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Outstanding Investor Digest

PERSPECTIVES AND ACTIVITIES OF THE NATION'S MOST SUCCESSFUL MONEY MANAGERS.

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May 24, 1991

ANNUAL MEETING ROUNDUP: SEQUOIA FUND, WESCO FINANCIAL & WINDSOR FUND SPECIAL DOUBLE ISSUE

With the annual meetings of our money managers occurring fast and furious, we found ourselves with too much of a good thing — with neither enough time to write them up or pages to fit them into. However, because we feel privileged to be able to sit in and learn from masters such as Sequoia's Bill Ruane and Bob Goldfarb and Windsor Fund's John Neff — and to share their thoughts with you, we've altered our length and format this issue only to accommodate them

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TIGER'S JULIAN H. ROBERTSON, JR. ET AL.
"A LOT OF WHAT I DO IS CHEERLEAD.
IT'S MORE FUN FOR ME THAT WAY."

Since its inception on May 5th, 1980 to April 30th, 1991, limited partners of Tiger Fund have seen their equity grow at over 32% per year compounded after all fees and expenses vs. 16.9% per year for the S&P 500. Incredibly, before fees, Tiger has earned more than 40% per year.

As you may not be surprised to hear, Tiger continues to tear up the averages thus far in 1991. Through May 16th, Tiger is up 25% vs. 14% for the S&P 500.

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**BERKSHIRE HATHAWAY'S
WARREN BUFFETT & CHARLIE MUNGER**
"OPTIMISM IS THE ENEMY OF THE EQUITY INVESTOR."

Believe it or not, \$10,000 invested in Buffett Partnership in 1956 and reinvested in Berkshire Hathaway at its termination in 1969 would today be worth over \$30 million. Incredibly, the lucky investor would have incurred only about \$50,000 in income taxes during the entire 34 years.

Yet, even those figures substantially underestimate Buffett's performance. Before fees, the \$10,000 would have grown to an even harder-to-believe sum of nearly \$60 million.

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ASTER INVESTMENT MANAGEMENT'S RICK ASTER
"SMALL CAP STOCKS ARE OVERDUE FOR A LONG RUN."

Above average long-term returns are a generally agreed upon advantage of small-cap growth stocks. Lack of volatility is not. Somehow Rick Aster of Aster Investment Management has managed to achieve both.

Over the 19 years that Aster's managed client accounts, he's achieved a compound annual return before fees of 19.6% vs. 11.0% for the S&P 500 and 13.2% for the Ibbotson Small Company Index. Even more impressive, Aster's had only one down year during the entire period — all of 6.5% in 1987.

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TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL
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In a nutshell, we're not aware of any investment entity that has outperformed Tiger since its inception.

Here are Tiger Fund's year-by-year performance figures before and after fees alongside those of the S&P 500. (Performance figures provided by Tiger Management.)

<u>Year*</u>	Gross Annual <u>Return</u>	Net Annual <u>Return</u>	S&P 500 <u>Total Return</u>
1980	+70.4%	+56.3%	+31.4%
1981	+24.3%	+19.4%	-4.9%
1982	+53.0%	+42.4%	+21.4%
1983	+58.4%	+46.7%	+22.5%
1984	+25.2%	+20.2%	+6.3%
1985	+64.2%	+51.4%	+32.2%
1986	+20.2%	+15.5%	+18.5%
1987	-1.4%	-1.4%	+5.2%
1988	+26.3%	+21.6%	+16.8%
1989	+62.3%	+49.9%	+31.5%
1990	+25.2%	+20.5%	-3.2%
1980-90	+38.6%	+31.1%	+16.0%

*Beginning 5/5/80.

We recently had occasion to look back at some of Tiger's past contributions to OID. And we must confess that we were somewhat surprised by what we found. Certainly, we knew their contributions had been astute. (Obviously, you don't earn returns like Tiger's without having something on the ball.) However, what surprised us was how they had knocked the cover off the ball such a high percentage of the time in our pages.

For example:

•In April 1990, with the junk panic in full swing, Tiger's Pat Duff told us about the incredible undervaluation of RJR PIKS at 70¢ on the dollar yielding 14% on face.

Result: Following a recapitalization by RJR, the bonds not only went to par, but to a large premium. And, of course, Warren Buffett loaded up, as well.

•In late 1990, with the financial panic in full swing, Robertson himself reported buying selected financial stocks — several of which he shared with us.

Result: Two doubled.

And there were others.

Anyway, after realizing how astute their past features had been, it took us all of ten seconds to pick up the phone and beg Robertson to tell us where he and his associates are finding opportunities today.

As we hope comes through in the following feature, the breadth, depth and calibre of research and the coordination thereof are no less impressive than the performance figures that they've generated. The following feature, although it's long — even by OID standards —

barely scratches the surface of the ideas and insights at Tiger's "idea factory".

Your editor had the distinct pleasure of speaking with Robertson and five of his associates at Tiger — John Griffin, Pat Duff, Steve Mandel, Shelby Bonnie and Christine King — in a series of conversations from May 16th to May 23rd. The following excerpts were taken from those conversations. We hope that you find them as informative and valuable as we did:

**JULIAN ROBERTSON
ON TIGER MANAGEMENT**

OID: *We really appreciate you guys taking time out to speak with us. It's not like you're looking to raise more money.*

Robertson: People have finally found out about us. We had gotten used to dealing with individuals and hoping they would invest \$1 to \$2 million. But colleges and pension funds have literally hundreds of millions of dollars. We've just moved up into a different league in terms of money flow. And I think we'll open up again.

But it's like snow. As a skier, you love having a lot of snow, but you don't want to get run over by an avalanche. So, we're going to shut down for a while.

OID: *You recently roared past the \$1 billion mark in monies under management. Do you think you give up any performance having grown so much of late?*

Robertson: I don't think there's any question that we can run the amount of money we have now. But we want to run it in a way that continues to be fun.

I think size would become a problem when small growth companies could no longer be meaningful contributors to our performance. And it would be a problem not only because they're good sources of profit, but they're also good sources of fun and information.

But I don't think we'll let ourselves get to that point. And we may be able to get around it somewhat by just going to more countries. It's a big world out there.

I do think it's harder, though, with every succeeding dollar you get. I'm sure this group could run \$50 million better than what we're running now. But we couldn't attract the same people if we ran \$50 million. And our talent-to-asset ratio is probably higher than it's ever been.

And the figures really are showing up that way, too. We're so much more diversified than we've ever been.

OID: *As I understand it, you've stopped accepting money from anyone aside from those who were already in discussion with you.*

Robertson: That's pretty much the case — plus individuals coming into our new fund, Panther. And there are interesting people calling almost every day to get into it. And we don't need their money, we want their brains. We want them to be able to contribute ideas and insights.

This new fund really gives us the individuals. The unfortunate thing about the colleges is that they have all the money in the world, but they don't give you any ideas.

We have a real good network of partners. For example, we have one partner who's one of the largest franchisers of fast food restaurants in America. The information he can

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**TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL**
(cont'd from preceding page)

give us on other companies is just tremendous. He can call people in the industry, check on how they're doing — everything. It's just fabulous.

We can call real estate people in Atlanta and find out who the good banks are in terms of borrowing money, who are the bad lenders and who are the easy lenders, who has the worst restrictions and who really polices it well.

In the textile business, we also have a lot of entree. And that's all very useful.

OID: I would think so.

Robertson: Even car sales. For example, we've got one tremendous dealer who's a partner and one who used to be a partner. And we know another hedge fund operator who knows a couple of big dealers. We can get a pretty good picture before the figures come out of what car sales are doing just from these dealers.

It's very, very helpful. We're looking at a real estate company right now. So we called a fellow who is one of our partners who was very successful in real estate. And he told us what to ask. This is a new field for us.

So that's why we're doing the new partnership.

OID: In the Wall Street Journal yesterday, there was a fascinating article which quoted Soros, Steinhardt, Rocker and a couple of other hedge fund managers. And the article suggested that you had gotten much more bearish of late. It sounded pretty extreme.

Robertson: I think maybe they picked bearish people. We are a little bit more bearish than we were at the beginning of the year. As I say, for years I've never pretended to pay much attention to the market per se. But now we are trying to get a little bit more conscious.

In that regard, there is just too much supply of stock and not enough demand. And I don't see where the new demand can come from. The two places it can come from are the money funds, which means individuals or from foreigners. I think it takes a lot of faith to assume that's going to happen.

OID: Especially with all sorts of things soaking up the money.

Robertson: Yeah. Like these new issues soaking up the money all the time.

On the other hand, some people say that no more commercial buildings will be built and that real estate money will flow into the stock market. I think that's reasonable. There's no reason to have more commercial office buildings because there is too much empty space now. I just don't know how much money that would be.

We read in the papers about how we've made sudden shifts during the quarter, brilliant moves or what not. But we haven't done anything much at all.

We've been kind of bearish all year long. We're a little bit more bearish than we have been. But we lost as much money on the shorts as did the Feshbachs or anybody else. We had a horrible period in the shorts in the first quarter. And we didn't do very well in currencies either.

OID: Which somehow didn't stop you from being up over 24% year-to-date.

Robertson: We had a terrific quarter. We continue to do well. Why? In the first quarter, it was junk bonds and stock selection — it's always stock selection.

Now we're phasing out of junk bonds. Buffett said the same thing. That's yesterday's thing. I don't know what it'll be this quarter. Maybe it'll be Japan.

I'll never forget. We had this monkey on our back for years. We were buying those puts on Japan and they had years to go. And we'd get all these calls from people saying, "Gosh, why don't you stick to something that you really know? They have a different way of thinking. You don't understand the mentality over there."

Well, it's investing. It's return on equity, return on assets, P/E multiples — like it is anywhere else.

OID: Whether the Japanese realize it yet or not.

Robertson: And it finally all came to roost. That's what made our third quarter last year so sensational. In fact, it probably made the first three quarters of last year.

