

Presentation to:

The Ben Graham Centre for Value Investing

at

The Richard Ivey School of Business

February 10, 2010



STACEY MUIRHEAD - OVERVIEW

- Firm is independently owned and operated
- Partners have 32 years of investment experience
- Started Stacey Muirhead Limited Partnership in 1994
- Started Stacey Muirhead RSP Fund in 2004
- Firm is investment focused and not marketing driven



Performance Results

Limited Partnership – Since Inception

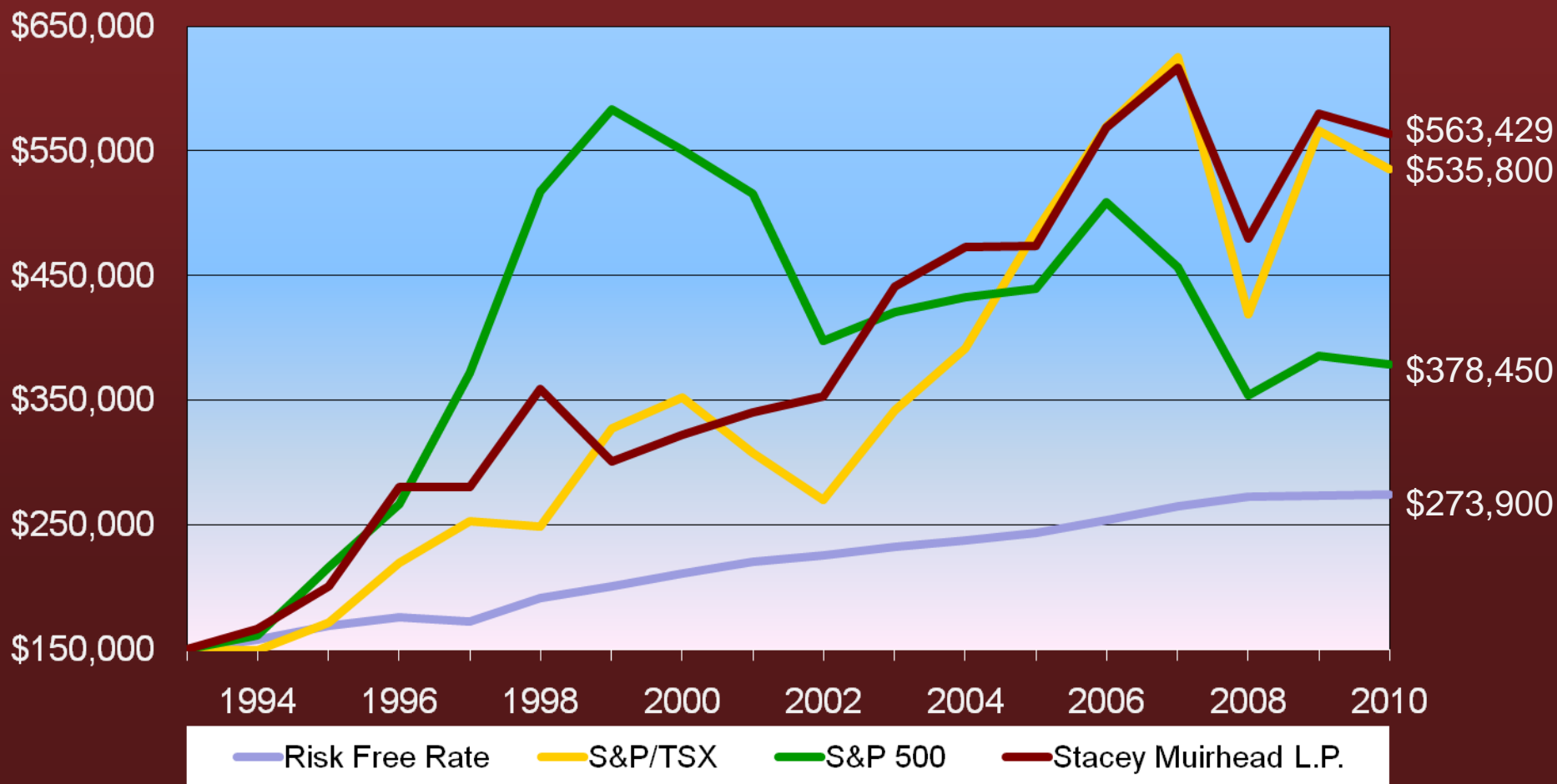
	Limited Partners	S&P/TSX Index	S&P 500 Index
Cumulative Compounded Results	275.6%	256.9%	152.3%
Annual Compounded Rate of Return	8.6%	8.2%	5.9%

