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SuperInvestor INSIGHT

From the Editors of *Value Investor Insight*

UP FRONT

Pitches to Hit

Among the many subjects to which the late scientist and author Stephen Jay Gould devoted careful study was baseball, a particular fancy being why no batter had hit .400 since Ted Williams did so in batting .406 in 1941. His conclusion was that because all players were improving in all aspects of the game – hitting, pitching and fielding – it was only natural that the standard deviation of the results would narrow, making outlier performances like Williams's increasingly rare.

Investment thinkers have applied Gould's thesis to investing, arguing that outsized money-manager returns should also become increasingly rare as the intensity and quality of competition increases. One needn't be an efficient-markets zealot to see merit in that argument, especially when considering individual managers' ability to deliver outlier performance over long periods. This is particularly true as investing styles – small cap vs. large cap, value vs. growth, domestic vs. international – cycle in and out of favor at irregular intervals. To on average draw the right conclusions at the right time and in the right place is an exceedingly high bar to clear.

But as the value-oriented SuperInvestors we track have shown, it can be cleared, and we'd argue that the potential for outperformance in today's churning market is higher than it's been in some time. It's tough to look at the investment environment of the last two to three years and conclude that the market has gotten more efficient. While he penned these words 25 years ago in his classic article, "The SuperInvestors of Graham-and-Doddsville," Warren Buffett's words ring particularly true today: "When the price of a stock can be influenced by a 'herd' on Wall Street, with prices set at the margin by the most emotional person, or the greediest person, or the most depressed person, it's hard to argue that the market always prices rationally. In fact, market prices are frequently nonsensical."

Where are SuperInvestors betting in number that the market has lost its senses? They still actively own banking giants such as **JPMorgan Chase**, **Bank of America** and **Citigroup**. They're expanding their bets among technology leaders such as **Microsoft**, **Oracle** and **Apple**. They've stepped up interest in challenged sectors such as energy (**Atlas Energy**, **Exxon Mobil**, **McDermott**) and healthcare (**Pfizer**, **UnitedHealth**). Top-investor interest is no guarantee of an investment homerun, but it can certainly tee up some pitches that are potentially worth hitting. SII

John Heins
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The SuperInvestors

SuperInvestor Insight tracks the activity of an elite group of value-oriented hedge-fund managers (plus Berkshire Hathaway), based on their holdings as filed in Forms 13F with the SEC. While specific investors will be highlighted, the focus is on drawing collective insight from this group of 30 of the world's best investors, which currently includes **William Ackman**, **Leon Cooperman**, **David Einhorn**, **Glenn Greenberg**, **John Griffin**, **Carl Icahn**, **Seth Klarman**, **Stephen Mandel**, **John Paulson**, **David Tepper**, **Jeffrey Ubben** and many more.

Broadened Horizons

SuperInvestors' love affair with the shares of financial firms abated somewhat in the second quarter, as volatile markets opened up buying opportunities in a broad range of areas, including technology, energy and healthcare.

Rather than fear stock-price volatility, smart investors typically look to take advantage when share prices veer sharply one way or the other from what they consider a company's underlying value. This year's second quarter provided plenty of such volatility, helping to explain the relatively high number of stocks actively bought by SuperInvestors during the quarter (*see table below*). In a quarter in which the S&P 500's high was 19% above its low, the variance between the share-price highs and lows for the 18 companies on the list averaged a remarkable 35%. From such swings are buying opportunities made.

The technology sector attracted particular buying attention, as at least four star investors each snapped up shares of industry titans **Google**, **Microsoft**, **Oracle** and **Apple**. Oracle, in which five top investors increased their positions or established new ones last quarter, has been a favorite since the fourth quarter of 2008. The company has successfully capitalized on its leading position in corporate database software to expand into new enterprise-software markets – mostly through acquisition – and continues to boast operating margins of around 35%. While the biggest uncertainty facing Oracle is the breadth and depth of the prospective rebound in overall technology spending, the jury is also still out on its acquisition (which closed in January) of hardware-vendor Sun Microsystems.

