



**Investing In The Tradition of  
Graham, Buffett, Klarman**

Year VIII, Volume II  
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When asked how he became so successful, Buffett answered:  
"We read hundreds and hundreds of annual reports every year."

**Top Ideas In This Report**

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**About The Manual of Ideas**

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.



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# THE "MAGIC FORMULA" ISSUE

- ▶ 20 Companies Profiled by The Manual of Ideas Research Team
- ▶ Proprietary Selection of Top Three Candidates for Investment
  - ▶ Highlights from Best Ideas 2015
  - ▶ Oaktree's Howard Marks: Exclusive Q&A on Oil
  - ▶ Aeropostale Investment Thesis, by Michael Shearn
  - ▶ 10 Essential Screens for Value Investors

*Companies analyzed in this issue include*

*Avid Technology (AVID), Buckle (BKE), CA (CA), Coach (COH), D.R. Horton (DHI), Ebix (EBIX), H&R Block (HRB), Korn Ferry (KFY), Lexmark (LXK), National Research (NRCI), Neutral Tandem (IQNT), Pitney Bowes (PBI), RPX Corporation (RPXC), Starz (STRZA), Take-Two (TTWO), Toll Brothers (TOL), Tribune Publishing (TPUB), Unisys (UIS), Viacom (VIA), Weight Watchers (WTW).*

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our thesis is that following significant reserve strengthening in 2013 and a large cash infusion in 2014, HIIG is moving from repair mode to growth mode, and will generate significant long-term compounding for its owners. For Westaim to grow its own book value at a similarly high rate, it will also need to deploy the large pile of cash on its balance sheet in an intelligent way. The track record to date is short but encouraging. This idea is all about long-term compounding, and at a modest premium to book value the price is quite attractive.

#### CHRISTIAN RYHER, FOUNDER, CURREEN CAPITAL

**KEYSIGHT TECHNOLOGIES (KEYS)** is the global leader in electronic measurement tools, and recently spun out of Agilent. Its former parent treated it as a cash cow, underinvesting and managing the business sub-optimally. Now independent, Keysight's management has the right strategy to widen the moat and a track record of driving success at Keysight. The current price offers minimal downside, and at a better than 3:1 upside-to-downside ratio, the stock is attractive. This is a great business with exceptional management, available at an attractive price.

hired as CEO last September, and his initial focus will be on improving same store sales and shrink management, as well as strengthening price optimization and supply chain management. What excites me about Fairway is their ability to create value today, and well into the future through a combination of margin improvement, same-store and new store growth. At a recent quote of \$3.50/share, the market's expectations for Fairway are quite low. Using conservative assumptions re growth, margins and valuation, Fairway could easily be worth 5-7x today's price, in 3-5 years. There's tremendous value in thinking about this model, and how it potentially evolves, through a long-term lens. Fairway is a classic investment example of where preparation intersects with patience.

#### CHRIS SWASBROOK, PM, ELEVATION CAPITAL MGMT

**ADIDAS (Germany: ADS):** Adidas is a designer and manufacturer of sportswear and sporting equipment. It owns Adidas (which is the core brand), Reebok, Taylor Made and Rockport. It is the largest sportswear company in Europe and the second largest globally (behind Nike). Adidas has seen its market capitalization decline by nearly 50% since

#### KEYSIGHT TECHNOLOGIES – Bled for Cash While Aggressive Competitors Built Market Share (\$ in millions)

	2009	2010	2011	2012	2013	2014
<b>Keysight (YE October)</b>						
Revenues	2,205	2,706	3,316	3,315	2,888	2,933
R&D			381	377	375	361
R&D % of Revs			11.5%	11.4%	13.0%	12.3%
EBIT	(29)	402	723	719	486	532
EBIT Margin	-1.3%	14.8%	21.8%	21.7%	16.8%	18.1%
<b>Rohde &amp; Schwarz (YE June)</b>						
Revenues	1,696	1,753	2,151	2,422	2,457	2,374
R&D		263	333		381	
R&D % of Revs		15.0%	15.5%		15.5%	
EBIT						
EBIT Margin						
<b>National Instrument (YE September)</b>						
Revenues	677	825	996	1,121	1,172	1,212
R&D	137	149	188	219	239	224
R&D % of Revs	20.2%	18.0%	18.9%	19.6%	20.4%	18.5%
EBIT	32	107	127	132	87	130
EBIT Margin	4.8%	13.0%	12.7%	11.8%	7.4%	10.7%

Source: Christian Ryther at Best Ideas 2015, January 13-14, 2015.

	2009	2010	2011	2012	2013	2014
<b>Anritsu (YE September)</b>						
Revenues	893	770	852	1,060	1,208	1,040
R&D	121	112	105	119	124	122
R&D % of Revs	13.5%	14.5%	12.3%	11.2%	10.3%	11.7%
EBIT	43	13	72	144	193	144
EBIT Margin	4.8%	1.7%	8.5%	13.6%	16.0%	13.8%
<b>Aeroflex ATS Segment (YE September)</b>						
Revenues	301	349	329	278	285	
R&D	40	48	54	48	49	
R&D % of Revs	13.4%	13.9%	16.5%	17.5%	17.3%	
EBITA	74	93	79	38	49	
EBITA Margin	24.7%	26.8%	23.9%	13.7%	17.3%	

#### GLENN SUROWIEC, MANAGER, GDS INVESTMENTS

**FAIRWAY (FWM)** is one of the more compelling investments I've come across over the last five years. The 15 store grocer has tremendous brand equity, industry leading sales productivity metrics, and a hybrid product offering that includes the best of natural/organic and traditional supermarkets. Industry veteran Jack Murphy was

January 2014, attributable to sluggish sales in Europe, a declining golf market and the sustained negative headlines from Russia and the associated depreciation of the ruble (to which Adidas has a an exposure - ~7% revenue and ~15% EBIT). These factors have bought Adidas' valuation down to a level which we believe represents a compelling long-term investment opportunity.