

What Helps Us Sleep At Night – Part 2

Written by Tye Bousada

December 7, 2009

Last March, one of our partners asked how Geoff and I were able to sleep at night with the markets acting the way they were. In response to his question, I wrote a note citing five examples of businesses that we owned. These five businesses were “non-obvious survivors” that were actually growing in the face of the global economic turmoil at the time. Furthermore, we believed these businesses were trading at very attractive valuations. In each example, I included a number of reasons to support our claims that the businesses were not only surviving but growing through the turmoil. This information can be found on our website. In the nine months since that note, the average increase in share price of those five businesses was approximately 71%.

Interestingly, we are now getting the same question that we got back in March “How are we sleeping at night”. Specifically, our partners are interested in understanding how we can sleep at night given the concern that the markets may experience a short-term pull back after the material run up that has occurred since the spring. Our answer this time is once again built on the foundation of the individual companies in the portfolios. The reality is that nobody knows if the markets will experience a pull back, how sharp it could be, or how long it might last. We don’t waste time trying to forecast such things. Rather, we consider the facts surrounding the underlying businesses. Below are some quick thoughts about four businesses that represent approximately 20% of EdgePoint Global Portfolio. These are the things that we think about as we drift off at the end of the day.

Progressive Corp. (PGR)

Fourth-largest auto insurer in the U.S.

- This business will actually show top line growth in 2009, and we believe it will grow again in 2010. In the face of tough economic times, people have searched for ways to cut costs. Progressive is one of two low-cost auto insurance providers in the U.S. People have moved their policies to Progressive as a simple way to save money.
- Policies in force are up
- Premiums are going up
- Extremely profitable, while many of their competitors are not
- Trading at approximately 10x 2010 earnings per share

Ryanair (RYAAY)

Largest airline in Europe moving 66 million passengers in 2009

- In 2009, year-over-year passenger volume will grow by approximately 15%. Similar type of growth is expected in 2010.
- The average Ryanair fare is 32 euro compared to 267 euro for Air France, 283 euro for Lufthansa, and 284 euro for British Airways
- Ryanair is profitable with 32 euro fares while its competitors listed above lose money at fares over 7 times higher
- Ryanair's net margin during the first half of 2009 was 22% compared to 12% during the first half of 2008. This was an industry-leading margin.
- Ryanair has the best on time record in Europe
- Ryanair has a pristine balance sheet unlike almost all other global airlines
- At least seven airlines that tried to compete with Ryanair were forced out of business in 2009 and another eight were forced into mergers with other partners
- Ryanair plans to more than double its profits between 2009 and 2012, which would put its shares at approximately 6x earnings (excluding the cash on its balance sheet)

WellPoint (WLP)

- Leading healthcare benefits company in the U.S. (think HMO)
- One in nine Americans receives health coverage for their medical care through WellPoint
- In the face of the worst unemployment situation in the U.S. in a generation, WellPoint will grow its earnings per share in 2009 by approximately 8%
- Obama and company are attempting to pass healthcare legislation in the U.S. that will give the largest HMO players a growth and profitability edge. WellPoint wins, smaller players lose.
- WellPoint has a free cash flow yield of approximately 12% and is trading for less than 10 times earnings

Hughes Communications Inc. (HUGH)

Global leader in providing broadband satellite networks for large enterprises, governments, small businesses, and consumers

- Consumer subscribers were up between 12% and 15% in 2009. Expect growth to continue in 2010.
- Consumer Average Revenue per User (ARPU) was higher in 2009

- Consumer churn (individuals giving up their services) was lower in 2009
- Profit margins (EBITDA) should increase by approximately 3.5% in 2009 and about 8% in 2010
- Long-term growth potential was so strong that the company announced a new satellite to meet demand for early 2012. Following the announcement, Barrett Xplore (Canada's largest rural broadband service provider) committed to buying 10% of the satellite's capacity.
- Trading for less than 10x 2010 earnings per share

Tye Bousada

As at December 7, 2009. The above companies are selected for illustrative purposes and are not intended to provide investment advice. EdgePoint Investment Management may be buying or selling positions in the above securities.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Copies are available from your financial advisor or from our website at www.edgepointwealth.com. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This is not an offer to purchase. Mutual funds can only be purchased through a registered Dealer and are available only in those jurisdictions where they may be lawfully offered for sale. This document is not intended to provide legal, accounting, tax or specific investment advice. Information contained in this document was obtained from sources believed to be reliable; however EdgePoint Wealth Management does not assume any responsibility for losses, whether direct, special or consequential, that arise out of the use of this information. Portfolio holdings are subject to change. EdgePoint mutual funds are managed by EdgePoint Investment Management Inc., a related party of EdgePoint Wealth Management Inc. EdgePoint® is a registered trademark of EdgePoint Investment Management Inc. Owned and Operated by Investors™ is a trademark of EdgePoint Investment Group Inc.