Energy stocks were also popular with SuperInvestors last quarter, with natural-gas producer **Atlas Energy**, **Exxon Mobil** and offshore oil and gas construction firm **McDermott International** all making the most-bought list, while **Anadarko**

What They're Buying: Further Afield

Four or more SuperInvestors added to existing positions or established new ones in these stocks during 2010's second quarter. Technology proved particularly popular, with buys of Google, Microsoft, Oracle and Apple. Also of interest: beaten-up energy stocks like Atlas and McDermott.

Company	Ticker	Industry	Price@ 8/30/10	Q2 2010		# of New or Inc. Positions	% Change In Shares Held - All Funds
				Low	High		
Pfizer	PFE	Pharmaceuticals	15.86	14.17	17.39	7	17.2%
Fidelity National Information	FIS	Payment Services	26.13	23.48	30.78	6	35.0%
JPMorgan Chase	JPM	Banking	35.85	36.51	48.20	6	(-4.0%)
Citigroup	C	Banking	3.67	3.53	5.07	5	24.7%
CVS Caremark	CVS	Pharmacy Services	27.42	29.22	37.82	5	17.2%
Google	GOOG	Internet Services	452.69	444.72	597.84	5	0.2%
Microsoft	MSFT	Computer Software/Services	23.64	22.95	31.58	5	7.4%
Oracle	ORCL	Computer Software	22.02	21.30	26.63	5	49.5%
Tyco International	TYC	Diversified Industrial	37.73	34.00	40.61	5	20.1%
Apple	AAPL	Computers/Consumer Electronics	242.50	199.25	279.01	4	15.8%
Atlas Energy	ATLS	Oil & Gas	27.13	26.27	40.44	4	30.6%
CF Industries	CF	Fertilizer	91.32	57.56	93.00	4	72.9%
Coca-Cola Enterprises	CCE	Beverage Distribution	28.28	24.29	28.93	4	37.2%
Exxon Mobil	XOM	Oil & Gas	59.00	56.92	70.00	4	43.8%
MasterCard	MA	Credit Cards	202.70	193.76	269.22	4	(-13.9%)
McDermott International	MDR	Energy Services	13.11	10.46	14.70	4	101.3%
UnitedHealth	UNH	Health Insurance	31.91	27.97	34.00	4	91.3%
Xerox	XRX	Office Machines	8.46	7.93	11.72	4	45.9%

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2010.

Petroleum and contract-driller **Ensco** were among the largest individual new buys (*see below*). McDermott shares were negatively impacted during the quarter by uncertainty over the company's then-pending spinoff of its Babcock & Wilcox power-generation systems business, as well as more general offshore-drilling concerns prompted by BP's Gulf oil spill. Exxon Mobil's stock has tended to trade recently in line with general market optimism or pessimism about global economic growth and its impact on oil supply and demand. It's of note that Exxon shares, at a recent $59, are at the lowest level they've been in four years.

Even after **Coca-Cola Enterprises**' shares popped more than 25% near the end of February on news that Coca-Cola was swapping its stakes in CCE and certain European bottlers for CCE's North American bottling operations, four top investors sharply increased their stakes in CCE last quarter. Upon consummation of the associated deals, which are expected to close before the end of this year, CCE shareholders will receive $10 per share in cash and own what will then be the second-largest bottler of Coke-branded products in Europe. While the market has looked with favor on the deal, CCE shares at a recent $28.25 have only recently returned to their pre-crisis level.

The cell-tower business attracted two of the four largest individual buys of the quarter: Viking's purchase of **American Tower** shares and Lone Pine's investment in **Crown Castle.** While American Tower is generally considered the class of the industry, with superior margins, greater geographic diversity and lower leverage, both companies are benefiting from what Morningstar analyst Imari Love calls the "insatiable demand for data-hungry smart phones." Buying into this positive outlook certainly doesn't come cheap: based on 2011 consensus earnings estimates, AMT shares trade at a P/E of 42, while Crown Castle sports an even loftier 109x multiple.

