairpointe to have accomplished women here to help me along my journey. But that's not always an option. I tell people to pursue what you're passionate about, even if that doesn't come with many leaders who look like you. Sometimes you have to pave your own way."

original content is an increasingly valuable commodity. The New York Times has obviously been disrupted by the rise of digital media and online advertising, but we think they've done a good job of adapting to the new world and figuring out how to deliver and get paid for their unparalleled content in a variety of new ways. They now get a majority of their revenue from subscribers and the value of what they provide and the number of people who want it will continue to go up.

ML: I would mention one sector we traditionally avoid, which is financials. We have a hard time finding unique advantages among financial-services providers and often don't feel we can understand their assets and liabilities as well as we should. Occasionally being underweight financials can hurt us when those stocks are doing well, but we've looked at it over the 20 years of running the portfolio and our relative avoidance of financials has so far been a pretty material net positive.

We see you've owned agriculture commodity supplier Bunge [BG] to greater or lesser degrees since 2002. How has it continued to maintain your interest?

BW: This is an example of a cyclical company that we believe over a long period of time can benefit from secular global demand growth for agricultural commodities and from its increasing scale and operational expertise in select geographies around the world.

We try to add to positions like this when they for recurring cyclical reasons trade at the lower end of historical valuation ranges and then trim them when they trade at the higher end of those ranges. In Bunge's case, our position size can vary significantly, but for the most part the long-term story has remained attractive relative to the valuation, so we've maintained a position in the stock. Recently the shares have gotten somewhat more interesting given the ongoing concerns about tariffs and trade. [*Note*: At around $53, Bunge shares trade at 13.3x consensus 2020 EPS estimates.]

Describe in more detail the upside you see today in railroad-equipment supplier Wabtec [WAB].

Fran Tuite: The company is formally known as Westinghouse Air Brake Technologies, and dates back to when George Westinghouse first developed air brakes for trains going back to the 1850s. It became an independent company in 1989 and has a long history of organic and acquisition-related growth, good operating margins and high returns on capital.

The big news around the company is its just-completed acquisition of GE Transportation, in a roughly $10 billion deal that we believe will turn out to have been done at a very attractive price. Wabtec has a strong franchise in passenger trains, where it provides a variety of equipment and systems, from positive-train-control [PTC] safety systems, to air conditioning, to lavatories. GE's strength is in freight trains, where among other things it is a leading global supplier of locomotives. Both companies have a healthy mix of OEM and higher-margin aftermarket service and parts revenues – we estimate aftermarket revenues will be more than 50% of the total for the combined company.

INVESTMENT SNAPSHOT

Wabtec
(NYSE: WAB)

Business: Global manufacture and sale of a wide range of passenger and freight railroad equipment and systems; merger with GE Transportation closed on February 25th.

Share Information (@2/27/19):

Price	75.30
52-Week Range	65.09 – 115.40
Dividend Yield	0.7%
Market Cap	$7.28 billion

Financials (TTM):

Revenue	$4.32 billion
Operating Profit Margin	11.3%
Net Profit Margin	7.2%

Valuation Metrics
(@2/27/19):

	WAB	S&P 500
P/E (TTM)	23.5	20.2
Forward P/E (Est.)	16.9	16.5

Largest Institutional Owners
(@12/31/18 or latest filing):

Company	% Owned
BlackRock	8.6%
Vanguard Group	8.3%
Capital Group	8.2%
T. Rowe Price	5.9%
Farallon Capital	5.7%

Short Interest (as of 2/15/19):

Shares Short/Float	13.8%

WAB PRICE HISTORY

THE BOTTOM LINE

"Noise" and uncertainty around its just-completed merger with GE Transportation are obscuring positive secular and cyclical trends working in the company's favor, says Fran Tuite. By 2022 she believes the company through revenue growth, margin expansion and debt reduction can earn $10 per share. At a 15x P/E, the stock would then trade at $150.