We are even looking into some real weird things now. It might frighten our partners, but we're going to look at it. Last summer, we looked at real estate in East Germany. We decided not to do it because we thought it was an area outside of our expertise and we needed to have a lot more potential profits than looked like were there for us to take that kind of risk.

Right now, one of our people — who happens to have a real estate background — is in one of the great growth areas of the United States looking at a deal where we can buy up almost all of the available housing sites. This is a totally different thing for us.

OID: Real estate and not securities?

Robertson: That's right — straight real estate, primarily for single family dwellings. Real estate all over the country is capital constrained but we are not.

OID: It sounds great. Most securities are expensive. And many real estate deals are probably going begging.

Robertson: But we'll get some complaints — like, "What do you think you've been doing? Why do you think you're so smart?"

Griffin: I remember some of the partners were really angry at one of the Tiger meetings because we did lose quite a bit of money in Japan early on. And people stood up and said, "Stick to the U.S."

OID: Which probably meant it was time to double up.

Robertson: That's right.

Griffin: If we'd stuck to the U.S., our performance would in no way be where it has been for the last four years.

Robertson: It's all kind of fun for us. In this particular deal, we've got a professor from a state university who's helping us with this real estate project. In fact, he gave us the idea. So we'll look at it. I don't know whether we'll do it or not.

A big reason why so many money managers are not diversified is because it hurts them in getting new clients. If you diversify your investment thinking, the consultants

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**TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL**
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can't categorize you at all. And they say, "What kind of manager is he? Is he real estate or what?"

They would like you to fit in a neat package of being a value player, a dividend player or something like that. But we're never going to do that. If you don't fit neatly into one category or another, it's very difficult. You might not be able to get business from the consultants.

You'd be shocked at how many managers would really and truly prefer to be number one in their category than be average overall with a better overall return. They run their business to cater to the consultants rather than to make money for their investors.

I can't tell you how bad I think that kind of attitude is.

OID: We'd have to agree.

Robertson: In fact, the consultants might have thrown Buffett out immediately because of his getting directly involved in businesses. They'd say, "He shouldn't be allowed to buy a newspaper. That's not his field. We can't use Buffett anymore."

OID: It's really quite surprising how little flexibility most managers really have — both in terms of concentration and asset choice.

Robertson: But I think that's been forced on them a little bit by the consultants. Everyone wants to keep their constituents and their recommenders.

OID: But can't your constituents become your prison?

Robertson: I think that's right.

OID: How has your investment approach evolved over time?

Robertson: I think I sort of started off as a cheapskate — I mean buying the cheapest stock I could find. Now, we really want to buy the best company out there that grows until the multiple of growth rate becomes too high.

Until very recently, we've been able to buy stocks at prices below their growth rate. So I thought that the high multiple stocks were the best ones to buy.

And here, I think we'll avoid more of the pitfalls that traditional analysts get into because I think we'll make fewer bad company judgments than most people will — not only because of our network of people on Wall Street, but our network of partners and most important the analysts here, too.

OID: Is the reason that you prefer fast growers, other things being equal, just a matter of mathematics?

Robertson: That's right. The faster the growth rate — assuming it keeps its multiple, of course — the more you're going to get out of the stock. That's just a truism.

But I think that most people aren't careful enough — so they'll own five or six high multiple stocks, two will go bad and they'll lose all their profit.

I think the main thing we want to avoid is losses. If you avoid losses and get out of your problems quickly, then even a blind hog can be lucky. Some of these things will do a lot better than you expect.

That's one of the reasons why I think you have to be kind of dispassionate with what you do with your stocks — you can't fall in love — because if you do, then you can't admit your mistakes.

OID: You started to mention some areas where you were finding some bargains currently. Are you finding much domestically?

Robertson: Yes, we're still finding some things. One of the beauties of this market is that there are a lot of very, very interesting new issues coming out right now.

For example, there's a very interesting company called Vigoro. It's in the potash business. We think there's a very favorable supply/demand situation in potash. We think Vigoro is going to come out at a yield of about 5% at 8 times earnings. And we don't think that's outlandishly expensive.

OID: Certainly doesn't sound like it.

Robertson: And the new issue theme indirectly works in with my favorite group of stocks that I have — at the same time that it contradicts my rather conservative investment posture. My favorite group of stocks right now would have to be the brokers.

OID: That sounds like a contradiction, all right.

Robertson: The job that some of these companies have done in cutting costs — particularly Merrill Lynch — is just incredible. I think the operating leverage that's going to show up in the quarterly earnings is just unbelievable. Unless we have a serious decline in stock prices, I believe Merrill Lynch could earn \$3 or so a share this quarter. And the stock price is \$37. Bear Stearns is a beautifully managed firm and, though it doesn't have Merrill's leverage, we are very high on the Bear.

OID: What sort of normalized earning power do they have going forward?

Robertson: I don't know — because there's never any normalized basis. But as I say, I'm not going to be shocked if Merrill Lynch earns \$3 a share this quarter, and I think the Bear should earn something between \$.70 and \$.90. The Bear's far better record should permit it to sell at a multiple premium to Merrill.

And through thick and thin, Morgan Stanley's earned some awfully good results and a real good return on equity. Isn't Morgan Stanley worth more than 9 times earnings? Aren't they worth more than half the market multiple? I think they are.

And again, the new deals coming now are a source of good ideas. People really have to study them and go through them before they should say per se, they're all bad.

Now, the enormous amount of new deals is very bad for the stock market, in my opinion. It's almost exactly the opposite of the situation four years ago when you had companies devouring their own stock. At that time, they were simultaneously creating a huge demand for stocks at the same time that they were shrinking the supply.

Now it's exactly the opposite. They're all printing as many stock certificates as they possibly can — even old staid, mature companies like GM. Some of our really good companies are taking advantage of the market too and ramming these deals out as fast as they can.

Meanwhile, the demand for stock by the institutions is

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totally gone. So it's all sellers and no buyers.

You see the dichotomies in my thinking. Here we are, less invested than we've been almost ever. And yet, we're buying brokerage stocks — which are probably the worst things to own in a bad market.

But they've really done a great job cutting their costs. And I think that they'll show the world what they can do in a decent market. And we've shorted Merrill Lynch before, and have not been long it in probably eight or nine years.

So we are finding a lot of interesting things to do.

**JULIAN ROBERTSON & JOHN GRIFFIN
ON THE JAPANESE MARKET**

OID: What percentage long and short are you today?

Robertson: We would work out to be about 120% long and about 60% short.

And then we have an additional 12% in Nikkei puts. So we're probably about 50% invested — which is very low for us.

But to be perfectly frank, I often leave the Nikkei puts out of my calculations of longs and shorts.

OID: Why do you do that?

Robertson: I view them as an insurance policy. But right now, they're more than an insurance policy. And we've bought some that are fairly expensive — so they're part of our strategy.

When I started investing in Japan in 1970, you could get their stocks for about a third of our multiple. You could buy brokers for three and four times earnings. It was just incredible. And I did real well with them.

Then, about four years ago, we began to buy these Nikkei puts. We could buy these three-year puts for literally about 1-1/2% per year — which seemed to me to be an awfully cheap way to hedge our market position. So we did.

OID: Congratulations.

Robertson: A lot of the options we'd sort of written off came back into play when the market collapsed last summer and fall. Ours are not the ones that trade over the exchange. We buy them sort of privately.

OID: How do they differ from the ones that trade?

Robertson: Well, they're European style — which means that they're exercisable only on a certain day. In other words, if you buy a three-year put, you have to wait three years to exercise them.

They don't trade. You're pretty much locked into them unless you find an arbitrageur who'll work it out with you.

OID: But they're a great deal cheaper?

Robertson: Oh, a huge amount cheaper. And you don't have the problem of selling them unless they work. When they came out, the public puts were selling at 7% to 9% premiums. So the ones we bought were much, much cheaper.

**OID: I had no idea that they were that expensive.
Incidentally, what's the current P/E multiple in Japan?**

Robertson: It's about 35 times trailing earnings and 45 times next year's estimate.

OID: So their earnings are declining substantially?

Robertson: It looks that way. And their banks make ours look like powerhouses. They're badly overleveraged. And they've got an awful lot of problems. They really don't do things a whole lot better than we do. The thing that they do better than we do is save money. They're savers and we're spenders. That's the gigantic difference between us and Japan.

**OID: Unfortunately, it's a very important difference.
But aren't there other things as well — like education,
attitude and work ethic?**

Robertson: Everybody makes a big to-do about their educational system, but our colleges are the best in the world. The Japanese are wild to send everyone they can to our colleges whenever they can.

They also have what I would call a sense of consensus — which probably helps them in manufacturing. There are no factions against each other. There's a desperate effort to get along that I think really helps them.

But it keeps them from being as creative as they can be. And it's almost disastrous for them in managing money. It can just ruin them. They're looking for consensus — they don't want to be individualistic at all.

OID: And doesn't investing by consensus tend to be a formula for mediocrity — almost by definition?

Robertson: I think it is.

Griffin: There is no fundamental analysis in Japan. So you're basically dealing in a market environment where you're the only competition. I mean nobody really does in-depth fundamental research.

OID: That's what Templeton says.

Griffin: And it could go on like that for a long time. You just have to be patient. It's always when you think you should give up that you should do more.

Robertson: We could put hundreds of millions of dollars at work in Japan now just on a straight hedge basis, which we think would be very attractive. We're not doing that because we're really kind of bearish on Japan. But we do have longs and shorts in Japan now.

And virtually all of us are going to Japan once a year. Those are important markets for us. When any of our people go to Japan, they're struck with the dichotomies — how the worst companies sell at the highest multiples and the best companies sell at the lowest multiples.

**JULIAN ROBERTSON & STEVE MANDEL
ON THEIR FAVORITE STOCKS WORLDWIDE**

OID: What are your favorite stocks worldwide today?

Robertson: We are very much interested in two Swiss stocks right now. One is Union Bank of Switzerland — which is one of four AAA banks in the world and one of the world's great banks selling at one of the lowest multiples

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anywhere. We think its earnings will grow by about 15% to 20% per year over the next several years.