Top investors in number continued to buy traditional favorites **Pfizer**, **CVS Caremark** and **UnitedHealth** last quarter, while several new healthcare names – **Charles River Laboratories**, **Alcon**, **Beckman Coulter** and **Baxter** – were among the top individual purchases. Shareholders of Alcon, the global eyecare company in which Farallon Capital bought a new stake valued at $157 million at June 30, are currently embroiled in a nasty fight with Novartis, the Swiss drugmaker which has offered to buy Alcon. The catch is that it's trying to take advantage of a transatlantic merger-law loophole that allowed to pay nearly $170 per share to buy Nestle's majority Alcon stake, while paying only $143 per share to the remaining minority shareholders. The market at the moment is expecting something better, pricing Alcon shares recently at around $160. SII

Funds co-managed by Whitney Tilson are long C, JPM, MSFT, PFE and XOM and short AAPL.

What They're Buying: Biggest New Bets

These are the 15 largest new positions taken by different SuperInvestors last quarter. Healthcare-related shares, including Charles River, Alcon, Beckman Coulter and Baxter, were particularly well-represented. Two new bets in the cell-tower industry: American Tower and Crown Castle.

Company	Ticker	Industry	Price@ 8/30/10	Q2 2010		Investor	Value @ 6/30 ($mil)
				Low	High		
Citigroup	C	Banking	3.67	3.53	5.07	Pershing Square	$550.8
American Tower	AMT	Wireless Infrastructure	46.46	38.09	46.21	Viking	$525.0
Exxon Mobil	XOM	Oil & Gas	59.00	56.92	70.00	Paulson	$523.3
Crown Castle	CCI	Wireless Infrastructure	40.50	34.25	40.00	Lone Pine	$408.3
Ensco	ESV	Energy Services	41.54	33.33	52.32	Greenlight	$291.3
Anadarko Petroleum	APC	Oil & Gas	46.36	34.54	75.07	Highfields	$204.5
Fiserv	FISV	Payment Services	50.06	44.93	55.27	Berkshire	$200.9
Qualcomm	QCOM	Wireless Technology	38.29	32.73	43.39	Relational	$182.4
Charles River Labs	CRL	Medical Services/Supplies	28.69	28.00	41.65	JANA	$159.3
Alcon	ACL	Healthcare Products	160.72	134.44	162.29	Farallon	$157.2
Beckman Coulter	BEC	Medical Services/Supplies	46.00	54.88	65.70	Eminence	$130.2
Bucyrus	BUCY	Mining Equipment	56.25	45.04	74.16	Atlantic	$99.6
Liberty Global	LBTYA	Cable TV	27.26	22.78	29.85	Blue Ridge	$96.7
Macy's	M	Department Stores	19.19	17.63	25.25	Appaloosa	$86.6
Baxter International	BAX	Medical Devices/Supplies	43.20	40.34	59.95	Ivory	$85.3

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2010..

Navigating the Minefield

While the presence of uncertainty – of which there's plenty to go around these days – can provide opportunity, SuperInvestors found it in many cases last quarter to be a good reason to pull back or step out entirely.

Ask any equity investor to describe his or her discipline for selling and the answer typically includes the following: 1) We sell when our thesis for the stock has been realized; 2) We sell when new, negative information renders our original expectations invalid; 3) We sell our lowest-potential-return stocks to invest in those with higher upside.

Straightforward as that sounds, selling can be extremely difficult, in part because it's a psychological minefield. Investors sell some winning stocks too soon for fear that well-earned gains will evaporate. They hold on to other winning stocks too long because they become enamored with the companies that have made them money. Maybe worst of all, they often hold on to losing stocks for no better reason than an unwillingness to admit they were wrong. As investing legend Philip Fisher wrote in *Common Stocks and Uncommon Profits*: "More money has probably been lost by investors holding a stock they really did not want until they could 'at least come out even' than from any other single reason."

Based on the selling activity of SuperInvestors last quarter (*see table below*), the least collective waffling was evident in the shares of gasoline refiner and retailer **Sunoco** and life insurer **MetLife**. In each case, all four investors who held shares at the beginning of the quarter reduced their stakes, with three selling out completely. After a dismal 2009 marked by weak demand and excess industry-wide refining capacity, Sunoco's financial performance – and its share price – turned up in the second quarter as cost-cutting initiatives started to take hold. As for whether this performance signals better times to come, star investors don't appear optimistic.