Sources: Company reports, other publicly available information

While the stock popped when the deal was formally completed [on February 25th], it had done poorly for months prior to that. The deal with GE was complicated to begin with – the S-4 filing on it with the SEC was over 700 pages – and the terms were amended multiple times. That created the type of uncertainty investors don't tend to like. The stock was further hurt by concerns about the global locomotive cycle, which has not been strong for some time now, and worries that GE shareholders who got Wabtec stock in the deal would dump their shares, putting further downward pressure on the price.

Our basic thesis is that all that noise obscures the long-term positives ahead for the combined company. The secular trends for rail transportation are positive, as it is a more efficient and environmentally healthy means of transporting people and freight. Safety is an increasing concern, and the company's PTC technology and other related products and systems are state of the art in that area. Cycles ebb and flow, but the combined company now has a multi-year backlog of more than $23 billion, against an $8 billion revenue run rate expected this year.

We also think value will be created from the merger itself. The two companies don't overlap much at all, which should provide cross-selling benefits. Management is also targeting $250 million in cost synergies, which we think could be conservative. We're expecting the deal to be cash accretive in the first full year.

How are you looking at valuation at today's share price of $75.30?

FT: The stock currently trades at well below long-term averages on pro-forma earnings and EBITDA. If we look out to 2022, we believe Wabtec through revenue growth, operating-margin expansion and delevering of the balance sheet can earn something on the order of $10 per share. If the stock traded at 15x then we'd have a nice return, but we don't think it would be unreasonable for a business of this quality to earn a higher valuation than that. That, of course, would make the upside higher.

We also think there's potential for Wabtec to get added to a major index, even the S&P 500. We never count on things like that, but it would likely drive name recognition for a not very well known company and incrementally increase demand for the shares.

Your portfolio typically focuses on U.S. companies. Explain your interest in Latin American airline Copa Holdings [CPA].

BW: Our interest here was at least partly fostered by our previous ownership of Southwest Airlines in the U.S. We believe the two companies share a similar operating philosophy, based on efficiency and providing customer value.

Copa flies to 81 destinations in 33 countries in North, Central and South America. Its main hub is in Panama City, Panama, which is extremely well located to serve markets as far north as Seattle, Washington and as far south as Buenos Aires, Argentina. Panama City also has uniquely good weather year-round, a key reason that in 2018 Copa was named the most-on-time airline in the world.

The company controls 80% of the gates in Panama City and we expect it to

INVESTMENT SNAPSHOT

Copa Holdings
(NYSE: CPA)

Business: Latin American provider of airline passenger and cargo services reaching 80 destinations in 33 countries; main subsidiaries are Copa Airlines and Copa Columbia.

Share Information (@2/27/19):

Price	**87.72**
52-Week Range	67.38 – 140.33
Dividend Yield	2.9%
Market Cap	$3.70 billion

Financials (TTM):

Revenue	$2.68 billion
Operating Profit Margin	12.5%
Net Profit Margin	3.3%

Valuation Metrics
(@2/27/19):

	CPA	S&P 500
P/E (TTM)	42.3	20.2
Forward P/E (Est.)	10.3	16.5

Largest Institutional Owners
(@12/31/18 or latest filing):

Company	% Owned
Baillie Gifford	10.3%
Fidelity Mgmt & Research	6.7%
JPMorgan Inv Mgmt	5.5%
BlackRock	4.8%
Orbis Inv Mgmt	4.1%

Short Interest (as of 2/15/19):

Shares Short/Float	n/a

CPA PRICE HISTORY

THE BOTTOM LINE

While the company's operating margins have taken a hit in large part due to negative currency exposures, Brian Washkowiak believes its attractive hub, strong market position and fuel-efficient aircraft fleet will allow it to return to its historical profitability relatively quickly. At 15x his EPS estimate two to three years out, the stock price would be $135.

Sources: Company reports, other publicly available information

continue to capitalize on its strength there to both add new destinations and to increase flight frequencies to existing destinations. That's helped by the fact that air traffic in Latin America has historically grown at a rate of two to three times the level of GDP growth, which is a dynamic we expect to continue.