As you know, European accounting tends to be very conservative. But if you GAAP their earnings — that is, apply American Generally Accepted Accounting Procedures — it's currently selling at only about 6 times earnings.

OID: That sounds pretty darn cheap for a company with that much credit quality and growth potential.

Robertson: We think so. And we believe management may finally be willing to tell their story to the world — that they won't be quite as secretive as they have been.

OID: Why would they change? We've been told that the game in Europe is to hide earnings — exactly the reverse of the game that many managements play on this side of the Atlantic.

Robertson: They will undoubtedly hide them, but they may be less hidden than they have been. At least there will be some effort to explain what's going on.

OID: Why the sudden interest?

Robertson: I think they're becoming interested in their stock price.

The other interesting thing about the Union Bank of Switzerland is that they're one of the most enormous money managers in the world. I think they run \$300 to \$400 billion. I don't know anyone else that runs that kind of money.

OID: That makes two of us.

Robertson: The other great company that we like in Switzerland is Hoffman-LaRoche — which has a great plethora of new drugs coming out. And using similar accounting bases, we think it's probably the cheapest really great drug company in the world.

OID: What sort of P/E multiple are we talking about?

Robertson: Probably 12 to 12-1/2 using American GAAP and half the cash flow multiple of Merck.

OID: For what sort of growth going forward?

Robertson: Probably 18% to 20%. Bear in mind, that is calculated to American standards — so you have to do a lot of interpolating.

OID: Why are they so cheap?

Robertson: Because there's just so much secrecy about everything. We think those are two very interesting stocks.

OID: Have you gotten a great deal more active overseas

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since the dollar has gone up so much?

Robertson: We just decide whether we want to be in an investment or not. And then we hedge out the dollar.

OID: Doesn't that have a cost?

Robertson: Not much.

OID: How do you do it?

Robertson: Well, we go short the currency or we borrow the money overseas to buy the stock.

And we own a lot of mundane things overseas. If you ask for probably the dullest investments in Britain, we own them.

OID: To hell with entertainment. If they're bargains, we won't be bored.

Robertson: We like supermarkets in general.

OID: Why supermarkets?

Robertson: I just don't know of any group where there has been as much money made as in grocery stocks. In my

PORTFOLIO REPORTS estimates the following were Julian Robertson's largest equity purchases during the quarter ended 3/31/91:

1. UAL CORP
2. AMR CORP
3. JP MORGAN
4. CENTOCOR INC
5. MERRILL LYNCH
6. GENERAL DYNAMICS
7. IMC FERTILIZER
8. REEBOK INTL
9. INTL PAPER
10. GOLDEN NUGGET

home town, if you put \$1,000 into Food Lion in 1960, it would be worth \$21 million today. Then there's Giant Foods in Washington, Bruno's in Alabama and Weiss Markets and Albertson's.

People have made hundreds of times their money. And I don't know quite why that is except that it's a very low margin business. And a good management is so important in a low margin type operation.

We think Sainsbury and Tesco are two of the most reasonably valued supermarkets in the world. They're the two biggest supermarket chains in Great Britain.

OID: What sort of P/E multiples do they have?

Robertson: They're at about 13 times earnings. Their growth rate is around 17% to 18%. And you get a dividend on top of that. I think it's about 3%.

In the case of Sainsbury, it's even higher because we own the converts.

Steve Mandel: The interesting thing about Sainsbury and Tesco is that they hold very strong market share and, very importantly, brand franchise in the U.K. market. Each holds about 15% of the U.K. grocery market.

And unlike food retailers in the U.S., or for that matter anywhere in the world, they own powerful brands. For each of them, half or more of their sales are accounted for under

(continued on next page)

**TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL**
(cont'd from preceding page)

their own label.

OID: Fascinating.

Mandel: And British consumers view those labels as standing for very high quality and a very good value. Both are growing their square footage 8%-10% per year, their sales at a mid-teen's pace and their earnings at a 15%-20% pace.

OID: Not too shabby.

Mandel: So they have the growth characteristics of a retailer — which are generally harder to come by in a branded packaged goods company. But they also have a strong brand franchise and margin flexibility that is inherent with a brand.

A bottle of Sainsbury Chablis is viewed by the U.K. public as not only a good value, but also a very nice bottle of wine.

The thought of a U.S. supermarket chain selling Chablis under its own label and not having its customers laugh is just hard to imagine.

OID: But isn't that potentially dangerous? Hasn't that tended to be a losing strategy for a retailer to make its own products? And aren't they in two businesses?

Mandel: They're not making any of this stuff. They sell the other brands as well. If you saw the consumer research about the power of their own brands and you saw how the store was done, you'd see what I mean.

It may be a little strong to call it a duopoly situation, but there are very strong barriers to entry in the U.K. in the full line supermarket business. And these companies earn high rates of return and sell at very reasonable multiples relative to the growth rates. On 1992 earnings, they're selling at roughly 2/3rds of their growth rates.

Those are two of the more attractive situations that we hold.

OID: Very interesting. Any others?

Mandel: Dairy Farm in Hong Kong is another supermarket chain that we own. It has major operations in Australia, New Zealand, Hong Kong, Taiwan, Spain and the U.K. It's growing at a similar rate to Sainsbury and Tesco and selling at a slightly lower P/E.

OID: How much lower?

Mandel: It's selling at a little over 14 times this year's earnings and 12 times next year's earnings.

Robertson: It owns the second largest retail chain in Australia. Dairy Farm owns a large retail operation in Taiwan and is involved in a start-up operation in Thailand and owns a good percentage of a large U.K. retailer called Kwiksave.

Dairy Farm gets tarred with a Hong Kong multiple, but we believe by the time that Hong Kong goes into China, Chinese business will only represent about 10% of its revenues.

OID: What sort of growth rate does it have?

Robertson: Probably 17% or 18% again. Here in the U.S., you'd probably pay 17 to 18 times earnings for that kind of growth. That's what supermarkets go for in the U.S. — the multiple is about the same as the growth rate.

OID: Are there any retailers in the U.S. that are growing at rates double or better their P/E?

Mandel: No, not even close. At the bottom of the market last year, there were a number of them. And we bought some of them. But since then, you may have noticed that there's been quite a multiple expansion.

OID: We noticed.

Mandel: We have been lightening more than adding to positions over the last few months. They will get cheap again. It's happened three times in the last four years — October 1987, October 1989 and October 1990. That was the nadir of each year. These stocks bounce around.

But you can get too cute. When you have something that's growing at a 25% rate, you want to make sure that the multiple is painfully high before you depart from it.

We're not market timers. We don't pretend to know what the market will do. But we adjust on the margin. And on the margin, we have been sellers the past couple of months.

**JOHN GRIFFIN
ON OPPORTUNITIES IN GERMAN STOCKS**

OID: Where else are you finding opportunity?

Griffin: Germany is very interesting. And it's interesting in a lot of ways. First, it's interesting because there's no place in the developed world where assets can be bought cheaper.

But it isn't apparent because companies are doing everything they can to hide their earnings. Legally, they're allowed to underestimate earnings in a variety of ways — which they've always done to save on taxes and maintain a consistent earnings growth and dividend payout.

For example, they can take huge provisions and reserves for contingencies. In Germany, you can get a reserve for almost anything. Utilities are allowed to hit reserves for replacing all of their utilities at 100% replacement cost one day. Deutschebank can even take a reserve for a potential decline in its securities portfolio — a tax deductible reserve.

OID: Incredible.

Griffin: Deutschebank can write off any loan that is more than 30 days overdue — the entire loan. It's wild what they can do.

The accounting is a real challenge to slog through. You can do it, but it's just very hard. They carry all their investments at cost. And Deutschebank owns 23% or so of Daimler Benz going back to when it was a small company. Today, of course, it's just a huge company.

If you cut through all of the accounting tricks, Deutschebank could probably grow at 10% or 15% a year. That may not be all that exciting for a growth stock, but it's cheap to begin with — not to mention the entire value of its hidden assets.

Deutschebank is one of the world's great banks selling at one of the lowest multiples anywhere.

(continued on next page)

TIGER MANAGEMENT'S
 JULIAN H. ROBERTSON, JR. ET AL
 (cont'd from preceding page)

Robertson: Deutschebank is a great bank. There's no question about it.

OID: What's Deutschebank's P/E multiple?

Griffin: Restated to American accounting standards, it's about 8 times 1991 earnings.

And there are enormous hidden reserves at Deutschebank. If you could realize the hidden value of their public and private holdings, you'd wind up getting the bank almost for free. They've also been able to do all these things and greatly underestimate their assets.

OID: But hasn't it always been that way?

Griffin: Yes, it has. But it may be changing right now. First, as 1992 gets closer, accounting standardization will change their reporting. And there'll be more disclosure. So we'll learn more about what assets they really have.

Incidentally, other parts of Europe have conservative accounting. But it's especially pronounced in Germany — because they've been hiding so much for so long. Because of that, Germany is very exciting from a value standpoint. It's not like that so much in France. And the U.K. is like the U.S.

But in Germany, they can still really play with earnings. They want to show slow steady growth. So if they have a great year, you might never know it. And if they have a bad year, it's hard to know as well.

Robertson: Very interestingly, Deutschebank put out a proxy. A lot of individuals are furious with Deutschebank for all the hidden chargeoffs and things that they take. And they've launched a proxy fight over it.

So people are getting interested — even over there.

OID: And as markets get more international, I suppose that sort of pressure will increase.

Robertson: Certainly it's going to increase. And Deutschebank has a new investor relations fellow who, although he's German, speaks English with no accent at all. The point here is that I believe Deutschebank is adopting a more Americanized way of conducting its investor relations which means a lot more information should be forthcoming.

Griffin: We believe that values in the German market will be surfaced sometime in the next several years. We think that there will be many more deals — not just cross-border deals, but deals where German companies go after each other.

Anybody will tell you that Germany is extremely undervalued on an assets basis and a cash flow basis and that nowhere can you buy assets cheaper than Germany. But many of the same people will say that it's always been that way — and that nothing's going to change.