In an interview last year with *Value Investor Insight* (September 30, 2009), Relational Investors' Ralph Whitworth said his investment case for MetLife –

What They're Selling: Out of Focus

Four or more SuperInvestors reduced or eliminated positions in these stocks during the second quarter. The highest-conviction sales appeared to be those of Sunoco, MetLife and Visa. Among notable changes of opinion: frequent selling in Bank of America, Kraft and Wells Fargo.

Company	Ticker	Industry	Price@ 8/30/10	Q2 2010		# of Decreased or Closed Positions	% Change In Shares Held - All Funds
				Low	High		
CIT Group	CIT	Commercial Finance	36.77	30.00	42.94	9	(-16.1%)
Bank of America	BAC	Banking	12.32	14.30	19.86	6	(-18.2%)
Comcast	CMCSA	Cable TV	17.00	16.30	20.56	5	6.8%
Express Scripts	ESRX	Pharmacy Services	43.67	45.82	53.15	5	(-36.8%)
JPMorgan Chase	JPM	Banking	35.85	36.51	48.20	5	(-4.0%)
Kraft Foods	KFT	Food	29.70	27.49	31.09	5	(-4.1%)
Pfizer	PFE	Pharmaceuticals	15.86	14.17	17.39	5	17.2%
Qualcomm	QCOM	Wireless Technology	38.29	32.73	43.39	5	(-18.6%)
Visa	V	Credit Cards	69.54	68.29	97.19	5	(-66.1%)
Wells Fargo	WFC	Banking	23.25	25.52	34.25	5	(-4.3%)
eBay	EBAY	Online Retail	23.13	19.54	27.67	4	(-55.3%)
Goldman Sachs	GS	Investment Banking	136.66	131.02	186.41	4	15.3%
MetLife	MET	Insurance	37.07	36.48	47.75	4	(-77.4%)
Microsoft	MSFT	Computer Software/Services	23.64	22.95	31.58	4	7.4%
PepsiCo	PEP	Food/Beverages	63.60	60.50	67.61	4	(-57.0%)
Sunoco	SUN	Oil Refining	34.01	26.93	36.48	4	(-77.6%)
WellPoint	WLP	Health Insurance	49.60	48.86	65.81	4	(-27.5%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2010.

then trading around $38.50 – rested largely on the company's well-founded plan to increase its return on equity from 8% to at least 12% over the next few years. His activist agenda was "fairly modest," but focused on MetLife's avowed interest in acquisitions: "We're working to make sure nothing happens unless they can show it's going to accrete to their longer-term ROE targets." In March, the company announced it was buying AIG unit American Life Insurance for approximately $15.5 billion. It's likely no coincidence that Relational sold its entire MetLife stake, valued at $420 million on March 31, during the quarter.

Opinion appears more divided on other frequently sold stocks. **JPMorgan Chase** and **Pfizer** were the two most-owned companies by top investors at June 30 and prompted as much buying as they did selling during the quarter. Five investors decreased or closed their positions in Pfizer, while seven did the opposite as its shares plumbed depths seen in early 2009, but before that not since 1996. Disagreement over **Goldman Sachs** was similarly pronounced. As the company faced withering public criticism and saw its earnings fall from their breathtaking levels of immediately preceding quarters, four star investors sold their entire stakes in the investment bank, while three others established brand new positions.

Credit-card processor **Visa** is one holding for which news could conceivably be causing a reassessment of original expectations. May's financial-overhaul bill would permit merchants to more explicitly favor non-credit-card transactions and in other ways could result in pressure on Visa's vaunted 35% net-profit margins. Such uncertainty typically attracts the interest of smart investors, but the verdict last quarter by SuperInvestors – and the market – was more negative than positive. The most aggressive move: Viking Global's complete sale of its Visa position, valued at more than $880 million at the beginning of the quarter.

