

THE ADVISOR



THIS ISSUE

2.1

A NEW PLATFORM

Jennifer Mandeville, DCM's CIO, reports on changes to the DCM program.

2.2

FUND NEWS & NOTES

Brief summaries of the funds as well as recent news or highlights.

2.4

NEW STOCK PICKS

Recent investment ideas from the Jefferson, Monticello, Darden, and Cavalier Funds.

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Jennifer Mandeville, Chief investment officer

A New Platform

The upcoming 2006-2007 year is sure to be an exciting one for Darden Capital Management. Continuing the efforts put forth by last years' managers, DCM has received approval from the Darden Foundation trustees for several changes in the program to ensure that DCM is keeping pace with current market practices and trends. We have also identified several goals and objectives that we hope to accomplish this year and beyond – the main goal being to make DCM one of the most recognizable MBA-managed funds in the nation.

One of the more significant changes this year has been the addition of a fourth fund, the Cavalier Fund, which brings total DCM assets under management to \$5 million. Not only is the Cavalier Fund a new endeavor but the Cavalier investment strategy is a new frontier for DCM, as well. The Cavalier Fund will employ a long / short equity strategy, targeting a net exposure of 80% to the broad equity market. Traditionally, the funds were only allowed to take long positions in stocks, but with the new changes all funds may now opportunistically use shorting as a mechanism for either direct hedging or as an additional source of alpha. The DCM investment policy has also been expanded to include the use of buying put and call options, which should give DCM managers additional tools for better risk management of their portfolios.

Another area of expansion is in international investing. DCM may now invest up to 20% of the portfolio in developed international stocks versus the previous allowance of 5% in ADRs. Other changes include increasing position size limits, implementing a more flexible mandate for fixed income investing, and allowing for smaller capitalization stocks.

Accompanying these changes are additional risk guidelines to ensure that the portfolios are maintaining appropriate risk levels. Automatic stop loss provisions for short positions, decline percentage limits that prompt a stock re-pitch, and weekly risk reporting to the CIO are all newly added provisions. By augmenting the risk man-

agement techniques, we hope to impart to DCM portfolio managers the importance not only of stock picking but also of risk management in a portfolio context.

On a broader note, DCM has penned several goals and objectives for both the short term and long term. One of our short-term goals is to increase the presence of investment management capabilities at Darden. The recent cover story on the program in Darden Magazine helped in this effort. Another short-term goal is to establish more relationships and strengthen current relationships with recruiters in the investment management field. We feel that with the current upgrades in the DCM program, it is an opportune time to show that DCM members are competitively positioned for careers in investment management.

Our long-term goal is for DCM to be one of the most recognizable MBA funds in the nation. Targeted objectives include increasing corporate sponsorship for DCM, augmenting DCM resources, and creating a nation-wide stock pitch competition.

DCM is well on its way to reaching its ultimate goal of national recognition in MBA investment management activities. The 2008 class not only brings the largest class to ever attend Darden but also the potential for a larger amount of energetic students to continue the path on which we have started. The opportunities for DCM seem limitless and the road is long, but with the continued support from DCM members and the Darden Foundation, we are poised to reach the heights we have set for it.

Darden Fund

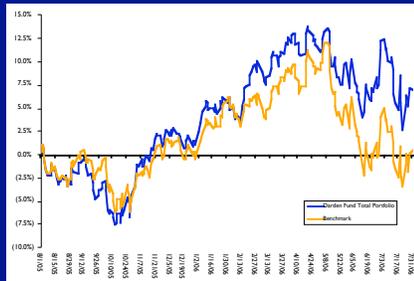
Managers

Sr. Portfolio Manager Brian Pratt
 Portfolio Manager Glenn Miller
 Portfolio Manager Charles Seidman
 Portfolio Manager Luke Semple

Investment Strategy

The Darden Fund is a small-cap fund that seeks to maximize returns through disciplined fundamental research and analysis. The benchmark for the fund is the S&P 600.

LTM Performance vs. Benchmark



Fund Holdings

Amedisys, Inc.
 America's Car Mart
 Avid Technology, Inc.
 Clean Harbors, Inc.
 Corrections Corp. of America
 Crocs, Inc.
 Curtiss Wright Corp.
 Delphi Financial Group Inc. (Class A)
 Emcor Group, Inc.
 Equity One
 FTI Consulting
 Gardner Denver
 Horizon Lines
 iShares S&P Small Cap 600
 J2 Global Communications
 Kanbay International
 Molecular Devices Corporation
 NCO Group
 Piedmont Natural Gas Company
 THQ Inc.
 Texas Capital Bancshares
 Thor Industries
 Walter Industries, Inc.

THE ADVISOR

The Advisor is a publication of the Darden Capital Management Club at the University of Virginia's Darden School of Business.