We think that there will be some changes and that some of these values will be realized. Meanwhile, some German companies trade at fractions of their excess real estate value.

OID: For example?

Griffin: Felton and Guilleaume has enormous excess

real estate. In addition, we believe that their pension plan is way overfunded.

They make the cables that go between power stations. They used to be owned by Phillips. Phillips sold them to the public in 1986.

OID: What do you calculate it's worth?

Griffin: We believe that the excess real estate, the overfunding of the pension plan and other hidden reserves are worth the price of the stock. So you're effectively getting the company's operations for free.

OID: And it's worth more than that?

Griffin: We think so. At 6 times 1991 cash flow — which should be about DM60 per share — we're talking about a value of DM360 for the company. And the stock price is DM360. So Felton and Guilleaume is selling today for about 50¢ on the dollar.

And because of the massive infrastructure building in East Germany and the rest of Eastern Europe, we believe it has a bright future. Incidentally, we prefer to invest in East Germany by buying the suppliers — at least for now. There's a lot less uncertainty that way.

OID: What sort of cash flow multiple are we talking about for the German market as a whole?

Griffin: Very low — less than 5 times.

Of course, that's adjusting them for GAAP. But they hit earnings so much in so many ways. P/Es in Germany are very problematic.

Cash flow's much harder for them to hide. And sales is the hardest of all to hide. They can't do that much there. And if you look at their capitalizations relative to sales, you'd find that they're probably the cheapest in the developed world.

OID: Fascinating. Could you give us another example or two?

Griffin: Bayer's interesting. As you know, Bayer is a very big pharmaceutical and chemical company. The entire company trades at about 9 times this year's earnings. But remember, these are vastly understated earnings.

It sells at only 3 times cash flow. And it's one of the great pharmaceutical companies and one of the great chemical companies in the world — both.

OID: Amazing.

Griffin: Here's the key: Between 45% and 50% of Bayer's operating profit is pharmaceutical-based.

Schering, another German company, is not entirely pharmaceuticals either. Yet it trades at 17 times earnings and 6 times cash flow. If you were to just apply Schering's multiple to Bayer's pharmaceuticals earnings, you would in effect get all of the rest of Bayer for free.

We think that's attractive.

OID: It's certainly hard to argue with the price.

Griffin: And we're told that Bayer's pharmaceuticals are as good as anyone's and it's cheap. For example, it had sales of DM42 billion. Its market cap is DM17 billion. Almost half its earnings are pharmaceuticals. They have DM3 billion of cash and very little long-term debt. They're a cash flow machine. To us, it's just clearly undervalued.

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TIGER MANAGEMENT'S
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OID: Sounds like it.

Griffin: Most of the German companies are like this. They have enormous amounts of cash and liquid assets and very little debt.

If anything were to happen — for example, if Bayer were ever to spin off part of their pharmaceuticals' area — I think you'd see a large multiple expansion.

OID: Are you finding growth companies in Germany?

Griffin: That's a good question. For the most part, no. Not meaning to slight the Germans, but both Julian and I were struck on our last trip there by the apparent lack of desire to really grow in Germany, unlike the U.S.

People were more interested in creating a lot of cash and value and hiding it than really growing. I don't think we've ever bought what I would consider a traditional German growth stock.

JOHN GRIFFIN & CHRISTINE KING
TWO HIGH TECH BARGAINS

OID: Any bargains elsewhere you can tell us about?

Griffin: We own about 6-1/2% of Novellus. They produce fabrication equipment for semi-conductors. And while we bought most of it at lower prices, we've paid up to \$17.50 on a split-adjusted basis. It's at \$20 today. It's been as high as \$27 this year.

OID: And earnings?

Griffin: We expect it to earn \$1.20 in 1991 and \$1.50 in 1992 — although it could be as high as \$1.60.

OID: About 13 times your estimate for 1992.

Griffin: That's right. So it's not an expensive stock, really. It's got a very solid balance sheet — \$42 million of cash and about 14 million shares outstanding.

OID: According to Value Line, Novellus has consistently generated free cash flow. That's mighty impressive in that kind of business.

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Griffin: That is indeed rare in this business. And they accomplish that in two ways. First, they are very cost-effective. Second, they don't really have any plant. They patent their designs, factor out their production and just assemble it. That's how they achieve 60% gross margins, 33% pre-tax margins and about a 25% return on equity.

The question is can they protect their margins.

OID: And the answer?

Griffin: We believe the answer is yes. They're just incredible at the development process — getting a product from the idea stage to the market. And that's mainly due to its president, Robert Graham. He understands the development process and knows how to operate in a very cost-effective way.

He also understands and has experience in Japan — that could be a huge area for them. The products they make have incredibly quick payback periods for their customers — sometimes as little as several months. They enhance the semi-conductor manufacturing process.

They're also beginning a new product cycle. New products that they've developed are coming on line. And that's always a good time to be in these companies.

We also think it's worth noting that they've been able to thrive in bad times. This has been a terrible time for their competitors. All of them have had orders canceled and reported disappointing earnings. But Novellus came through this period just fine.

And if they can come through a period like this fine, imagine what they can do when people really begin to put new semi-conductor fabs on line again.

But I don't understand the technology that well. Nobody at Tiger really does. We have no full time technology analysts. We just look for good management in market niches where we believe if they get it right, they can really hit a home run. We have to have those because we're going to be wrong a lot too.

OID: And you think these guys can hit a home run?

Griffin: Definitely. They have less than \$100 million in sales. And the semi-conductor equipment market is enormous. It's just a huge market. We think they're only scratching the surface of what they can do — if they can just keep up their successful development work.

And like all these tech companies, they'll periodically have a bad quarter — and people will panic. But that's the time to buy.

OID: What's the competitive situation?

Griffin: Very favorable. We believe that their biggest competitor has gotten somewhat bureaucratized. And that is a tremendous handicap in this business — where moving quickly is so important.

OID: Is it a bargain today?

Griffin: We really like it at these levels. What's not to like? It's growing at 25%, earning about 25% on equity and trading at about half of its growth rate.

In effect, it's a company that makes great products, has great management and is attacking a huge market.

OID: Sounds pretty persuasive, all right. Do you have any more where that one came from?

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TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL
 (cont'd from preceding page)

Griffin: Scitex is just an amazing idea. In fact, it may be our most undiscovered right now. It's a well managed, very rapidly growing company with a dominant market position and lots of growth potential — at about 8 times next year's earnings.

Let me get Christine King to tell you about it.

OID: Twist my arm.

Christine King: Scitex is an Israeli company that dominates the market for color electronic pre-press systems. Pre-press refers to the part of the printing process prior to actually printing the issues.

With Scitex's equipment, you can retouch, layout and even alter art work electronically in preparation for color printing. Scitex's equipment digitizes a picture so that it can be manipulated in any way you like. I've seen just amazing things done — shadows or wrinkles removed, clothes put on and vice versa. The end product is a set of negatives that publishers can use to make the plates that are needed in four-color printing.

This used to all be done by hand. You had to take four different photographs of the art work, separate the colors into the four basic printing colors, retouch each of them and make four different plates to produce a four-color product.

OID: Tell us about Scitex.

King: Scitex's equipment computerizes the whole process and saves users lots of high cost labor and time.

Scitex really pioneered the industry back in the 1970s and had a tremendous growth curve for 10 years. But what happened is that they grew too fast. And as they tried to make the move to a microcomputer platform, things got out of hand and, in effect, brought the house down. They were rushing products out before they were ready. They had bad receivables. It was just a mess.

That's when the founder, who didn't really have the day-to-day management skills, stepped aside and Arie Rosenfeld, the current president was moved up.

They really turned themselves around. In fact, they turned themselves around on many fronts — not just on the product and technology fronts, but also on the management and business side. They got the receivables and inventories down. They got the product development process to function far more smoothly and efficiently. And this company has embarked on a second growth phase.

OID: And their problem occurred when?

King: The mid 1980s — 1985, 1986. The stock crashed. It was just a disaster. And it took them a few years to pull out of it. It's really only been in the last few years or so that they've really begun to accelerate.

And the thing that really impresses me most is that although this is a technology company, these guys are such good businessmen. Some of the problems they had before were caused by their being technology driven.

Today, they're market-driven. They're first and foremost listening to what their customers want and serving them — rather than thinking about what whiz bang things they can come up with — which is the case with many

technology companies.

For example, they have a user group which many technology companies have. But 90%+ of Scitex users are in their user group. And they view this group as a very important part of finding out what their users want and what they should be working on.

OID: They sound smart, all right.

King: And these are the very high-end pictures that are done on their equipment. In fact, you can do better work on a Scitex than you can by hand.

The systems that they sell to pre-press shops average \$450,000 and go up depending on the number of work stations. But another market, and one that's more important to Scitex in the near term, is the intermediate market — for example, commercial printers. They're not as high-end as the big pre-press operation, but they're upscale from the desktop guys.

That's the market Scitex is attacking and penetrating right now. And it's a much bigger market than the high-end market that they've traditionally addressed. An entry-level system costs around \$250,000.

OID: What's the competitive situation?

King: Scitex has certain tax advantages because they manufacture in Israel. In fact, the tax rate is something on the order of 20%-25%.

The Israeli government will fund certain R&D projects and take a 3% or so royalty on sales resulting from those projects in return for that funding. It's a very pro-high tech and pro-manufacturing stance. So they enjoy a little benefit that their competitors don't.

There are two big competitors. One is Hell. And the other is Crossfield. And both of those have had changes of parents in the last couple of years — which has been very disruptive.

OID: So thus far, Scitex's business hasn't gone to Hell?

King: That's exactly right — in more ways than one. Scitex's two leading competitors have clearly been losing market share over the years. And Scitex is the hands down leader in the industry with about 45% of the market. Crossfield and Hell have something in the area of 20% each. Another company, Dainippon Screen, is in the low teens.

OID: Are these guys vulnerable to a microcomputer player moving upscale as the micros get more and more powerful?