The market was equally unkind to **eBay** shares, which fell 27% during the quarter. The company is attempting to combat both a cyclical and secular decline in its traditional auction business by expanding its fixed-price product offers and riding the continued growth of the PayPal electronic payments platform. While the jury is still out on the success of that effort, SuperInvestor patience grew thin last quarter, as four investors sold all or a vast majority of their stakes. SII

Funds co-managed by Whitney Tilson are long CIT, EBAY, GS, JPM, KFT, MSFT, PFE, and WFC, and short BAC.

What They're Selling: Selling Out

These 15 stocks were the largest positions eliminated by different SuperInvestors during the latest quarter. After making MasterCard its biggest sale last quarter, Viking did the same this quarter with Visa. Two top investors each dumped full stakes in Kraft and WellPoint.

Company	Ticker	Industry	Price@ 8/30/10	Q2 2010		Investor	Value @ 3/31 ($mil)
				Low	High		
Visa	V	Credit Cards	69.54	68.29	97.19	Viking	$883.9
Wells Fargo	WFC	Banking	23.25	25.52	34.25	Lone Pine	$456.9
MetLife	MET	Insurance	37.07	36.48	47.75	Relational	$419.9
Goldman Sachs	GS	Investment Banking	136.66	131.02	186.41	Eminence	$190.4
Transocean	RIG	Energy Services	52.34	41.88	92.67	Omega	$187.8
WellPoint	WLP	Health Insurance	49.60	48.86	65.81	Glenview	$159.2
ConocoPhillips	COP	Oil & Gas	52.67	48.51	60.53	Karsch	$141.5
Kraft Foods	KFT	Food	29.70	27.49	31.09	Ivory	$132.0
Kraft Foods	KFT	Food	29.70	27.49	31.09	Highfields	$109.0
URS	URS	Engineering Services	35.81	39.25	53.25	Greenlight	$89.5
Del Monte Foods	DLM	Food	13.05	8.92	16.14	Atlantic	$87.6
Pfizer	PFE	Pharmaceuticals	15.86	14.17	17.39	JANA	$86.8
WellPoint	WLP	Health Insurance	49.60	48.86	65.81	Third Point	$83.7
AMR	AMR	Airlines	6.17	5.91	9.35	Pennant	$80.8
MDS	MDZ	Medical Equipment	9.53	8.04	9.28	ValueAct	$78.9

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2010.

Not Backing Down

Based on the levered-to-economic-recovery and turnaround stocks they own in quantify and size, one couldn't characterize SuperInvestors' positioning as particularly defensive at the end of the second quarter.

While no longer dominating the most-bought list, financial stocks whose fortunes are closely tied to the ongoing health of the economy remain among the most widely owned positions by SuperInvestors at the end of the second quarter (*see table below*). Of the seven stocks held by eight or more star investors, four are big financials: **JPMorgan Chase, Bank of America, CIT Group** and **Citigroup**. In this particular popularity contest, Citigroup was the surprise winner during the quarter, with five investors increasing their positions in it or establishing new ones. (This includes the quarter's largest single new buy, by Pershing Square Capital.) While Citi shares have stabilized somewhat since their free-fall following the onset of the financial crisis, they've hardly been vibrant – at a recent $3.70, they're down nearly 30% from their 52-week high of a year ago.

Tech giants **Apple** and **Google** joined long-time favorites **Microsoft** and **Oracle** among the most-owned during the quarter. While Apple and Google each have colossal market values, the share prices can still be quite volatile over relatively short periods, at which point more than a few top investors appear poised to buy. Eight top investors owned Microsoft at the end of the quarter, apparently not buying into the market's seeming perception – based on the fact that the shares at a recent $23.65 trade at less than 10x trailing earnings, net of cash – that the company is a dinosaur sure to fall prey to more nimble, innovative competitors. This dire outlook is so far considerably at odds with the company's latest performance: driven by successful new products in all its key business lines, Microsoft in its most recent quarter reported a 22% increase in revenues and a 50% jump in earnings per share.