The operating model reflects both the company's strong market position and the efficiency of its aircraft fleet. They fly mostly Boeing 737s, including the newest Max 9 versions, as well as a smaller fleet of Embraer 190s. Overall, the average age of the fleet is only eight years, which translates into higher overall fuel efficiency. That's an important reason why operating margins over the past five years have averaged close to 16%.

We also like that the company runs a conservative balance sheet. At the end of the fourth quarter it held $858 million in cash and investments, against about $1.3 billion in debt. That results in a net debt to EBITDA ratio of less than 1, which is typical for them. The balance-sheet strength combined with strong cash flow allows them to continually invest in the fleet and drive plane operating costs down.

The shares, at a recent $87.75, haven't exactly been firing on all cylinders, down more than 35% from their highs less than a year ago. What turns that around?

BW: Operating margins recently have fallen below average, in large part due to currency devaluations hurting them in Brazil, and to a lesser degree in Argentina. That's helped drive down the share valuation, which on both a P/E and EV/EBITDA basis are below normal for the company.

Here we're expecting operating margins to get back to the 15-16% level and for the earnings multiple to improve to a more-normal 14-15x. Assuming even modest revenue growth, with improved operating margins we believe within two to three years the company can earn around $9 per share. At a 15x P/E, that would translate into a $135 share price.

We also like that there's a fairly good dividend yield here, currently 2.9%, and that the company has plenty of room to continue to increase ancillary revenues related to things like add-on fees and its frequent-flyer program.

Walk through your broader investment case today for Meredith.

TZ: We have followed Meredith for a long time, but what increased our interest was it agreeing in late 2017 to buy Time Inc. at what we thought was a very good price. The stock initially moved up from the low-$50s to the low-$70s after the deal was announced, but the enthusiasm died quickly and the shares went back to the low-$50s in the early part of 2018. That provided an entry point for us.

The company operates in two primary segments. The National Media Group consists of the traditional magazine business, built around brands including *Better Homes & Gardens*, *Family Circle*, *Parents* and *Shape*, now combined with Time Inc. magazines such as *People* and *InStyle*. Meredith exclusively targets women and the company has continued – even more so with the Time acquistion – to improve its ability to deliver content and advertising across print, digital and video platforms.

INVESTMENT SNAPSHOT

Meredith
(NYSE: MDP)

Business: Owns and operates 17 local television stations in the U.S., as well as national media brands including *People*, *Family Circle*, *Parents* and *Better Homes & Gardens*.

Share Information (@2/27/19):

Price	**56.95**
52-Week Range	47.30 – 62.40
Dividend Yield	4.0%
Market Cap	$2.59 billion

Financials (TTM):

Revenue	$3.05 billion
Operating Profit Margin	13.2%
Net Profit Margin	(-1.9%)

Valuation Metrics
(@2/27/19):

	MDP	S&P 500
P/E (TTM)	n/a	20.2
Forward P/E (Est.)	10.8	16.5

Largest Institutional Owners
(@12/31/18 or latest filing):

Company	% Owned
BlackRock	14.1%
State Street	12.6%
Vanguard Group	9.4%
Ceredex Value Adv	6.7%
Barrow, Hanley, Mewhinney & Strauss	6.4%

Short Interest (as of 2/15/19):

Shares Short/Float	22.6%

MDP PRICE HISTORY

THE BOTTOM LINE

The company deserves more recognition for the reach and quality of its national and local media assets than the market is giving, says Thyra Zerhusen. As it integrates its acquisition of Time Inc., she thinks the company in its 2020 fiscal year can earn $8 per share. Even at the current forward P/E, that would translate into 50% upside in the share price.

Sources: Company reports, other publicly available information

The second segment is called the Local Media Group, which primarily consists of 17 local television stations in the U.S. The stations are not always in the biggest markets, but 13 are in top-50 markets, the biggest of which are Atlanta, Phoenix, St. Louis and Portland. Most tend to be #1 or #2 in their markets for local news, which I've learned from following this business for a long time is key in maintaining audience levels.

