
RICHLAND INVESTMENT PARTNERS

Investment

**Process
Overview**

June 2012



"Global leaders in wealth creation"

Value – more than just price!

Price is what you pay, value is what you get

– Warren Buffett

A cynic is one who knows the price of everything and the value of nothing

– Oscar Wilde

By thinking and acting more like business people will make us better investors, and being better investors will make us better business people






- Investment Club

The 7 Habits of Successful Investors

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|----------------|--|
| First | Never lose money and never forget this habit |
| Second | Be fearful when others are greedy and greedy when others are fearful |
| Third | Develop a proper temperament, combine it with a proper investment philosophy and it will lead to rational investing |
| Fourth | Don't pay more for an asset than it is worth |
| Fifth | Consider the Balance Sheet and Income Statement, but focus on the cash flows. Buy financial assets for the cash flow you expect to receive or generate |
| Sixth | Focus on intrinsic value as opportunities for profitable investment emerge when the current market price of an asset deviates significantly from its intrinsic value (buy a Rand for 80 cents) |
| Seventh | Be patient, if a business does well, the share price will eventually follow |
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Our philosophy – the investments we are looking for

We are looking for businesses:

1. We can understand and will be around in 10 years 
2. With good management in place 
3. With a durable competitive advantage 
4. With great economics 
5. Selling at close to or below intrinsic value 

“Keep it simple, understand the business. If you don’t understand the business the financials won’t help at all”

1. We can understand and will be around in 10 years



2. With good management in place



3. With a durable competitive advantage



4. With great economics



5. Selling at close to or below intrinsic value



1. Understandable business

We are looking for businesses:

- Others have given up on – the “ugly sisters” – due to economic downturn or bad news
 - For which macro-economic factors are not overly important
 - That are mature businesses with 10 years of history
 - We understand enough to predict (fairly accurately) what it will be doing in ten to fifteen year’s time
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2. Good Management in place

Criteria

- | | |
|---|---|
| 1. We can understand and will be around in 10 years | ✓ |
| 2. With good management in place | ✓ |
| 3. With a durable competitive advantage | ✓ |
| 4. With great economics | ✓ |
| 5. Selling at close to or below intrinsic value | ✓ |

We are looking for in management:

- That maintains good labor relations
- That has substantial shareholding in the business
- That are lions, i.e. lions or hyenas – noble hunters or scavengers?
 - Lions:
 - ethical, moral and earn their keep honorably
 - strong intellect and entrepreneurial values
 - visionaries and leaders
 - Hyenas:
 - little interest other than winning the game
 - little interest in gaining knowledge or learning
 - survivors who leaves with the prey

“You can’t make a good deal with a bad person – ensure management has integrity, intelligence and energy”

3. Durable competitive advantage

Criteria

- | | |
|---|---|
| 1. We can understand and will be around in 10 years | ✓ |
| 2. With good management in place | ✓ |
| 3. With a durable competitive advantage | ✓ |
| 4. With great economics | ✓ |
| 5. Selling at close to or below intrinsic value | ✓ |

Durable competitive advantage (or moat) is a result of either a supply or demand advantage, e.g.:

1. **Network** – size, scale, popularity, e.g. Shoprite, Facebook, Woolies
2. **Costs** – economies of scale, e.g. Intel
3. **Intangible assets** – strong brands, patents, licenses, e.g. MTN
4. **Switching costs** – time equals money, e.g. banks, BCX, elevators
5. **Efficient scale** – niche market, e.g. airport, defense

“You need a moat in business to protect you from the guy who is going to come along and offer your product for a cent cheaper”

4. Great economics

Criteria

- | | |
|---|---|
| 1. We can understand and will be around in 10 years | ✓ |
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Great economics (performance) include:

