

Small Caps Are Diamonds in a Rough Market

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Small and Mid Cap Value Outperforms

- Since 1970 returns show small cap value performs the best
 - small cap value has returned on average 15%
 - mid cap value has returned 14%
 - large cap value has returned 10%
- Small cap, mid cap and large cap growth has returned 8%, 9% and 7% respectively
- So why aren't more people invested in small and mid cap value?

Reasons why investors don't invest in small and mid cap value

- Small cap value can be boring
- Sometimes long periods without news
- Illiquidity frightens investors who want the illusion of instant liquidity
- Volatility
- Little or no analyst coverage

Reasons why Sabre loves small and mid cap value

- Small and mid cap value outperforms the market
- Small and mid cap value stocks can sometimes be very inefficiently priced
- Perceived greater volatility is not that much greater
- Small cap value's annualized standard deviation has averaged 21.1%, not much more than large cap growth's 18.9% since 1970

Sabre's Method

- Drill deep into a pool of outperformance
 - small & mid cap value
- Insider buying, which also outperforms
 - Munger's Lollapalooza effect
- Restructuring and turnaround situations
- Any small company experiencing change
- Do a tremendous amount of research
- Do not use leverage
- Run a focused portfolio (10-15 stocks)
- Add some selective short selling

How do you find Sabre's kind of stocks?

- Where are these kinds of opportunities?
 - Rarely on the NYSE
- How do you find them?
 - Look for insider buying, spin-offs, buybacks, restructuring
 - Hard to screen for
- What does a good opportunity look like?
 - High percentage of insider ownership or insider buying
 - Hidden growth or substantive change
 - A division, subsidiary or product whose true potential is obscured

Past Example: CAM Commerce (NASDAQ: CADA)

- Point of sale equipment company,
 - Developed a payment processing software called X-Charge
- In 2005 CADA sold for \$12 to \$15 a share, despite \$4 a share in cash
 - X-Charge cash cow division was growing at triple digit rates
- CEO bought shares at \$12 up to \$22.50
- Sold for \$40 per share to private equity firm

Restructuring small caps

- There has always been great opportunity in turnarounds and restructuring
- In small and mid caps, the result can be explosive and can offer tremendous risk adjusted returns
- Positive information disseminates slowly and memories can be long

Hemisphere (Toronto: HEM) Points to Substantial Upside

- Precision Agriculture including: GPS guidance and Auto-steering become best practices on the farm
- Payback is 6 months or less thanks to soaring input costs
- NA penetration is 15% to 20%, worldwide penetration is close to 1%
- Grew revenue by 59% in q2 and 46% in q3% and should grow at least 25% in 2009
- How many technology companies do you know that have recently raised prices?
- Grain bull markets last on average 10-14 years, and lag the commodity markets. We are 2 years into the current rally

Hemisphere Is Severely Undervalued

- Comps: RAVN & TRMB trade for 14 times 2009 estimates and 2 times 2009 sales
- Hemisphere trades at 6 times 2009 estimate outside of cash and 0.8 times sales (C\$1.81 per share)
- Acquisition of competitor values HEM at over \$6 per share
- Insiders are buying, Company also announced a buyback
- Not a commodity company as evidenced by the price increase
- IP Value in that there are only 4-5 companies with technology
- New markets include Mining applications

Spin-offs Outperform the Market

- Academic research shows that spin-offs outperform the market
- Small and Micro Cap spin-offs in particular can be rewarding
- Inefficiency in pricing
- Shareholders may not understand what they own

Which company has the strongest patent portfolio?

- Google
- Yahoo
- Dell
- Digimarc
- NEC
- Sharp

Digimarc (NASDAQ: DMRC) and the value of small cap spin-offs

- WSJ and the Patent Scoreboard found that Digimarc has the 21st strongest patent portfolio in information technology
- Digital Watermarking has an incredible future ahead
- Patent licensees include: Thomson, Phillips, Sony and Nielsen
- \$13 million in revenue in 2007, growing to \$20 million in 2008, with a \$60 million backlog, \$43 million in cash on the books
- 73% gross margins and profitable
- Intellectual property comp average price to sales is 5 times sales
- How does the 21st strongest patent portfolio in information technology in the world equal a \$30 million EV?