As of January 31, 2010



Performance Results – Limited Partnership

Growth of a \$150,000 Investment Since Inception



As of January 31, 2010



Guiding Tenets

- Investment Philosophy
- Governing Principles
- Both documents are published in our Annual Report and available on our website



Objectives

- Maximize the average annual “*after tax*” return on capital
- Minimize the risk of permanent impairment of capital
- Outperform the market over the long term



Principles

- Think about stocks as part ownership of a business
- Maintain the proper emotional attitude
- Insist on a margin of safety
- Do not diversify excessively
- Invest for the long term



Activities

- Long Term Investment Holdings
- Arbitrage and Workout Situations
- High Yield and Distressed Positions
- Fixed Income Instruments



Long Term Investment Holdings

- Can we understand it?
- Does it possess favourable business economics?
- Does it have honest and capable management?
- Can it be purchased at an attractive price?

**GREAT BUSINESS,
GREAT PEOPLE,
GREAT PRICE.**



Indigo Books & Music Inc.



Image source: Indigo Books & Music



Indigo Books & Music Inc.

What is it?

- Largest book retailer in Canada
- Online retailer – www.chapters.indigo.ca
- eReading service - www.kobobooks.com
- New retail concept – Pistachio
- Achievement/Recognition
 - #1 National Retailer in Canada
 - Best Retail Store Design



Indigo Books & Music Inc.

Key Statistics

- Market capitalization \$397 million
- Current stock price \$16.19
- Stacey Muirhead average cost \$12.27
- Stacey Muirhead ownership 239,000 shares
- First purchased shares in March 2008 and have continued purchases throughout 2009



Indigo Books & Music Inc.

1. Can we understand it?

- Yes

2. Does it possess favourable business economics?

- Dominant position
- High returns on equity
- Strong balance sheet
- Strong free cash flow



Indigo Books & Music Inc.

3. Does it have honest and capable management?

- Ownership – Heather Reisman & Gerald Schwartz own over 70% of the shares outstanding
- Compensation – Heather Reisman takes no options or bonus
- Capital Allocation
 - Debt totally paid down
 - Quarterly dividend instituted
 - Active share repurchase program
 - Pistachio shows management discipline



Indigo Books & Music Inc.

4. Can it be purchased at an attractive price?

▪	Current share price	\$16.19
	Less excess cash on hand	<u>(\$5.00)</u>
▪	Net share price	<u>\$11.19</u>
▪	P/E – ttm	11.1 x
▪	P/E – ttm excluding cash	7.7 x



Indigo Books & Music Inc.

KOBO – A New Growth Engine?

- eReading JV between Indigo, Borders, REDgroup Retail & Cheung Kong Holdings
- Indigo has a 58% interest
- Open standards
- Available on any device
- Breadth of Content – over 2 million eBooks
- Global – over 1 million downloads in over 200 countries



Indigo Books & Music Inc.

Summary

- Great Business
- Great People
- Great Price



Arbitrage & Workout Situations

- Pursuit of profits from announced corporate events
- Mergers, tender offers, spin-offs, liquidations, reorganizations, etc.
- Evaluation based on probability of events occurring, time, opportunity cost, downside
- Results depend more on corporate activity than market behaviour



Arbitrage & Workout Situations

- How likely is it that the promised event will indeed occur?
- How long will our capital be locked up?
- What chance is there that something still better will transpire?
- What will happen if the event does not take place?