Darden Capital Management operates four student-run investment funds for the Darden School Foundation with approximately \$5 million in assets under management.

To learn more about Darden Capital Management and the Darden School of Business, please visit:

<http://student.darden.virginia.edu/dcm>

<http://www.darden.edu>

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Jennifer Mandeville
 Chief investment officer

Jefferson Fund

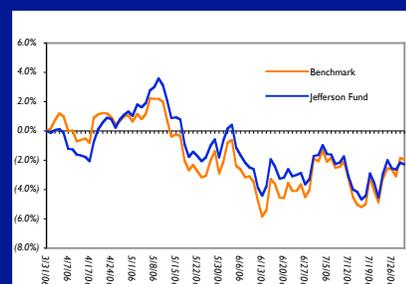
Managers

Sr. Portfolio Manager Christopher Eastman
 Portfolio Manager Will Cohen
 Portfolio Manager Manuel Arttime
 Portfolio Manager Benjamin Mackovjak

Investment Strategy

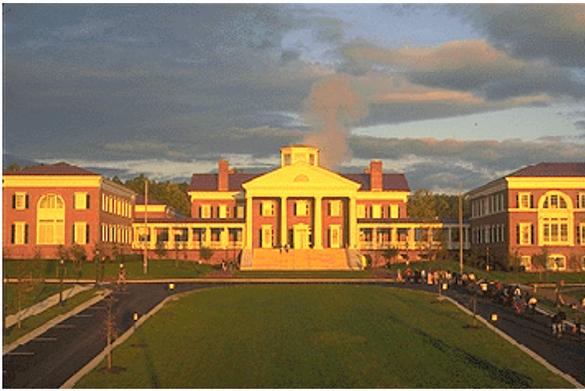
The Jefferson Fund seeks to generate excess returns through a value-based strategy with a concentration on companies with market capitalizations between \$200 million and \$5 billion.

Performance vs. Benchmark



Fund Holdings

Anheuser Busch
 Bank of America
 Berkshire Hathaway Class B
 Bunge
 Chevron
 Chiquita Brands
 Dyncorp International
 FPIC Insurance
 General Dynamics
 Hospira
 Intel Corp.
 Jack in the Box
 JP Morgan Chase
 Logitech
 Nokia Corp ADR
 Norfolk Southern
 Pantry
 Pfizer
 Royal Caribbean Cruises
 TEVA
 Verizon Communications



UPCOMING DCM EVENTS

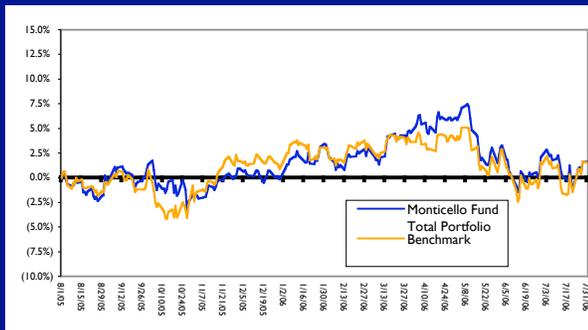
2nd Annual Stock Pitch Competition: Saturday, November 4th, 9 am to 12 pm. First-year students pitch their ideas to a panel of investment professionals.

Monticello Fund

Managers

Sr. Portfolio Manager Brian Carney
 Portfolio Manager Josh Ayers
 Portfolio Manager Chris Pond
 Portfolio Manager John Spears

LTM Performance vs. Benchmark



Investment Strategy

The Monticello Fund uses fundamental analysis to identify and invest in companies that are well positioned for growth but inexpensively valued.

Fund Holdings

Berkshire Hathaway “B”
 BJ Services Company
 Capital One Financial
 CBS Corporation
 China Mobile
 Genentech
 Endo Pharmaceuticals
 Gilead Sciences
 iShares Russell 1000 Index
 Kellogg
 Lam Research Corporation
 Norfolk Southern
 PepsiCo
 Target
 Tempur-Pedic International, Inc.

Cavalier Fund

Managers

Sr. Portfolio Manager Ellen Lee
 Portfolio Manager Brian Duff
 Portfolio Manager Will Snellings
 Portfolio Manager Brad Sullivan

Investment Strategy

The Cavalier Fund is a long / short equity hedge fund that focuses primarily on domestic equities including small, mid- and large capitalization companies. The fund seeks to produce positive alpha with low volatility by purchasing great businesses at reasonable prices and shorting flawed business at overvalued prices. The fund aims to produce a high return relative to the S&P 500 Index and the CSFB / Tremont Hedge Fund Index with low volatility.

Fund Holdings

The Cavalier Fund is in the process of establishing its positions.