King: The impact of desktop publishing is a big, big question. And it's one that's uppermost in everyone's mind who looks at the company and certainly one that they think about, as well. But what's on the desktop platform is pretty rudimentary today compared with what we're talking about with Scitex. So the two ends are currently pretty far away.

And there are companies working their way up from the low end and companies like Scitex are coming from the high end working down.

OID: So it's not only a competitive challenge, but an opportunity as well.

King: That's right. People are converging in the middle. And that's why Scitex is rolling down the spectrum.

But again, I think the biggest opportunity in the next

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**TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL**
(cont'd from preceding page)

couple of years will be offering commercial printers lower priced systems. And that will put them in a position to better address the desktop market at some point — which, of course, is so huge.

OID: Tell us about the fundamentals.

King: The only negative is that I don't believe that it can get any better. I really don't.

OID: That's a negative?

King: Sales are growing at over 40% and gross margins are expanding for the third year. Sales were up 41% in the first quarter. And the gross margin was at 62.9%. And for all of last year, they were 61.6%.

So gross margins have expanded. Sales growth is dramatic. On top of that, they're building cash. They're leveraging their SG&A expenses and debt is minuscule. Everything you'd like to see is working in the right direction.

First quarter earnings just came out at 61¢ vs. 39¢. Earnings were \$2.10 last year. I estimate \$2.70 this year and \$3.40 next year. And the stock is at \$27.50 or \$28.

OID: Slightly over 8 times next year's earnings for 40% growth!

King: And it's good quality growth. It's coming from both new and existing products and from established and newer-end markets. They're growing like gangbusters in the U.S. — even through the slowdown. Their sales have been a little soft in the U.K. — with England in the midst of a little more severe downturn than ours. But they've been growing very strong in Europe and Japan. So it's good broad-based growth.

And I think the incremental growth is increasingly coming from the intermediate market — the commercial printers that they're trying to penetrate. So that's good. And they're holding their margins as they sell more and more lower priced products — which is something that's very encouraging.

OID: What sort of growth are you anticipating for this company going forward — and when does it trail off?

King: That's an interesting question. When anything

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grows at 40%, it's hard to assume that it either maintains that rate or follows a nice smooth curve.

All I can say is that there's no reason on the competitive front to think that the competitive situation is about to change dramatically. The markets that they're penetrating are relatively untapped and would seem to provide them with ample opportunity for growth. We've already lived through a downturn last year.

It's hard to say. I assume 20% growth. But their backlog are extending, not shrinking. They have a 120-day backlog right now. So things look pretty solid.

OID: Sure sounds like it. What's the biggest risk?

King: The biggest risk, I think, is how they manage their transition down the price curve. As I mentioned, they stumbled in the early '80s as they tried to move from one platform to another.

Also, they still manufacture hardware. Ultimately, they will move to and become a pure software company. Obviously, that's a pretty monumental change. And managing that change is something that has to be pretty carefully planned.

Also, where they stack up in the low end of the market is still an open question. I think a lot of their success in the low end will depend on distribution. Right now, if Scitex had the best product in the world for the desktop in their warehouse, they really don't have the distribution to sell it.

OID: How are their sales broken down geographically?

King: As I recall, 40% U.S., 40% Europe and the remaining 20% in the Far East.

OID: So their primary market grows as the standard of living advances around the globe.

King: That's right.

OID: Is management shareholder-oriented?

King: I think so. Incidentally, Robert Maxwell has a lot of stock. And early this year, he was a seller.

OID: Of course, he may have other cash needs in mind.

King: I think so. He loves this company. He's wild about it. He owns 20 million shares. He used to own 2/3rds of the company and sold 1-1/2 to 2 million shares.

Otherwise, management doesn't own a large interest. And while the ownership might not appear large relatively speaking, I think it's large enough to be meaningful to them.

And I've met several layers of their people. And I'm impressed throughout. It's not just one charismatic person. The other thing I've been impressed with is that their associates truly feel like they're working for the best in the business. Scitex is far and away the market share and technology leader. And they're proud to be part of it.

Also, they lived through the bad times. And the people who are in positions of authority sort of rose to the top during those bad times. They feel like they know what they did wrong. And they know what they've been doing right to get them to where they are today.

I think it's a neat company. And I've always wondered why the multiple should be 10. And the only reason people give me is that it's not very well known or not very well understood. But it's just a solid story.

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TIGER MANAGEMENT'S
 JULIAN H. ROBERTSON, JR. ET AL
 (cont'd from preceding page)

OID: You've convinced us.

JOHN GRIFFIN & SHELBY BONNIE
 ON MEXICO & BRAZIL

OID: Where else are you finding bargains?

Robertson: I think that the fall of Communism throughout the world has made it much less risky to invest in developing countries. So we own the India Fund and we're going to buy the Brazil Fund.

We're looking at Latin America right now. We have a man over here that gives us Spanish lessons three days a week. We will look very hard at Latin America. We're in Mexico. And we may move elsewhere.

Griffin: Besides Mexico, Latin America's interesting, in general. In order of immediate attractiveness to us, I would list them in the following order: (1) Brazil, (2) Chile and (3) Argentina.

But the whole Mexican story is exciting — especially Telefonos de Mexico.

**OID: But isn't the Mexican story yesterday's news?
 Haven't the big gains been made?**

Griffin: We think it has a long way to go.

**OID: Would you buy Telefonos de Mexico today if you
 didn't already own it?**

Griffin: Definitely.

OID: Then we're interested. Fire away.

Griffin: We went down to Mexico six months ago to learn the Mexico political story first: what was happening with the move towards free enterprise, privatization, entrepreneurialism, etc. and the promotion thereof.

What we found was a very entrepreneurial government that wanted to see business succeed. We felt they were very capable. We met with the Finance Minister, Pedro Aspe. And we had one of his economic ministers up to lunch to meet Julian. We developed a confidence level in the political situation.

**OID: What is the popular sentiment in Mexico? Is it
 also for free market policies?**

Griffin: Even the opposition party does not oppose the privatization, the free enterprise, the deregulation, etc.

When we flew up one of the economic ministers, we invited other money managers interested in Mexico to give them all a chance to meet him. One of the money managers returned the favor by flying up an opposition representative.

Bonnie: Actually a reporter, but he's very close to the opposition. And to summarize his view, he basically said, "Look, you can say all you want about doling out money, but we understand that the best thing we can do for our poor people when it gets right down to it is to provide them with job opportunities. A job is the best welfare system."

OID: You wonder if he'd give the same speech at home. But when the opposition leader talks like Ross Perot, you have to believe the country has a bright future.

Bonnie: And he said, "Seeing what President Carlos Selinas has been able to achieve, we would do about 80% of the things that are being done now on the economic side. We'd just do them a little slower."

OID: And he didn't say, "Except for private property."

Bonnie: No, they were all into the privatizations. The dynamics that are happening there are interesting. Aspe and these guys are smart as can be.

For example, one of the issues that they have right now is that they're trying to control inflation. They're doing everything they can. And they've got all these things to privatize. So an enormous amount of money will be coming from the privatizations.

One issue is what they do with this money. If they spend it or give it to people, it's inflationary. So they ask themselves what can they do with the money without creating an inflationary scenario.

Well, one of the things that's always worried Mexico is the possibility of a dip in oil prices. So what they did is set up "The Contingency Fund" — so they'll have resources if and when oil prices ever dip. What they're also doing, of course, is keeping the money out of the system.

OID: Very smart.

Bonnie: They're saying, "Look, we've got a lot of poor people and we want to do everything we can for them. We just can't give them money right now because that's not the right thing to do."

**OID: Which creates savings for infrastructure and
 economic development and confidence in the country
 on the part of money managers and any other rational
 people — and, very likely, more long-term prosperity.**

Bonnie: Exactly. So they are very smart people.

**OID: What do you see as the biggest risks of investing
 in Mexico?**

Bonnie: The biggest risk is currency devaluation. And the government is playing a balancing act politically and economically. There could be a lot of political pressure to spend their Contingency Fund, for example.

And if you believe that U.S. inflation is going down, then that puts that much more pressure on them to bring theirs down too.

They're devaluing the currency by about 5% a year.

OID: Is that all?

Bonnie: That's all.

**OID: Is devaluing the currency another way of saying
 inflation — relative to the dollar?**

Bonnie: It should be. The currency devaluation should reflect the inflation differential of the two countries. For example, let's say that Mexican inflation is running at 20% right now — which isn't that far off — and U.S. inflation is running at 4%. You'd assume that they should devalue their currency 16%.

What they're in fact doing is only devaluing it 5%. And yet, they've created such a tremendous feeling of confidence

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that foreign capital is flowing in, reserves are growing and their currency is only devaluing by 5%.

But what it means from a dollar scenario is that if you invest there, you pick up 11% in earnings growth simply because they are not correctly devaluating the currency. The risk is if their currency becomes overvalued.

From everything we can tell, their currency is fairly valued right now. We walked around a lot and looked at prices of capital goods, for example.

Griffin: The way they're getting away with it in the short run is capital inflows.

Bonnie: And what they're essentially saying is that they'll be able to close the inflation gap quick enough that there will not be a major overvaluation of the currency. And one of the arguments they make is that their labor rate is still only one-tenth of ours.

But Aspe and these guys are very much aware of all this stuff. They believe they can get inflation under control.

And it's not really a democracy. So they've got the ability to make the hard decisions, set up things like the Contingency Fund and get away with it.

Griffin: And the opposition party is willing to go along with the economic aspects of the plan because they believe that it's the best way to expand the pie.

Bonnie: One of the things that really worried us was that they have all this capital coming in, the money supply is growing about 40% per year and you've got 20% inflation. If you're the Central Bank and you'd like to put the brakes on, you would normally raise interest rates.

However, the problem is if you raise interest rates, more capital is going to come in and you get more money supply growth. So we worried that they were caught in a vicious circle.

OID: A problem many countries would like to have.

Bonnie: But what do they do? People like them too much — and there's too much money coming in.

Well, Aspe was completely aware of that. So the way they're taking liquidity out of the system is by privatizing all of the banks. They're privatizing \$7 billion worth of banks. It's essentially just taking money right out of the system....

