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 *(These notes are to the best of my recollection and trusty ink pen. Discrepancies are due to my error in understanding & transcribing.)*

**Lisa O’Dell Rapuano, Lane Five Capital – Value Investing with a Contrarian Bent**

*Lisa is the Founder and Portfolio Manager for Lane Five.*

Two broad categories for Investments at Lane Five:

* “Compounders” - Great business at great price due to short term problem
	+ Often not a severe mispricing
	+ Not always as “great” as they seem
		- Technological changes, obsolescence
		- Cyclical or Regulatory risks
		- Shorter duration/elimination of competitive advantages
* Out of Favor, unloved, cheap contrarian investments
	+ Higher expected returns, but also wider range of returns…
	+ Uncorrelated with the Indices – Performance driver is not market action
		- Creates highly differentiated return profile for portfolio
* Lane Five is hunting for:
	+ News Lows
	+ Hi price percentage down
	+ Elevated trading volume
	+ Sell side down grade
	+ Hi short interest
* Characteristics of a potential candidate
	+ Former good business model
	+ Former high valuation
	+ There is a competitor with better margins
	+ Signs of investor capitulation, disgust
	+ No visibility, no catalyst
	+ Arguments for their competitive decline
* Cautions
	+ OFTEN CONCENSUS IS RIGHT!
	+ Determining consensus id difficult (Value group can have a bias)
	+ Timing matters
	+ Risk management/Hedging (Lane Five does not short much)
	+ Loneliness (You are not in the ‘group’)
	+ Retrospect Effect (No respect when you are right)
	+ Complacency vs. patience
* Temperament for investors
	+ Great amount of patience
	+ Weirdness…
	+ Ability to handle criticism
	+ Ability to stand alone
	+ Resourcefulness (Must hone analytical ability)
* Guidance in Analysis
	+ Risk – easier… Return – more difficult
	+ Analyze the negative arguments
	+ Analyze value “hooks” that could limit downside
	+ Understand management’s ability and incentives
	+ Understand potential for change
	+ Understand how the story can unfold
		- Timing
		- Share changes
		- Earnings momentum
* **Case study** - Corintian Colleges (COCO)
	+ Low end of the For Profit Education segment
		- Very negative press and Regulatory pressure
	+ Massive mispricing (emotional)
	+ Late 2011, bankruptcy rumors
		- Had sellable assets, good general cash levels, ability to meet covenants and pay off debts
	+ Vocational diploma programs huge benefit to U.S.
		- In 2011, placed 42,00- students in jobs
		- Typical student has 10k debt = High ROI if they graduate
	+ Currently, COCO is about $3
		- ½ normal FCF $175m
		- Per DCF, price implies $45m Cash Flow for 10years with no perpetuity
		- Earnings Power baseline $0.40
		- With 0 growth - $8-$10 stock
		- With modest growth - $9 -$20+ stock
	+ What could go right?
		- Competition could abandon the space
		- Regulatory environment could be less bad
		- Drop out levels below risky levels
* Q&A
	+ COCO investment currently underwater; lessons?
		- In general, sometimes too early=wrong
		- Regulatory situation and ‘Steve Eisman’ effect powerful
	+ How do you get comfortable with management?
		- Don’t fall in love… form a view with facts before meeting them
		- Red Flags: *(My note: This is where I almost did a spit-take)*
			* Too tan
			* Too fit
			* Too much golf
			* On their 3rd wife (Second wife is like a Mulligan)
			* Too much body gold (bling)