Revenues overall come roughly 55% from advertising, with most of the rest from consumer subscriptions. In terms of profitability, the local-TV business generates roughly two-thirds of the company's operating profit, on less than one-third the total revenue.

How are you processing the secular trends in the two businesses and how they're working for or against the company?

TZ: We generally think the local-TV business remains viable even in a cord-cutting world. People still want local content and as local newspapers continue to struggle, TV is becoming an increasingly important content source. We also see opportunity for local broadcasters to improve their competitive situations as federal regulations around market concentration have been relaxed. We've already seen a number of deals, including those in which big station owners have swapped stations to improve relative market positions. Finally, I'd add that with the current state of political discourse in the U.S., political advertising at the local level is likely to be a healthy business for some time to come.

Things are more complicated on the national-media side, but we believe Meredith stands to benefit from its unique expertise and positioning in targeting women. It has a total subscriber base of more than 40 million and has more than 175 million direct consumer relationships in the U.S., exceeded only by Google, Verizon, Facebook, Microsoft and Amazon. With an unmatched level of content and an ever-improving sophistication in delivering it to its target market, we're confident that the advertising side of this business will remain solid and may even be able to take share in the fast-growing digital end of the market.

What upside do you see in the shares from today's $57 price?

JO: The stock today trades at less than 0.9x sales and only 10.8x consensus EPS for the fiscal year ending this June. We believe the company can hit its goals of $550 million in annual cost synergies within two years of the merger, of reducing its debt post-acquisition by $1 billion, and of generating at least $1 billion in EBITDA for the year ending in June 2020. We estimate that would all translate into more than $8 in fiscal 2020 EPS. Even without multiple expansion that would provide an excellent return on the stock. If earnings come in at that level, however, we'd expect the multiple to expand as well.

From one tough market to another, describe why you're bullish on the prospects for brewer Molson Coors [TAP].

ML: The company is the second-largest brewer by volume in the U.S., Canada and the U.K., mainly on the strength of mass-

INVESTMENT SNAPSHOT

Molson Coors
(NYSE: TAP)

Business: Based in Colorado, global production, marketing and sale of beer; primary brands include Coors, Coors Light, Miller, Miller Lite, Molson and Blue Moon.

Share Information (@2/27/19):

Price	**61.11**
52-Week Range	54.17 – 81.96
Dividend Yield	2.7%
Market Cap	$13.21 billion

Financials (TTM):

Revenue	$10.77 billion
Operating Profit Margin	13.6%
Net Profit Margin	10.4%

Valuation Metrics
(@2/27/19):

	TAP	S&P 500
P/E (TTM)	11.9	20.2
Forward P/E (Est.)	12.3	16.5

Largest Institutional Owners
(@12/21/18 or latest filing):

Company	% Owned
Vanguard Group	10.2%
BlackRock	7.6%
Independent Franchise Partners	4.4%
Dodge & Cox	4.4%
JPMorgan Inv Mgmt	4.1%

Short Interest (as of 2/15/19):

Shares Short/Float	5.0%

TAP PRICE HISTORY

THE BOTTOM LINE
Marie Lorden believes the company's multiple product, marketing and distribution initiatives can at least offset the secular challenges facing its U.S. mass-market beers. Debt repayment and cost savings can then drive earnings per share growth that she thinks within the next two years can result in a 50% increase in the company's share price.

Sources: Company reports, other publicly available information

market brands such as Coors Light, Miller Lite, Molson and Carling. The U.S. accounts for around 70% of total revenues, with the remainder split relatively evenly between Canada and Europe.

We're not blind to the decline in the beer market, particularly in North America and among the broad-reach brands that Molson Coors sells. Our basic view, though, is that the negative industry backdrop is more than priced into the stock and that the company has both the financial flexibility and management acumen to surprise on the upside in creating shareholder value.

