FCP Valeur Intrinsèque
Portfolio Highlights on December 30th, 2011

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Carpetright (United Kingdom)

Portfolio weight: 4.7% - Market capitalization: £323M - Revenues: £487M - Net Income: £5M - Position in portfolio since 2002.

Carpetright, which is still managed by its founder and main shareholder Lord Harris, is the leading specialist floor covering retailer in the United Kingdom with around 30% of the market. In this region, the group has established a network of more than 500 strategically situated stores that is continually optimized in order to lower rental costs. In addition, the Carpetright brand, which has been built over the past 20 years, is associated with wide selection of floorcoverings, good service and low prices. These factors translate into a favourable competitive position that provides the group with a strong buying power, reinforced by its mainland Europe's market share (120 stores in Belgium and the Netherlands).
As the construction crisis lingers in the United Kingdom, the group has implemented a new strategy, taking into account the emergence of the Internet as a shortlisting tool for the customer. Whereas he used to visit the store several times before purchase, the customer now tends to make a shortlist of models on the Internet and then to visit the store just once to close the deal. Therefore the network density and the variety of the available assortment are of less importance. As a result, the group decided to take advantage of ongoing lease renewals to close stores as well as reduce store size when appropriate and feasible.
In addition, an experienced management team was recruited to develop the areas dedicated to bed selling. These are now deployed in more than 261 stores and allow the turnover per store to resist despite the currently difficult environment for floorcoverings.

Carpetright (United Kingdom) (cont.)

Finally, thanks to its high level of cash generation, the group continued its effort to bring down its net debt in order to have enough flexibility to face the uncertain short-term environment. Put together, all these factors should combine to allow Carpetright to strengthen its competitive position. As a result, we remain confident in the long term potential of this investment.

Charles Schwab (United States)

Portfolio weight: 4.7% - Market capitalization: $14,300M - Revenues: $4,248M - Net Income: $454M - Position in portfolio since 2010.

Charles Schwab is a leader and a pioneer in the field of financial services to the private United States investor. It provides a range of solutions such as security brokerage, access to an open-architecture investment fund platform, or proprietary saving and lending products. Charles Schwab can serve individual investors directly, via remote account-management tools (web, telephone) supplemented by more than 300 branches nationwide, or as a "platform", i.e. through registered investment advisors who integrate these solutions into their own services.

The group's revenue is primarily derived from recurring fees charged for management and/or distribution of investment products (43% in 2010), brokerage commissions earned on client security trades (18%), as well as net interest margin derived from reinvesting client cash deposits (36%).

Charles Schwab ends 2011 with circa 8.5 million customer accounts and close to $1 700MM of assets in custody. These two key performance indicators of the group's earning capacity grew by respectively 3 and 5% like-for-like over the year. Such a pace is consistent with the group's long-term potential, despite a rather unfavourable operating context throughout the year.

However, in 2011 Charles Schwab's profitability remained below its long-term average, for exactly the same reasons as in 2010. The current interest rate structure in the United States, still abnormally low (close to 0% overnight, and 2% on a 10-year maturity) limits both its net interest revenue and the management fees charged by its money-market funds. The group's profit margin before tax was around 30% in 2011, resulting in a return on equity, before exceptional items, of around 15%. These metrics were close to 40% and 30% respectively during the last cycle, a performance which, we believe, is still achievable once the rate environment normalises.

Charles Schwab can rely on several structural advantages to help it remain a flourishing business in the long run. Its considerable scale of operations allows it to absorb the fixed costs and investments necessary to maintain a quality offering, whilst remaining extremely competitive on pricing. Additionally, with a reputation built over the past three decades, Charles Schwab has become a reference provider for both of its client targets. Self-oriented individual investors get easy access to a wide and ever improving range of financial products, from a single vendor. Professional investment advisors, on the other hand, rely on Charles Schwab to provide them with transactional and administrative tools critical to the success of their own businesses.

Finally, it should be noted that Charles Schwab is still led by its eponymous founder, as Chairman of the Board and largest shareholder (around 15% of the share capital owned).

