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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)