OID: And putting it into the Contingency Fund.

Bonnie: Right. So they're able to sterilize everything. And they say, "Look, we've got a lot more to privatize. And we'll just keep doing it."

OID: It sounds like a great model.

Griffin: The Mexico story is a great story.

So we then moved to the question of what would be the best way to play it. The phone company jumped out at us because it was very cheap at the time. It was at 7 times earnings.

Furthermore, the government wanted to make it happen. It was already a publicly traded stock, but they were about to sell the government's shares to the public. And they really wanted to have something they could be proud of in two ways:

First, they wanted a world class phone system. They understood that no country can operate without it in today's world.

OID: Very smart. Infrastructure is so critical.

Griffin: Absolutely. Infrastructure has to come first. So our first question was, "Will this government make it happen?"

If the answer is yes, the next question is, "Where will they make it happen?"

Well, the phone company is a good place to make it happen because they can control rates. It's a monopoly.

Here's a major privatization. And they want the investment community to be happy with it because they realize that there are going to be a lot more privatizations coming behind them.

OID: Again very smart. Once burned, twice shy.

Griffin: That's right. And government officials would actually go on the road show and help sell it.

And they hired top notch investment bankers — Goldman Sachs — to do the privatization. We believed they really were going to make it work.

And they have. It's been a phenomenal stock. And we believe it should continue to be a phenomenal stock.

Bonnie: And their finance minister even told us, "Look, we've really studied privatizations. And one of the things that we want is a modern phone system because we believe that development in a country only comes on the back of a phone system that works. If the phone system goes down every time it rains, you'll have a tough time attracting business."

He went on, "It's important that people are willing to invest money in the system. So we haven't put any kind of a cap on earnings. We want it unlimited. The only deal we want to cut is that we'll give them as much earnings growth as they can take as long as they're willing to reinvest it back into the system."

So they set up the whole rate structure saying that they full well know that there'll be enormous rate increases — but that's the only way to get a modern phone system.

It's a neat story from a country and a stock viewpoint.

Telefonos de Mexico is a stock that not only reflects growth because it's in a rapidly growing country, but also because the government is committed to making it work. This is a big deal for them. They'll make it work.

OID: Could you tell us your cost and its current price?

Griffin: We started buying Telefonos de Mexico around \$1-3/4 about eight months ago. Today, it's \$3-3/8.

OID: And the P/E multiple currently?

Griffin: About 8.8 times 1991 earnings.

Bonnie: And a little over 7 times our 1992 estimate.

OID: So it's not up that much relative to earnings.

Bonnie: And earnings are growing at more than 20% per year.

Griffin: And we expect it to be up even more in 1992 — about 25%.

OID: What's Telefonos de Mexico's stated book value?

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Griffin: We almost never look at book value. Buffett never looks at book value. He looks at intrinsic worth.

The only time I ever look at book value is if it's a short and a large portion of book is represented by cash.

OID: Can you give us any additional fundamentals?

Griffin: We look at it in terms of lines per population.

Bonnie: Mexico has 6 lines per 100 people.

Griffin: The U.S. has over 71 lines per 100 people. Their growth potential is just enormous.

Bonnie: Line growth should be around 12%. And then you should get rate increases as well.

Griffin: If you believe in the Mexico story, you've got to believe the growth. So why not play it in a liquid, cheap issue that has all the wind in the world at its back — where the government is using it as a model?

Bonnie: And again, at 7 times next year's earnings, it's still cheap — especially when you consider that absent the dollar issue, this thing is probably going to grow by at least 18% to 20% per year in pesos. Then you're picking up additional growth from the currency situation.

OID: But if inflation is running at 16% per year, aren't you talking real growth of 2% to 4% per year?

Bonnie: No, that's 12% to 14% real growth. That's one of the interesting things. Because of the concern about inflation in Mexico, they get to pass through inflation adjustments monthly. And then they get to increase rates in addition to that.

OID: What's the inflation outlook?

Bonnie: We think it will get down to 16% this year. Last year, it was 29%. They've had price controls on certain items. But towards the end of the year, they realized that they weren't going to make their inflation targets. They decided to just flush through everything. So they brought a lot of things much closer to what their realistic prices should be.

But that's been done. So going forward, we believe that inflation should be lower.

OID: We understand that much of the monies targeted for oil field development in the 1970s wound up in the pockets of corrupt government officials. What gives you confidence that the same thing isn't happening this time around?

Griffin: I think they've come to the conclusion that credibility is the key. There are lots of different ways to earn credibility. They know they've got this past reputation of the lack of credibility and the presence of corruption. They're sensitive to it. So they are going out of their way to almost go the other way — because they realize that without credibility, they'll be viewed as a second rate nation.

And they're proving it. For example, they've been arresting people for tax evasion — a new concept in Mexico.

Bonnie: Until recently, only two people had ever been arrested for tax evasion. And one had been a guy who was

having an affair with some president's daughter.

OID: So it may have been less tax evasion than other more serious offenses.

Bonnie: That's right. And they've done some of your classic supply side things. They've brought tax rates down.

Griffin: And we saw in Mexico one of the key factors that pushed us into Germany. We looked at capital flows. And money was coming back to Mexico and it was coming back from wealthy Mexicans. That is often an incredibly good sign.

And we're starting to see the same capital repatriation in Brazil. Wealthy Brazilians who used to have their money in other countries — because they feared that their country was going to rot — came back. I think you'd find that that's a wonderful leading indicator of stock market performance.

Bonnie: For example, you don't have that in Argentina — where money's still flowing out.

Griffin: It's very much like insider buying. In fact, that's exactly what it is — insider buying on an international scale. When you see capital repatriation from the people who live there and run the country, it's no different than officers going in and buying the stock of their companies when they're depressed.

OID: Do you own any other stocks in Mexico besides Telefonos de Mexico?

Bonnie: We have owned other things, but that's all we own right now.

Griffin: There's nothing else that we're as excited about. The reason is very simple. We hold everything else up to Telefonos. And it's a very tough comparison.

However, as more and more people get interested in Mexico, we fully anticipate and are currently working on the concept of shorting stocks in Mexico.

Bonnie: Mexico allows you to short on twenty of their stocks.

Griffin: And things will get hyped — like anywhere else. And when Mr. Joe Retail is buying the hottest Mexican idea because it's a world beater, they'll become good shorts.

And incidentally, if we're right about the situation in Mexico, then there is an interesting interest rate arbitrage between Mexican and U.S. short-term rates. In effect, we can borrow short-term in the U.S. at 8%, invest it at 22% in short-term Mexican instruments — called Cetas — and pocket the difference.

You have to take up the devaluation of the peso, but we believe that the devaluation of the peso versus the dollar is likely to slow and not be anywhere near 14%.

**OID: You guys don't miss a thing, do you?
What about Brazil?**

Griffin: Brazil is a very macro story, too. We don't yet know what companies we're going to buy there. We just know that the market is so cheap and there's so much pessimism that it's hard to see how it can get any worse.

OID: Unless they were to go communist.

Griffin: That's right. As Julian points out, during his entire tenure as an investor, that had been a significant risk

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that one had to factor into the analysis. And now it's not.

Bonnie: It's very difficult to go in and buy stocks in Brazil. So one of the interesting ways to invest in Brazil is via their debt markets. In the same way that we're playing Mexico through Telefonos de Mexico, we're thinking of playing Brazil through government debt — which would be more liquid as well.

Stocks are just really cheap there.

OID: How cheap are they?

Bonnie: The average P/E for Brazil is about 5. Average price to book is .6 and the average yield is about 6%. And Brazilian stocks are also cheap relative to GNP.

OID: That's mighty cheap, all right. But can't a very low total stock capitalization relative to GNP just mean that there are very few publicly traded companies?

Griffin: But then you'll have more privatizations — which is universally good for stock markets.

OID: Good point.

Griffin: In addition, they've got a pretty big economy and a big population — not to mention the fact that they're very rich in natural resources.

Bonnie: One of the big concerns about Latin America has always been that they're going to nationalize their business. Well, there have been so many examples now of that having failed and of countries where privatization and free enterprise has worked that it takes a big risk away.

We are going down to Argentina and Brazil in a couple of weeks.

Griffin: But the whole Latin American story could be real big. These could be the 10 baggers. Brazil could go up 10 times in three to five years. It really could.

Another great thing — Brazil is enormously rich in natural resources. It has very cheap labor and it's so close to the U.S. And it's a big country.

OID: Why did they go so far downhill? Didn't they used to be one of the richest countries in the world?

Griffin: For a long time, their government was looking for short-term answers to long-term questions.

OID: Do they understand that yet — or is that the question?

Griffin: No, it's changing down there. They're seeing Mexico and they're saying, "What does Mexico have that we don't have?"

And the answer's nothing. Maybe they've got some oil, but that's not a big part of the equation. They're seeing all of the publicity the Mexican political leaders are getting and the results. They see Baker and Bush putting Mexico on the fast track for free trade.

People are no longer scared of the gringos coming in and taking over the country. They realize that they've got to gear up quickly because no one supports that mentality anymore. It was a very big cultural thing to get over — for the Mexicans to accept U.S. investors owning part of their phone company.

And Brazil is just starting to do that. If they become more accepting of that, I think it can turn.

OID: Do you have to worry about a popular backlash against these policies at some point?

Griffin: We believe for the most part that the trend — of free enterprise, privatization, deregulation, new business development — is worldwide. It will be different in terms of degree and ramifications in different places. But it's a trend which I think will continue.

It won't solve everything. For example, taxes will probably never get down to 30% in most of Europe. It's just not going to happen. And health care won't be deregulated in some countries.

But I think that the trend is unlikely to do a U-turn. Obviously, it will have ups and downs. But the long-term investor is going to reap big rewards.

PAT DUFF
ON JUNK BONDS & MORE

**OID: Your junk ideas last April worked out great.
Congratulations.**

Pat Duff: Thank you. But I have to give Julian the credit. He really pushed and shoved me into the area. I was as skeptical as everybody else thinking they were ill fated deals from the outset that never should have been done — which they probably were.