The company generates considerable free cash flow – estimated at around $1.4 billion this year – and is not at all standing still when it comes to product development, marketing and geographic expansion. It's broadened its product line successfully in craft beer with brands like Blue Moon, in Mexican beer with Sol, in non-alcoholic beers and in other categories like hard cider, hard sparkling water and even fermented tea. It recently formed a joint venture in Canada with HEXO to create non-alcoholic, cannabis-infused drinks for the Canadian market.

On the marketing front the emphasis is on better engaging with 21-to-34-year-old drinkers and generating interest in the company's full portfolio of brands. In January they named a new chief marketing officer, Michelle St. Jacques, who is the first woman to hold that role at the company and who came from Kraft Heinz, where she was a senior vice president and head of global brands. Turning the volume situation around is not an easy task, but revitalizing the marketing and advertising program is a good place to start.

After merging with MillerCoors in 2016, the company also in our view has considerable opportunity to leverage the international distribution platforms that acquisition brought to sell more of its North American brands in a number of new markets overseas. New international management was installed just over a year ago and we've already seen successes in cross-selling brands across borders. We expect that to continue.

There's also money to be saved. They're on track to take out $700 million in costs over three years ending this year and have just announced another $450 million savings initiative for 2020 to 2022. Most of it is coming out of general and administrative expenses as the full integration from the 2016 merger continues.

At a recent $61, how inexpensive do you consider the shares?

ML: The stock today trades at 1x book value and at a P/E on trailing-12-month earnings of less than 12x. Those are both at the very bottom of the ranges over the past five years.

ON ADMITTING MISTAKES:

We believe one of our advantages is to have a long-term outlook and the patience to wait for it to be realized.

We believe the multi-front efforts the company is making can at least offset the secular industry challenges to revenue. Earnings per share can then grow nicely as debt is paid down and cost-savings initiatives drive operating-margin improvement. From earnings growth and some improvement in valuation, we think the shares could increase 50% within two years. We also like that management has committed to a 20-25% dividend-payout ratio, which could take the dividend yield before long from today's price into the 4-5% range.

Let's talk about an idea or two that haven't gone your way. Have you lost patience yet with medical-waste-disposal company Stericycle [SRCL]?

TZ: We originally were attracted by the company's well-defended position in removing and disposing medical waste, which is a business for which we expect there to be steadily increasing demand. In 2015, in an effort to complement the main business, the company bought Shred-it, which provides services to remove and destroy mostly paper documents. The integration of Shred-it hasn't gone well, which has been an overhang on the stock. Stericycle has also faced a lot of pricing pressure in its small-quantity medical-waste segment. That's all been made worse now by an ongoing implementation of a new enterprise-resource-planning system, which is very much needed, but in the interim is costing a lot of money without producing much in the way of tangible benefits.

While we sold some of our position for tax-harvesting purposes near the end of last year, we do think management is acting with a sense of urgency and has the right people in place to get the operating performance where it should be. From today's price [of around $45], if that happens there should be considerable upside in the stock.

Why did you give up on oil-services company Transocean [RIG]?

BW: We initially bought the shares when oil prices turned sharply down a few years ago, thinking the company's fleet of deep-water rigs was well positioned and well managed and that the business would come out on the other side of the cycle in very good shape. As the downturn got worse and lasted longer than we anticipated, we concluded that the supply rationalization necessary in the deep-water segment of the market wasn't going to happen very quickly and that that segment of the market would likely be the last to come back. Additionally, the balance sheet turned out not to be as resilient to the downcycle as we expected. All that led us to admit we'd made a mistake and we moved on.

You've been criticized at times for not admitting mistakes as soon as you should. Is that fair?

TZ: We of course make mistakes, as everybody does, and in retrospect certainly wish at times that we'd admitted them

earlier. But the reality is that we're always looking forward, using the latest and best information and analysis we have. We believe one of our advantages is a willingness to have a longer-term outlook and the patience to wait for it to be realized. That's served us well. We won't be right every time, but there's no reason to change that now. VII

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