Tusk Energy Corporation

Transaction Details

- Offer for \$2.15 per share in cash on February 10, 2009
- Plan of Arrangement with Polar Star Canadian Oil and Gas Inc.
- Information circular to be mailed in late February, 2009
- Shareholder meeting to be held in late March, 2009
- 66 2/3% shareholder approval required
- Investment Canada Act approval required



Tusk Energy Corporation

Evaluating the Deal - Key Issues

- Price to be paid represents 150% premium
- Polar Star is a wholly owned subsidiary of TIAA - CREF
- No financing conditions
- Lock up agreement representing 7.7% of outstanding shares
- Fairness opinions from Macquarie & Scotia Waterous
- Unanimous board approval



Tusk Energy Corporation

Expected Return Analysis

Consideration	<u>\$2.15</u>
Price	\$2.09
Commission	\$0.015
Total Cost	<u>\$2.105</u>
Gross Profit	\$0.045
Gross Profit	2.14%
Holding Period	49 days (02/13 – 04/03)
Annualized Rate of Return	15.92%



Tusk Energy Corporation

Transaction Results

Shares Purchased	500,000 (02/13/09)
Closing Date:	April 14, 2009
Holding Period:	60 days
Gross Profit:	\$22,500
Gross Profit:	2.14%
Total Invested Capital	\$1,052,500
Annualized Rate of Return:	13.00%



IMS Health Inc.

Transaction Details

- Offer for \$22.00 per share in cash on November 5, 2009
- Buyers are TPG Capital and CPP Investment Board
- U.S. & European antitrust approvals required
- Shareholder meeting expected for February 8, 2010
- Unanimous board approval



IMS Health Inc.

Evaluating the Deal – Key Issues

- Private equity deals are riskier
- Debt and equity financing is fully committed
- Volatile health care regulatory environment
- Unique Material Adverse Condition (M.A.C.) clause
- Antitrust approvals seem routine
- Shareholder approval seems likely



IMS Health Inc.

Expected Return Analysis

Consideration	<u>\$22.00</u>
Price	\$21.043
Commission	\$0.02
Total Cost	<u>\$21.063</u>
Gross Profit	\$0.937
Gross Profit	4.45%
Holding Period	85 days (01/05/10 – 03/31/10)
Annualized Rate of Return	19.10%



High Yield and Distressed Positions

High Yield

- Securities that can continue to meet their interest or dividend obligations
- Perceived or actual difficulties or overall market weakness has resulted in an attractive yield
- Examples:
 - Reduced access to credit markets
 - Poor short term operating performance
 - Deterioration in value of assets
 - Unexpected increase in liabilities



High Yield and Distressed Positions

Distressed

- Securities that have already defaulted on their obligations
- Primary concern is valuing the cash and securities likely to be received upon reorganization
- A key consideration is determining seniority in the capital structure



International Coal Group

10.25% Senior Notes due 07/15/2014

Purchase Amount:	\$1,250,000
Purchase Date:	November 2, 2009
Purchase Price	\$96.00
Yield to Maturity	11.6%

Key Terms

- Notes rank equally with all other senior unsecured debt
- Option to redeem at 100% of value between 07/10 to 07/12
- Change of control provision



International Coal Group

Capital Structure (12/31/09) in \$ Millions

Cash & Equivalents \$ 92.6

Secured Debt 57.3

9% Convertible Notes 152.0

10.25% Senior Notes 175.0

Net Debt 291.7

Shareholder Equity 609.2

Net Debt to Total Capital: .32 to 1



International Coal Group

Financial Summary (12/31/09) in \$ Millions

Adjusted EBITDA	201.7
Interest Expense	53.0
Interest Coverage	3.8 x
Capital Expenditures	66.4



International Coal Group

Key Considerations

- Over 88% of 2010 production is committed and priced
- Selling price of \$61.00 per ton versus \$49.44 cost per ton
- Interest expense reduced by \$10 million in 2010
- Non-unionized workforce and low employee legacy costs
- Favourable capital structure position
- Wilbur Ross Group and Fairfax Financial are the largest shareholders



Fixed Income Instruments

- This category is a parking spot for cash until opportunities emerge
- Minimize credit risk
- Minimize interest rate risk
- Example: Government of Canada Treasury Bill 0.06% due March 18, 2010



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