But once you had a situation where the guy who put money in at the bottom was looking to take out his riches, he was going to figure out a way to make the thing work. One way or another, he'd figure out an exit strategy.

OID: As you correctly predicted last April.

Duff: I warmed up to the idea that if the company was OK and there was a guy underneath you who actually had real money in, that you'd be OK no matter what the capitalization structure was.

The cap structure just gave you the opportunity. It drove the bonds down. And if it wasn't cheap at par, it certainly might be at 50¢ on the dollar.

OID: Is there anything as exciting today?

Duff: I've put my equity hat on almost 100%. I'm still probably the point guy here if somebody has an idea. But the primary opportunities now are either in some of these latter day bankruptcies or else in the second or third-tier names. In other words, everybody knows an RJR or a Duracell or a Fort Howard or the Kroger credits — all the go-go names.

OID: An interesting word choice.

Duff: J.P. Morgan sends us a list of 40 or 50 popular names that everyone knows and talks about. And then, maybe there are another 30 or 40 below that that — if not the popular ones — most people still know them.

For example, everybody knows Macy's. And then the second tier below that is Ann Taylor or Carter Hawley — which are not as widely known.

To find the stuff that has any attraction now, you've got to go to the illiquid names that only the underwriter quotes. And there should be some value there because no one else knows the name. It's almost like a bull market in

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stocks when everybody starts going to the lesser and lesser known names because they got left behind.

The junk bond market's the same way. I've never seen anything like the past few months. I've never even seen a move like that in the stock market. It's just unbelievable. And frankly, it really didn't seem to matter what you owned. Certain things did better than others only because they were on a more depressed base.

OID: I think Julian said in one of his letters that your junk assets were up something like 50% year to date.

Duff: It was unbelievable. We were out most of last year because we couldn't find too much of anything. And we messed around shorting a few of them, but it was tough getting things off. We shorted Trump, for example. It was more of a psychological victory than a financial victory. We had also shorted Macy's early last year and Burlington.

But as far as the longs, we had Hospital Corp. and we had Fort Howard. And the Fort Howard was the wild and woolly one. Mind you, nothing at all happened to the company. It wasn't like they had a bad quarter or anything. But the bonds went from 90 to about 35 at the end of October/beginning of November.

It finally got to the point last year where all the dealers were just shorting anything that had a zero or a PIK in it — because of "terrible technicals" in the market.

OID: Amazing.

Duff: These guys would call up and say, "Hey, do you want to buy some more Fort Howard? We'll short some to you." I mean literally.

And we'd go, "Sure, we'll take some." Then, when the company actually stepped in and the bonds went from 35 to 98, the dealers came in with a NASD suit against Morgan Stanley claiming that there was some sort of insider dealing [and, "Damn you, we're stuck with this short position."]

There was nothing wrong with Fort Howard's credit. They were trying to short a capitalization structure. And it made no sense.

OID: It's clear that no sense was required.

Duff: We shorted Macy's zeros at 45 a year ago January before their Christmas sales came out — knowing that they were going to have bad Christmas sales.

Well, the sales came out and the bonds collapsed. They went from 45 to 25 and we covered.

But there were people who shorted Macy's from 25 down to 12, stayed short saying, "It's all over. It's all over."

OID: And how right they were — in one sense, anyway.

Duff: True. You take all the guys that were in Macy's — I mean, there's GE Capital, Michael Price, Larry Tisch and even Goldman Sachs. I don't know all the players, but you put them all together and they said, "Look, this is a bad situation." And they kicked some money in.

But lots of people shorted anything last year, at any price, any credit and they all got lifted within the last year. And then, at the beginning of this year, it just flipped over. All the mutual fund money came in and everything became a buy and just took off. It didn't matter what it was.

OID: When will they be shorts again?

Duff: The market's really topping out. We're liquidating gradually, but surely. We're maybe being a little cute with the market right now because, frankly things are pretty much sales. The market is so thin that you're trying to let them in easy.

The only reason I'd be a little hesitant to short is that the technicals are pretty strong. The only thing weighing on the technicals are First Capital, Westinghouse and possibly First Executive trying to sell some of their portfolios.

But everybody's chasing yield again. The individual investor's moved back in. And many mutual funds have been the buyers through the first four or five months here.

A lot of the insurance companies are selling. And the RTC has liquidated huge chunks of their portfolio this year. And it's gone off without a hitch. And there hasn't really been a lot written about how strong those sales have been. Think about all of the cover stories on the demise of junk. And yet, it's been a fabulously performing situation.

OID: Not enough drama, probably. But there's really nothing compelling on the junk side right now?

Duff: That's right. Equity-type returns are no longer available — generally speaking.

I'm just glad that I'm not one of the mutual fund guys who has to invest in this area right now. It's gotta be tough when money's pouring in.

OID: And vice versa.

Duff: The opportunities are either very small or very thinly traded — so they're not worth digging into.

But there's always value. One of the things I've learned from Julian is that you can't go in with a certain school of thought — like never buying a high P/E stock.

You've got to be flexible.

OID: Like Noel always speaking disparagingly of bank stocks, but loading up on Wells Fargo.

Duff: And that's great. And Buffett, too. He went in and bought RJR. And I'm sure he probably thinks junk bonds are a travesty, but they were cheap.

It's like Julian. I look at our international portfolio. It wasn't at all like that a couple of years ago. At that time, we had a few situations. Now we own them all over the place.

The only junk situation we like right now that we have a very significant investment in is Six Flags Amusement Parks. It's been a home run already. We started buying the bonds at 31 or 32 — and they're about 73 right now.

OID: Are they still a bargain?

Duff: The PIKs are yielding 16-1/2% on face. But you're being paid in paper that's selling at a 27% discount.

If you get par for the bonds a year from now, then today's buyer would wind up with about a 60% return within 11 months or less. But even if you get 85¢ on the dollar, you wind up with more than a 35% return in less than a year.

OID: In other words, yes.

Duff: I think so. But we were buying these bonds by the bucket load at 31 or 32 — in chunks of 5 and 10 million. Now, somebody calls up once every couple of weeks and say they've got a million bonds to sell.

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When the sky was dark, they were coming out of the woodwork. But 40 points higher, it's, "These are money good bonds. I'm not selling any of them."

It's just interesting — the change in psychology.

OID: Most of us have more in common with lemmings than we'd like to admit.

Duff: Six Flags is doing well — not spectacularly, but well. Their cash flows are doing pretty well. They simply have a terrible capitalization structure. And between now and next April, they have to do some sort of restructuring.

And here you've got a double pronged equity player. You have the WesRay people who were in originally. They've cashed out a lot, but they still have enough on the table. And you have Time Warner who bought a nice stake of the equity about a year ago and just recently bought some of the preferred stock.

About a month ago, when they reported their results, Six Flags put in their 10-K, "If we cannot get new bank credit, restructuring, sale of assets, etc., then we might have to consider bankruptcy."

But at the same time in the 10-K, they also disclosed that Time Warner had just increased its stake in the company. It's like they were saying, "We may be going bankrupt, but Time Warner's behind us."

So we didn't see how we could go too far wrong here.

OID: As some have pointed out, there's nobody hurt at most companies if their bonds get cheaper.

Duff: You do have to wonder what's going on. We've talked to enough people in the industry to know that they can sell individual units if Six Flags wanted to split them up. There are buyers out there that would definitely take one or two of them.

And they would go for six times cash flow. I know that's kind of a generic number but, for some reason, that's what amusement parks tend to sell for. And that's what New York Stock Exchange-listed Cedar Fair is selling for. So that's what we use. And these parks are somewhat undermanaged, so there's an extra incentive for someone to pay the six times thinking they can increase the cash flow and effectively have paid only five times.

Currently, Six Flags' cash flow is about \$100 million. So it's worth about \$600 million. Meanwhile, its total debt is only about \$450 million. So there's definitely value there to more than cover all debt and provide a nice return to the equity holders as well. Even at face value, total debt is still under six times cash flow. So there's very good value.

It's just a crazy capitalization structure. The 16% coupons are way too high. The amortization by the bank is much too aggressive. Everybody just needs to adjust this thing on the margin — and everyone would be fine.

That's what makes it kind of neat. There's enough value here for everybody.

OID: And as you said, it may be hazardous to your financial health to short a capitalization structure.

Duff: That's right. It's just like RJR. They're just getting gobbled away. Once they restructure, they should have plenty of money and be fine.

OID: Why did they wind up paying over 16% on their debt? Are they viewed as a very poor credit?

Duff: They had the misfortune of doing the deal with a bridge loan in April of 1987. And then they were going to refinance the bridge loan. Well, the bridge loan actually didn't come to market until the crash. And in between the acquisition and the refinancing, they had the misfortune of having an accident down at Great Adventure where someone was killed on one of their rides. So they got tremendous negative press.

So this one property's business took a nose-dive. And Great Adventure in New Jersey is a big property for them. So they had this declining cash flow right when they were going to market — and the crash. So they had to pay through the nose for the financing.

Meanwhile, things have recovered and everything seems fine. Bondholders may be offered less than par in the restructuring. But given the cash flow and the economic value, I think the bondholders are in a pretty strong position.

And the bondholders are united because even though there are PIKs and cash bonds — and we own some of each — they're all one class. So the bondholders can't be split against one another. They're united.

If the deal isn't satisfactory to the bondholders, they can throw the company into default. And the banks don't want to see the company in default. The equity guys don't want to see a default because, among other things, they're behind us in line.

So bondholders will certainly get a lot more than 73¢.

OID: Makes sense to us. Switching gears, are you finding any bargains on the equity side?

Duff: My number one idea right now and one I'm wildly enthusiastic about is IMC Fertilizer.

Most people won't really ever invest in fertilizer stocks because they're considered to be very volatile. And you can't figure out what's going to happen to prices at any point in time.

OID: Certainly understandable.