While **Qualcomm** remained among the most frequently held stocks, enthusiasm for the shares of the wireless-technology powerhouse was muted, as five investors reduced or sold their positions during the

What They Own: On the Offensive

Five or more SuperInvestors held stakes worth at least $30 million in these stocks as of June 30. Even though the ardor for financials has cooled, big banks JPMorgan Chase, Bank of America and Citigroup remain top holdings. Facing intense regulatory uncertainty: MasterCard and UnitedHealth.

Company	Ticker	Industry	Price@ 8/30/10	52-Week		# of Portfolios That Own	Price Vs. 52-Week High
				Low	High		
JPMorgan Chase	JPM	Banking	35.85	35.16	48.20	12	(-25.6%)
Pfizer	PFE	Pharmaceuticals	15.86	14.00	20.36	10	(-22.1%)
Bank of America	BAC	Banking	12.32	12.27	19.86	9	(-38.0%)
Comcast	CMCSA	Cable TV	17.00	13.95	20.56	9	(-17.3%)
CIT Group	CIT	Commercial Finance	36.77	24.83	42.94	8	(-14.4%)
Citigroup	C	Banking	3.67	3.11	5.11	8	(-28.2%)
Microsoft	MSFT	Computer Software/Services	23.64	22.73	31.58	8	(-25.1%)
Apple	AAPL	Computers/Consumer Electronics	242.50	164.11	279.01	7	(-13.1%)
CVS Caremark	CVS	Pharmacy Services	27.42	27.13	38.27	7	(-28.4%)
Fidelity National Information	FIS	Payment Services	26.13	21.62	30.78	7	(-15.1%)
Coca-Cola Enterprises	CCE	Beverage Distribution	28.28	18.75	29.46	6	(-4.0%)
Google	GOOG	Internet Services	452.69	433.63	629.51	6	(-28.1%)
Oracle	ORCL	Computer Software	22.02	20.10	26.63	6	(-17.3%)
Qualcomm	QCOM	Wireless Technology	38.29	31.63	49.80	6	(-23.1%)
Xerox	XRX	Office Machines	8.46	7.19	11.72	6	(-27.8%)
MasterCard	MA	Credit Cards	202.70	193.00	269.88	5	(-24.9%)
Tyco International	TYC	Diversified Industrial	37.73	30.89	40.61	5	(-7.1%)
UnitedHealth	UNH	Health Insurance	31.91	23.50	36.07	5	(-11.5%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2010.

quarter. One notable exception was Relational Investors' new position valued at $182 million as of June 30. As is also the case with fellow activist investor ValueAct Capital, companies in which Relational invests often have a way of becoming subjects of active takeover or restructuring discussion. The latest example: Sanofi-Aventis's hostile bid for key Relational holding Genzyme.

The two smallest companies attracting broad SuperInvestor interest as of the end of the quarter were commercial-finance firm CIT and bank transaction processor **Fidelity National Information**. Fidelity National has been an investment banker's dream in recent years as it has broadly restructured both its lines of business and its balance sheet. Despite the company's best efforts, however, the market seems primarily focused on the fact that the banking industry it serves continues to struggle. It would appear the seven top investors holding Fidelity National shares at the end of the quarter view that focus as myopic or overblown. (*For more on FIS, see p. 7.*)

Motorola was the only largest single holding at quarter's end of two different investors, Icahn Capital and Highfields Capital (*see table below*). The company's money-losing handset business garners the most attention, as it has lost market share for years and hasn't had a genuine hit since 2004's Razr. But likely more important to the company's overall fortunes are its stable and profitable cable-TV equipment business and its faster-growing enterprise-mobility unit, which sells barcode-scanning equipment and handheld communications products like two-way radios. Motorola has announced that by the first quarter of next year it will split into two independent companies, one focused on selling products to the home and the other focused on enterprise customers. The shares at a recent $7.50 are up nearly 15% since that announcement in February, but still trade at 60% below their 2008 high.