- **Stability** – upward trending Sales, Earnings and BV without negative dips (cyclical)
- **Growth** –
 - consistent growth in Sales, Earnings and BV with little variation in growth percentage year-on-year. Sales and earnings growth at inflation *plus* rates
 - positive use of retained earnings
- **Sustainability** –
 - higher than average Return on Equity (+ 18% p.a.) and Return on Total Capital (+ 15% p.a.)
 - consistently higher Return on Invested Capital than Weighted Average Cost of Capital
 - high EM Score (>8.15)
 - consistently positive Free Cash Flow (i.e. earnings exceed capital and working capital expenditure)
 - little or no debt (debt repayment from earnings in less than two years)
- **Compound Annual Growth Rate (CAGR) – THE NAME OF THE GAME!**
 - we are searching for the best business with the highest possible CAGR over the next 10 years
 - expected/possible CAGR (share price gain plus dividends) of + 15% compound annual over 10 years

“Mirror, mirror on the wall, how much can I charge for our products this fall?”

- If the answer is ‘more’, that’s a good business!

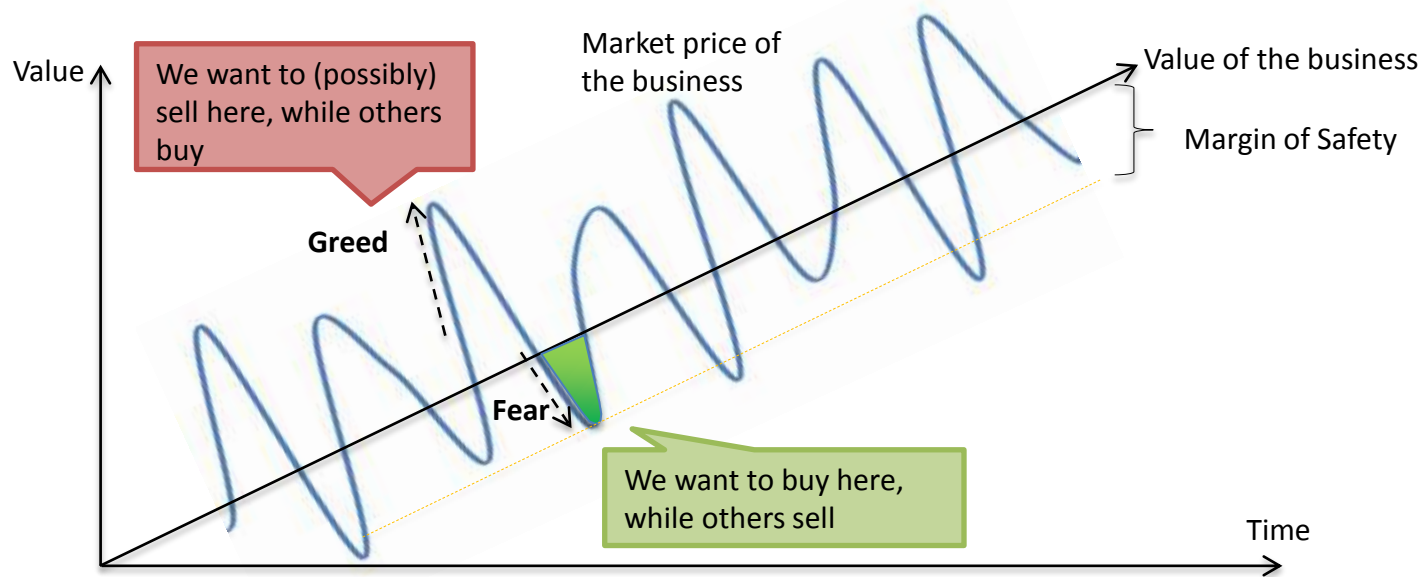
Criteria

1. We can understand and will be around in 10 years ✓
2. With good management in place ✓
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5. Selling at close to or below intrinsic value ✓

5. Price vs. Value

Price versus Value:

- Price is what you pay, value is what you get
- Everything else being equal, the price you pay for a share is the biggest single factor influencing your long term returns



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