Brian Carney

Genentech

May 31, 2006

Investment consideration

1) Stock is down nearly 25% from its high several quarters ago. The biotechnology sector has pulled back significantly over last several months. I believe Genentech's current price represents an overreaction and that the company should trade higher given the strengths of its products and the size of the markets it targets.

2) Demonstrated history of strong, consistent growth through successful product launches. As the stock market has started to weaken, investors will likely turn to more stable names like Genentech that have consistently delivered steady growth in sales and earnings.

3) Near-term approvals for Avastin in additional indications. Avastin is expected to be approved for lung cancer in 3Q 2006 and in breast cancer in 4Q 2006. These approvals late in the year should drive sales in 2007 and hopefully enable the company to outperform sales targets. The lung cancer market alone is estimated to be between a \$1.5Bn and \$2.2Bn market opportunity. In addition, Genentech is conducting many other trials for Avastin in other indications such as pancreatic cancer, ovarian cancer and prostate cancer. Positive news from any of these early trials should drive the stock price over the next twelve months.

4) Herceptin recently approved in Europe for an additional breast cancer indication. A similar application for approval was filed in the U.S. and approval is expected in this additional indication over the next several months.

5) Lucentis product sales estimates may be underestimated by most investors. Lucentis will be used for treating Age-related Macular Degeneration, which is a huge market. However, many analysts and investors believe that product uptake may be slow given that today doctors can use Avastin off-label to treat AMD and Avastin is cheaper than Lucentis. However, many doc-

Investment Snapshot**Genentech**

(NYSE: HRZ)

Business: Genentech is a leading biotechnology company that discovers, develops, manufactures, and commercializes biotherapeutics for significant unmet medical needs. Genentech is widely considered the founder of modern biotechnology companies and has been developing products for over 30 years.

Share Information

(@05/31/2006)

Price	82.96
52-Week Range	75.58 - 100.20
Market Cap:	\$87.4 billion
Short interest:	0.70%
Short ratio:	2.1

Estimates

(in millions, except per share)

	2007E
EPS	\$2.55
P / E	32.4x

tors feel that Lucentis will ultimately retain a large share of the market and that treatments will likely last longer than expected, which will lead to higher sales figures.

6) Data to be presented at ASCO conference next week. ASCO is the largest oncology conference in the country and Genentech will be presenting data on a Phase II trial of Avastin plus Tarceva for second-line treatment of non small cell lung cancer patients. This data is expected to be positive and it could lead to greater use of Avastin once it is approved for lung cancer later in 2006. Obviously any trials that will help drive the use of Avastin in lung cancer should help the company outperform its sales estimates in 2007. In addition, positive trial results at ASCO should drive the stock price higher in the near-term.

Valuation

Comparable company analysis highlights Genentech (ticker DNA) relative to its other large cap biotech comparables. While DNA clearly trades at a premium to its peers on a P/E basis, a more appropriate way to compare these companies is on a PEG basis given DNA's significant growth prospects relative to its peers. On a PEG basis, DNA is actually undervalued relative to its peers, which makes the stock attractive at current levels.

While I have not created a DCF to develop a specific price target, I do think the stock could trade as high as \$99.00. I calculated this figure assuming the com-

pany could trade up to a 1.3 PEG (based on a 2007 P/E). At a 1.3 PEG, the implied price is \$99.00, which would represent a 20% return on our investment. More conservatively, if DNA trades up to a 1.2 PEG, this implies a price of \$92.00, or an 11% return on our investment. Given the stock's recent pullback, I believe it is realistic to assume the stock could trade up to a 1.2 -1.3 PEG.

Risks

- 1) Avastin pricing concerns
- 2) Lack of novel products in pipeline
- 3) Increasing competition in oncology products
- 4) Pressure on biotechnology stocks

For questions, comments, or to view the full report, please e-mail Brain Carney at CarneyB07@darden.virginia.edu

Joshua Ayers

Allied Waste

May 31, 2006

Key investment considerations

- The waste services industry is one typified by stable cash flows which, while not immune to economic cycles, are less susceptible to down-turns. Thanks to this relative operating stability, companies in this space provide portfolios with a “defensive” position in potentially overvalued market conditions.
- Due to the stability of its cash flows, Allied Waste has been able to lever up its balance sheet to a current outstanding debt level of \$7.18 billion. While this leverage is a concern, it also provides investors with the best appreciation opportunity in the waste services space thanks to the magnifying effects of leverage when combined with margin improvement.
- After five consecutive years of margin destruction due to the pursuit of volume, the waste services sector is currently in a period of transition. Both industry leader Waste Management (WMI) and AW are leading the strategic shift from chasing contract volume to that of selective contract profitability. The publicly traded share of the total waste services market is nearly 60%, of which the lion's share of market capitalization consists of WMI and AW. This concentration of market power should permit these two entities to act as price setters.
- Aside from being the beneficiary of upward pricing pressure, Allied's management has also taken proactive steps to improve margins by reducing maintenance costs through a new Capx program aimed at decreasing overall truck fleet age.
- Allied also stands to be a near term beneficiary of plummeting diesel prices, thanks to the recent unwinding of gas hedges which have left them exposed to the spot market.
- Allied's management has also explicitly stated their intentions to reduce leverage and thus transfer enterprise value to equity holders.
- Allied currently trades at a TEV/ EBITDA multiple of 7.5x, compared with that of 8.4x for WMI. Yet EBIT and EBITDA margins for both compa-