Duff: And that's all due to the product that is known as DAP — diammonium phosphate. Traditionally, diammonium phosphate drives fertilizer prices. It's like the refining margin. You have crude oil and gasoline. Gasoline is kind of the equivalent of DAP.

The refinery margins go all over the place and they're very volatile. And the crude oil story is phosphate rock — which no one ever pays attention to.

OID: Until now, anyway.

Duff: That's right. The reason why I'm so enthusiastic about IMC Fertilizer is that a shortage of phosphate rock is now gradually building. And IMC Fertilizer owns the lion's share of all of the productive capacity of phosphate rock.

OID: The fertilizer equivalent of OPEC.

Duff: That's right. In fact, if you were to remove IMC's excess capacity from the market, there's basically no excess capacity in phosphate rock.

Over the next four or five years, IMC's going to increase rock prices at twice the rate of inflation — at a minimum. Then, as the shortage tightens, they'll accelerate it.

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Today, rock prices are between \$22 and \$24, depending on the contract. It would take a \$45 rock price to justify you or I getting into the rock business.

OID: Maybe more.

Duff: And for every \$1 increase that rock prices go up, it adds 40¢ a share to this company's earnings.

It's a \$37.50 stock earning \$3.60 right now — after deducting about 30¢ for a contract dispute. So it's earning right now about a \$4.00 run rate. And it has the ability to increase earnings just from the rock story at something between 80¢ and \$1.50 a year. And I calculate that there's over \$12 of earnings power just from that story unfolding.

OID: Which ain't exactly chopped liver on a \$37.50 stock. But is it sustainable? Fluctuations in commodity prices are not exactly unheard of.

Duff: It will happen. It's a cycle. But it's a long range cycle. There hasn't been a rock cycle since the mid '70s. Back in 1975-81, rock prices were really high. And guys ran in and developed reserves.

Well, sure as you and I are sitting here today, it'll happen again — it's inevitable. Rock demand is really stable and supply is shrinking. You can see it now.

And that's only part of the story. To make DAP, you need phosphate rock, ammonia and sulfur. IMC makes more rock than they use for their DAP, so they sell it in the market. They make more ammonia than they use in their DAP. However, they have to buy all of their sulfur.

Well, the other thing that's going on is that they and Freeport McMoRan have just discovered a frasch sulfur mine off the coast of Louisiana. It's the largest frasch sulfur find ever in the world. Bottom line, it's going to provide them with between 30% and 50% of their sulfur requirements.

OID: And the earnings implications?

Duff: IMC should see \$50 million of cash flow savings from being able to use this sulfur to lower their costs. And there are only 21 million shares outstanding.

OID: It keeps getting better.

Duff: And there's still more. The DAP market is at full capacity right now in the U.S. There's actually one plant currently shut down, so it's more like 96%.

And this is the most amazing thing. Everybody is pumping out as much as they can — and one of the players went bankrupt. I defy you to name a cyclical business where you have full capacity and there's a guy who's not making money. DAP prices are not anywhere near where the producers are getting even a justifiable return.

And that's why I think the story is so dynamic. You have a company with a \$37 stock price that does \$3.60 a share this year — and they're not even in a good market.

OID: In other words, they're even doing well now — which is at the bottom of the cycle.

Duff: It's not the rock bottom — no pun intended. But it's certainly not at the top either. And this rock thing is going to go from now until probably 1995-96.

OID: Where would you ballpark IMC's normalized earnings power?

Duff: Today, I think that IMC's normalized earnings are about \$8.50 a share. Then, just from the rock alone, you'll get a minimum of 20% growth over the next six years. And that's not taking into account sulfur or DAP prices improving or the fact that they have oil and gas reserves from this sulfur find that will add probably another 25¢ a share for the next couple of years.

Every day, I learn something that makes it more attractive. I found out yesterday, for example, that there's no excess capacity in the world, as well, for DAP.

There's discussion about China as a major importer of fertilizer and the fear that if they lose most favored nation status, there goes fertilizer imports. China imports 90% of its fertilizer from the U.S. Well, it turns out that the reason why they import 90% of it from the U.S. is that there is very little excess capacity anywhere else in the world.

OID: It does sound like OPEC.

Duff: And there's a whole other story with DAP. Every \$10 a ton increase in the DAP price means 85¢ a share. And this is what got me excited about it — last year, ending June 30th, they earned \$3.15 in a horrendous DAP market. One player went bankrupt. And it was estimated that 20% of the DAP producers were operating at a cash loss.

Meanwhile, they still managed to raise rock prices. That's something people haven't picked up on yet — that rock prices are moving independent of DAP.

And the other thing I like about it is that I don't have to worry about the economy — and I don't have to worry about the market. I do have to worry a little bit about agricultural plantings. And I have to worry a little about the political situation in China and India. But they're short term risks in a secular story.

Management hopes to be able to grow earnings steadily so that by the time we get to the top of the rock cycle, they'd have already generated a fair amount of cash flow. They'll have enough cash flow to buy back lots of shares. In a couple of years, they'll be generating over \$8 of free cash. They have very little capital spending aside from developing sulfur reserves, since their capacity's already there.

We've made a pretty sizeable bet in this thing for us. And it's only a buck or two above our average cost right now — and it's been weak recently. I'm perfectly happy to own a stock with \$12 of earnings power at \$37.50.

It's a complicated story, but I think it's one of the best I've come across in the last four or five years. It's a really unbelievable story.

And the more that I learn about it, the more I'm convinced that nothing is going to derail those earnings — which, of course, probably means that something will.

But if I'm right and IMC has \$12 of earning power — if it sells at even half the market multiple...

JULIAN ROBERTSON
ON TIGER & MORE

OID: Might we trouble you for one last bargain?

Robertson: Sure. We like Sequa very much. Sequa is right at its low for the year — and didn't have a great first quarter. It's a conglomerate whose main business is aircraft engine overhaul.

(continued on next page)

**TIGER MANAGEMENT'S
JULIAN H. ROBERTSON, JR. ET AL**
(cont'd from preceding page)

OID: Is this a long or a short?

Robertson: We own a lot of it. And it's a very interesting stock with just tremendous earnings potential.

In the first quarter, Eastern went out of business and all the airline companies put off as much as possible any engine refurbishment — because they were more concerned with surviving.

Well, I think that was just a temporary phenomenon. We think the basic aircraft engine overhaul business is quite a good business.

OID: Why, pray tell?

Robertson: This is a real good razor blade business — a wonderful business — just about as good a business as I know of. Once you get a certain amount of hours on that engine, it's got to be refurbished. That's the law. They are way ahead, I think, of anybody else in the aircraft maintenance business.

In addition to that, they also produce air bags. Sequa has \$8 to \$10 of earning power without the air bags. And it sells for around \$50 right now.

OID: Five to six times your estimate of earnings power.

Robertson: And their aircraft engine overhaul business has been a steady earner for years. It's a great business.

And air bags could add tremendously to earnings.

OID: Why is it so cheap?

Robertson: Well, one of the reasons is that the management is not highly regarded by Wall Street. They've made some mistakes in the past. They always seem to have a problem with some of their outlying businesses.

For instance, last year they had a leasing company. And the leasing company took a tremendous loss on one of its leases. It seems that it's always something.

OID: What, then, is the grounds for your optimism?

We know your concern with management's efficient allocation of capital — especially after owning Ford.

Robertson: There is an older fellow, Norman Alexander, who runs Sequa. And I think he may have learned his lesson and will stick to his knitting. They've been a big buyer of their own stock. Alexander has personally made a lot of money over his lifetime. I think he is a long-term winner. I think he'll be all right in the future.

OID: When they clean up their act and stop doing so many peripheral things, do you think their returns on capital are going to accelerate as well?

Robertson: There's no question about it. The returns in the basic business — the aircraft engine rehab business — have been really terrific.

OID: They really hide it well.

Robertson: That's his problem. He doesn't want to pay taxes. So he goes to any extreme....

But the basic aircraft leasing business is terrific.

Alexander may have paid too much for Atlantic Research which is a defense and research business, but it's the division that has now developed the air bag igniter.

It's a passenger seat air bag — which is more difficult technically than the driver side air bag. The passenger can sit pretty much anywhere. And it has to protect the middle passenger as well.

They really think their product is very good. And it doesn't have the flammability problem that has plagued other air bags. Ford's air bag manufacturing facility in Canada was shut down for a long time because the plant kind of burned up. There've actually been some instances where the bags themselves have burned.

I think this guy is getting his act together. I think instead of doing all this other stuff, he's now buying in his own stock. And he's pretty steadily done that. And I think he will do that at current prices rather than make a lot of ridiculous acquisitions.

And I think that some year everything is going to jell. And then this air bag thing will give it some sex. So you could really get a big move in the stock.

OID: Once they get to stabilized earnings power, what kind of growth would you anticipate?

Robertson: Well, from the aircraft maintenance part, you can probably look for 15% or so. Then you might get 3% or 4% from their buying in their own stock. But the air bag business should be very good once that gets started.

OID: And all of that at 5 times stabilized earnings?

Robertson: That's right.

OID: Sold. Now if we could only arrange financing.

Robertson: Don't look at me.

OID: Oh, well. In any case, you guys never cease to amaze with the quantity and quality of your ideas. And it's really not just Julian Robertson.

Robertson: I think that's where we differ from most hedge fund managers. George Soros, Stan Druckenmiller, Michael Steinhardt and Paul Jones are genius managers. And that's probably true of Lynch, Munger and Buffett.

On the other hand, we don't have a genius...

OID: You sure can't tell it from the numbers.

Robertson: What we have is a very good organization. A lot of what I do is cheerlead. It's a lot more fun for me this way.

What can happen to genius managers who do so much of it themselves is that they can do it, but the pressure can be pretty tough on them — and they can even burn out. I'm just glad that we have an organization rather than having everything rest on my shoulders.

OID: It's clear that we've barely scratched the surface. We'll have to have you again soon if you'll allow us.

Robertson: It would be our pleasure.

OID: The pleasure's always ours.

Thank you, Mr. Robertson.

—OID

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