The leading candidate for least-known top holding: $1.4 billion market cap **ViaSat**, Baupost Group's largest position at quarter's end. The company produces satellite and other digital communications products for those "out of reach" of terrestrial networks, many applications for which have proven to be defense-related. Even though the stock is up more than 40% over the past year, Baupost increased its share position last quarter. That interest has proven unique, however, as no other SuperInvestors held ViaSat shares at the end of the quarter. SII

Funds co-managed by Whitney Tilson are long C, CIT, JPM, KFT, MSFT, PFE, SHLD and TGT, and short AAPL and BAC.

What They Own: Portfolio Anchors

These are the 15 largest holdings of different individual SuperInvestors as of the end of 2010's second quarter. Paulson & Co. continues to maintain its so-far successful position in SPDR Gold Trust, while other top investors appear to be banking on difficult turnarounds at Sears, Motorola and CIT.

Company	Ticker	Industry	Price@ 8/30/10	52-Week Low	52-Week High	Investor	Price Vs. 52-Week High
Coca-Cola	KO	Beverages	55.55	48.38	59.45	Berkshire	(-6.6%)
SPDR Gold Trust	GLD	Gold ETF	120.91	92.92	123.56	Paulson	(-2.1%)
Sears	SHLD	Department Stores	61.72	59.21	125.42	Lampert	(-50.8%)
Motorola	MOT	Telecom Equipment	7.52	6.04	9.45	Icahn	(-20.4%)
Target	TGT	Discount Retail	50.80	45.11	58.52	Pershing Square	(-13.2%)
Valeant Pharmaceuticals	VRX	Pharmaceuticals	57.59	25.05	59.42	ValueAct	(-3.1%)
Invesco	IVZ	Asset Management	18.17	16.37	24.07	Viking	(-24.5%)
JPMorgan Chase	JPM	Banking	35.85	35.16	48.20	Lone Pine	(-25.6%)
Motorola	MOT	Telecom Equipment	7.52	6.04	9.45	Highfields	(-20.4%)
Home Depot	HD	Specialty Retail	27.99	24.47	37.03	Relational	(-24.4%)
Apple	AAPL	Computers/Consumer Electronics	242.50	164.11	279.01	Blue Ridge	(-13.1%)
Bank of America	BAC	Banking	12.32	12.27	19.86	Appaloosa	(-38.0%)
CIT Group	CIT	Commercial Finance	36.77	24.83	42.94	Greenlight	(-14.4%)
Fidelity National Information	FIS	Payment Services	26.13	21.62	30.78	Glenview	(-15.1%)
ViaSat	VSAT	Satellite Communications	34.34	23.87	38.19	Baupost	(-10.1%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of June 30, 2010.

Hurry Up and Wait

The market appears apathetic toward Fidelity National Information Services as it remakes itself and the industry it serves struggles. SuperInvestors, on the other hand, have taken a more keen interest.

No one can accuse management of Fidelity National Information Services [FIS] of sitting on its hands. Since being spun off from title insurer Fidelity National Financial in 2006, the bank transaction processing firm based in Jacksonville, Florida has merged with check-processor Certegy, bought electronic-funds-transfer processor eFunds, spun off its mortgage-processing business, merged with key competitor Metavante and, most recently, completed a leveraged recapitalization that included buying back $2.5 billion in common stock at $29 per share.

As a result of all this activity, FIS today is a leader in providing to mostly mid-sized and larger banks so-called core processing services – think updating customer records, debiting withdrawals and crediting deposits – and a wide variety of payments-related services, from credit-card processing to online bill-pay. Its now relatively full product line addresses a key strategic imperative: because the number of banks is hardly growing and banks are loath to change "core" processors, growth typically requires cross-selling new products and services to existing clients. Depending on the service and the size of the client bank, FIS today competes in most of its product markets with a small number of firms, including Fiserv, Jack Henry & Associates and First Data.

Despite all its efforts, however, FIS's shares have hardly captured the market's interest. At a recent $25.65, they trade at less than 11x the $2.40 in free cash flow that Michael Marone of Pennant Capital expects the company to earn in 2011. The reason for the market's apathy is no mystery, focusing primarily on concern over increased consolidation in the beleaguered banking business. Fewer banks, the reasoning goes, means fewer total outsourced transaction-processing contracts for companies like FIS.

