



Case Study- LH

- Purchased a full position in Laboratory Corp. of America Holdings (LH) at an average cost of \$43.84 on 9/24/2004
- Company Description: LH is one of two dominant players in the U.S. lab testing services market, providing routine and esoteric diagnostic testing. LH operates a national network of facilities and offers more than 4,400 lab tests.
- Investment thesis:
 - Profitability: LH was a highly profitable company (operating margin of 20%) and generated significant cash flow.
 - Balance Sheet Strength: LH had \$182 million in cash & equivalents and \$888 million in total debt. Because of LH's stable business we did not believe their debt level would hinder future operations.
 - Growth Potential: The diagnostic testing market had and continues to have strong growth. Tests become more sophisticated (and thus more expensive) as technology improves and more frequent as the population ages (a 60 year old needs 3X the tests of a 40 year old). We preferred LH to its larger competitor (Quest Diagnostics) because a higher percent of revenue was generated through more profitable esoteric tests.
 - Valuation: We had a cash flow valuation of \$56 for LH (27% discount). LH was also cheaper than Quest on a forward P/E.
- As of 3/31/2008 LH traded at \$73.68
 - LH has returned 68%; Russell 1000 Growth's total return has been 26%; continue to hold LH, price target \$100



Case Study- ISCA (negative return)

- Purchased a full position in International Speedway, Corp. (ISCA) at an average cost of \$55.59 on 2/17/2005
- Company description: ISCA owns and operates 11 motorsports facilities in the U.S. The France family (private owner of NASCAR's sanctioning body) controls 60% of the voting power.
- Investment thesis:
 - Profitability: ISCA was growing the bottom line and generating consistent net profit margins of about 19%. CFO was growing.
 - Balance Sheet Strength: ISCA had over \$276 million in cash & equivalents and \$377 million in debt. Current assets totaled \$341 million and current liabilities were only \$191 million.
 - Growth potential: We liked the long-term growth potential due to the loyal customer base and potential expansion, i.e. NYC. We also felt the upcoming TV deal would exceed expectations and provide a strong catalyst. Our high expectations were due to NASCAR's loyal following, the increased value of live television to advertisers as time-shifting increases and recent large deals for the NFL.
 - Valuation: ISCA was trading at 23 TTM P/E and our cash flow valuation was at \$64. We were willing to pay a higher multiple due to the TV deal and the overall earnings visibility.
- We sold the entire position 1/30/2006 at \$47.46
 - In December 2006 ISCA announced its new TV deal which was well below expectations; we continued to hold in hopes of a small bounce back. We found management's explanations of the poor TV deal to be unsatisfactory.
 - ISCA returned -15%; Russell 2000 Growth returned 18% during the holding period