The above-mentioned elements, combined with a modest market valuation of the stock, are the main rationale for our investment in the company.

Cintas Corp. (United States)

Portfolio weight: 4.7% - Market capitalization: $4,516M - Revenues: $3,810M - Net Income: $247M - Position in portfolio since 2008.

Cintas is the leading work uniform rental and cleaning company in the United States, with a national market share beyond 30%. It is also the largest or second largest player in the provision of several complementary business services, such as restroom consumables and first-aid kits provision and replenishment as well as fire protection equipment maintenance.

2011 marked a return to sustained organic growth for Cintas, approaching 7% in comparable terms. This performance primarily lies in a relative easing of the general economic context in the United States, translating into higher business volume for Cintas' customers compared to 2010. These are representative of such key sectors of the country's economy as hospitality, retail or manufacturing, among others.

Thanks to this increase, and a resulting operating leverage effect, Cintas' profit margin also improved to around 13%. This level is roughly half-way between a trough of 11% hit during the 2009-2010 period, and historical highs of 15 to 16%.

Having resisted the past years' crisis quite well, Cintas should benefit from the expansion opportunities inherent to its business. As a reminder, for a significant proportion of United States small and medium enterprises the services described above are still provided in-house.

The company may also keep gaining market share over smaller, structurally less-profitable competitors. Its main competitive advantages lie in the dominance/saturation of its delivery routes, as well as a network of processing and distribution sites conveniently located across the country.

Combining the above with the level of experience and share ownership of its management, we are confident in Cintas' ability to satisfactorily grow its revenue and its profits over the long term.

Hays (United Kingdom)

Portfolio weight: 9.7% - Market capitalization: £890M - Revenues: £3,256M - Net Income: £80M - Position in portfolio since 2008.

Hays is a United Kingdom-headquartered specialized recruitment service provider with a broad international presence. Its branch network currently comprises 255 locations worldwide. The group's offering meets the needs of businesses and administrations seeking skilled labour in such niche areas as, for instance, accounting, engineering or healthcare. Its revenues derive from fees charged to clients upon placing candidates on permanent or temporary job assignments.

Despite continuing uncertainty surrounding the economy, Hays has remained focused on its long-term development strategy throughout the year. The latter especially consists in densifying the international footprint and widening the sector "specialism" coverage, which translated into an organic growth comprised between 10 and 15% for the group in 2011. However in its core British market (around 33% of its net fees), it has suffered in 2011 a decline in revenues as well as losses as a result of the current economic slowdown. This was more than offset by growth in Australia (27% of net fees) and Germany (16% of net fees), respectively its second and third markets, although the management team recently pointed to some deceleration towards the year-end.

Hays (United Kingdom) (cont.)

Hays' stratetgy strengthens its competitive advantages within its existing markets whilst gradually extending them to newer locations where specialized recruitment services develop rapidly. These advantages include, primarily, the ability of its large revenue base to absorb fixed costs (branch occupancy costs, local back-office infrastructure etc.), the appeal of a candidate database for recruiters and vice versa, the power of its brand, its branch network, ect.
Thanks to a competent management team, as well as a solid balance sheet, we are confident in Hays' ability to keep growing both revenues and profits over the long term.
Finally, Hays' current stock market valuation looks to us very attractive.

Leucadia National Corp. (United States)

Portfolio weight: 9.6% - Market capitalization: $5,562M - Revenues: NS - Net Income: NS - Position in portfolio since 2009.