Pennant's Marone considers the market's apathy toward FIS to be misplaced, a judgment with which other fellow SuperInvestors appear to concur. Five such investors joined Pennant Capital in increasing their stakes or buying new ones in FIS last quarter.

The bull case for the stock rests on three primary arguments, Marone says. The first is that the market is ignoring the significant benefits of the Metavante merger, which closed late last year. Management has targeted $260 million in annual cost savings stemming from the combination – roughly 5% of pro-forma revenue – which Marone expects will likely prove conservative. He also sees significant cross-selling opportunities.

INVESTMENT SNAPSHOT

Fidelity National Information
(NYSE: FIS)

Business: Global provider of a wide variety of basic, transaction and payment processing services primarily to the commercial banking industry.

Share Information
(@8/30/10):

Price	**26.13**
52-Week Range	21.62 – 30.78
Dividend Yield	0.8%
Market Cap	$9.92 billion

Financials (TTM):

Revenue	$4.68 billion
Operating Profit Margin	14.4%
Net Profit Margin	4.2%

Valuation Metrics
(@8/30/10):

	FIS	S&P 500
Trailing P/E	43.8	16.1
Forward P/E Est.	13.2	12.6

Largest Institutional Owners
(@6/30/10):

Company	% Owned
Fidelity Mgmt & Research	5.0%
Capital World Inv	4.5%
Thomas H. Lee	4.3%
Glenview Capital	3.4%
Vanguard Group	3.1%

Short Interest (@8/13/10):

Shares Short/Float	9.4%

FIS PRICE HISTORY

THE BOTTOM LINE

The market isn't recognizing the overall quality and stability of the company's business, the upside potential of its most recent merger or the ambition of its board to create shareholder value, says Michael Marone. As each of these becomes clearer over the next 12 to 18 months, he believes the share price should increase to closer to $40.

Sources: Company reports, other publicly available information

There is little overlap between FIS's 1,400 and Metavante's 850 core-processing clients, who can now be pitched the combined company's expanded product line. While his 5% target for organic annual revenue growth is below management's expectation, it's not the dire outlook the market seems to expect.

The second bullish argument, says Marone, is that the market can only ignore the quality and resilience of FIS's business for so long. Bolstered by 86% of its revenues coming from recurring long-term contracts, the company modestly increased organic revenues in a terrible market over the past year. It has a diverse customer base, with no client accounting for more than 2% of revenues. Customer switching costs are significant, operating leverage is high as scale increases, and the competitive environment has proven rational – likely to be enhanced further by the Metavante merger. As for concerns about industry consolidation, he argues that FIS's market positions make it as likely to win new business as lose it when banks combine. "The overall quality of the business supports a high-teens multiple of cash earnings," he says, "not 11x."

Finally, he considers FIS's board to be a key asset for shareholders. He's a big fan of the cost-cutting chops and shareholder focus of Bill Foley, the company's chairman, who also still heads the board of former parent Fidelity National Financial. Other board seats are held by private equity firms Warburg Pincus and Thomas H. Lee, who own together around 18% of the company. The shareholder focus was in evidence in the recent recapitalization, Marone says. The company rebuffed earlier this year an approach by a Blackstone-led consortium of private equity firms to buy FIS out at a price rumored to be in the low $30s, deciding instead to execute a Dutch tender offer to buy back shares. "They basically said why not do something similar to what the private equity guys were proposing and keep the upside for shareholders," he says. "You don't see that very often." Increased leverage as a result of the buyback – 3x net-debt-to-EBITDA, based on 2011 estimates – is easily manageable, he says.

ON THE COMPANY'S BOARD:

They basically said to do what the private equity guys were proposing and keep the upside for shareholders.

What's FIS worth? Hitting his earnings estimate in 2011 should provide evidence of the stability of the company's business, the benefits of the Metavante merger, and the operating and financial leverage that can translate 5% organic revenue growth into EPS growth of at least 10% per year, Marone says. If that happens, he expects a more reasonable 15-16x multiple on his $2.65 per share estimate of 2012 cash flow, translating into at least a $40 share price within 12 to 18 months. SII

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