Leucadia National is a United States investment company which specializes, among other things, in acquiring and turning around troubled businesses. Joseph Steinberg and Ian Cumming, at the helm since 1978, have long demonstrated their profit-making skills. Indeed, for the past five, ten and twenty years, the annual return on net assets per share has been, on average, 11.7%, 15.6% and 19.4% respectively. Moreover they own respectively 10.4% and 9.1% of the company (for an estimated value of $960M and $837M in March 2011).
Leucadia's reputation is such that investors like Berkshire Hathaway regularly partner with them. This happened with Finova in the early 2000s and later in 2009 with Capmark Financial Group, one of the main American mortgage servicer, which was filing for bankruptcy.
Nevertheless both managers are now close to 70 years old and therefore possibly close to retirement. However a team of younger managers has been assembled over the years and it is likely, given the founders' approach to business, that a succession plan has already been put in place.
In 2011, Leucadia reduced its ownership in the Australian mining company Fortescue Metals, for a profit of around $525M (i.e. more than +350% over 5 years). The group still owns close to 5% of the stock and is still entitled to a percentage of the revenues generated by its main mining operation, which alone yielded close to $170M over the first nine months of the year. Most of the generated cash was reinvested in December in the acquisition of 79% of National Beef, one of the main beef transformers in the United States.
The company's total balance sheet amounts to $8.2MM at the end of September, with a net debt of $1.2MM. Its market capitalisation is currently worth less than 90% of its net asset value.
Given the management team's rationality, experience and track record, the sound financial structure and the currently undervalued stock price, we decided to significantly overweight this position in the fund's portfolio.

Premier Farnell (United Kingdom)

Portfolio weight: 9.8% - Market capitalization: £665M - Revenues: £991M - Net Income: £66M – Position in portfolio since 2001.

This British group, a world leader in the distribution of small quantities of electronic components, is mid-course through a 3-year transformation plan, following the successful implementation of its previous strategic plan launched in 2006-2007. Beyond operational and financial optimization, Permier Farnell's long-term strategy has been focused on growing the E.D.E. segment (Electronic Design Engineers), increasing web sales to reach 70% of revenues in 2013, and expanding sales in emerging markets through setting up local infrastructures.
The Element14 community website is core to the strategy that aims at transforming the group from a product distributor to a more holistic service provider to the electronic design engineer. It allows E.D.E.s to share their know-how, as well as their professional issues. Thanks to Element14, Premier Farnell enhances engineers' loyalty, enlarges its customer base (80% of Element14's visitors are new customers) and grows web sales.
Although 2011 marked a year of steadily slowing growth for Premier Farnell, it has succeeded in maintaining satisfactory margin levels and a healthy financial structure.
As a reminder, the Group's manufacturing arm, generating less than 10% of its revenues, remains very profitable. Being non-core, one might expect it to be sold or spun off once markets recover.
The group's management team is made up of first-class industry veterans, with a clear and consistent vision of the group's future. Given such a background, we would expect this investment to generate, over the long term, satisfactory to excellent rates of return.

Randstad (Netherlands)

Portfolio weight: 9.7% - Market capitalization: €3,908M - Revenues: €14,179M - Net Income: €281M - Position in portfolio since 2008.

The second largest global temporary staffing firm should close its 2011 financial year with a double-digit organic revenue growth (+12% over the first 9 months), and an operating margin back to its so-called "normal" range of 4 to 6%. However, one should be aware of a marked slowdown experienced by the group in Europe toward the end of the year. The latter reflects broader economic trends in Europe, where Randstad still derives a majority of its revenue.
Although the duration and magnitude of this latest deceleration remains unpredictable, it should not impact the long-term growth potential of the group. As long as its management team remains focused on implementing its time-tested strategy launched in 2001. Its strategy aims at replicating successful ventures, through so-called "cut&paste", across as many territories and recruitment needs (different according to sectors, hire volumes, ect.) as possible.
As a complement to organic growth, Randstad sometimes resorts to M&A transactions to reach a critical mass in given markets. Its main move in 2011 concerned north-America, where the group is now the 3rd largest player following the takeover of SFN for less than $800M.
Although Randstad's debt level rose again after this transaction, it remains under control, at around 4 times its currently depressed annual free-cash-flow.

Randstad (Netherlands) (cont.)

As a reminder, Randstad enjoys several competitive advantages, including the breadth of its global branch network, good brand awareness, as well as economies of scale in back-office functions.

Finally, the group has been led for more than 10 years by the same team of competent managers with hands-on experience of the HR business.

Thanks to the above factors in combination with an undervalued stock, Randstad has become in 2011 one of the top 5 holdings of the fund's portfolio.