Investment Snapshot

Allied Waste
(NYSE:AW)

Business: Allied Waste Industries, Inc. is the second largest waste management company in the United States. The company provides waste collection, transfer, recycling, and disposal services for residential, commercial, and industrial customers in the United States and Puerto Rico. Its primary operation includes collecting and transporting non-hazardous waste from the customer to a disposal site. Allied operates 310 collection companies, 166 trans-

fer stations, 169 landfills, and 57 recycling facilities..

nies are similar, with AW actually operating at a slight advantage in fiscal 2005. Therefore the market is implying a forward margin improvement in WMI that has not been translated to AW. It is the fund's position that any margin improvement felt by WMI should also be felt by AW and this should translate into similar enterprise value multiples.

- Furthermore, at the current share price for AW, the valuation on both a WACC and APV basis implies a flat lining of current margins in perpetuity.
- Therefore, AW provides investors with an opportunity to purchase a waste services business at a valuation based on the forward assumption of maintaining 10-year trough margins at a time when the managements of both major industry players have begun a margin improvement initiative.

Investment risks

- Leveraged at approximately 70%, any continued worsening of margins will also have a magnified downside effect on the equity valuation. Furthermore, AW could seek to reduce leverage through a liquidity event in the form of a follow-on offering.
- AW has a short interest of nearly 10%, and future selling pressure due to an increase in short positions is a possibility. However, it is the opinion of the

Share Information

(@05/31/2006)

Price	10.87
Market Cap:	\$4.0 billion
P/E (2007):	18.74x
Short interest:	9.10%
Short ratio:	13.10

fund that most of this short position is attributable to bond holders who have sought an implicit put on principal default through equity short positions.

- Blackstone and Apollo control approximately 34% of the float, and could seek to liquidate this position in a secondary offering.

Valuation

- Price target: \$14.50
- APV valuation with 8.4x 2005 EBITDA as a ceiling (based on WMI comp)

For questions, comments, or to view the full report, please contact Josh Ayers at AyersJ07@darden.virginia.edu

Benjamin Mackovjak

The Pantry

June 15, 2006

Investment highlights**Well-executed roll-up strategy**

The company is a roll-up story in a very fragmented segment of the US retail industry. The convenience store industry is comprised of 138,200 stores of which the largest 4 players (7 Eleven, Couche-Tard, Casey, Pantry) account for only 8% of stores while single store operators account for 60% of the stores. PTRY has proven to be a savvy and prolific acquirer within the Southeast region.

Larger chains such as PTRY have the ability to generate superior margins on both merchandise and gas through sourcing advantages, distribution, IT systems, supply agreements, and leverage on overhead. According to Merrill Lynch, the average independent c-store has merchandise margins of 30% compared to over 36% for PTRY. PTRY can almost be seen as a c-store specific LBO shop. After PTRY acquires a store, they quickly implement IT systems, improve merchandising practices, rebrand the store, and secure more attractive terms with suppliers.

One of the key advantages of acquiring existing stores is that there is already an established customer base and relatively stable cash flows. The company has stated a clear preference for acquisition growth rather than new builds but has recently stated that they plan to accelerate their organic growth strategy. Acceleration is not incredibly tough considering the company has historically opened less than five new stores annually. The plan calls for 7 new stores in 2006 and 12-15 in 2007. These numbers are relatively small considering the company acquired 235 stores over the past two years. However, the shift in management philosophy could signal that acquisition targets are becoming less attractive.

In order to own the stock, you must be comfortable that management will continue to make wise acquisitions. In the past few years, they have shown a remarkable ability to make accretive acquisitions and integrate them well. The current management team has been in place for several years and is responsible for essentially all of the recent acquisitions. PTRY's sweet spot seems to be the smaller c-store chains, their 63 acquisitions have had an average of 23 stores

Investment Snapshot**The Pantry**

(NASDAQ: PTRY)

Business: The Pantry is a leading US convenience store operator with nearly 1,500 stores across 11 states in the US Southeast under a number of banners including Kangaroo Express, Cowboys, and Golden Gallon. Pantry derives roughly 75% of revenues from gas and 25% from merchandise. However, merchandise is responsible for 72% of gross margins while gas sales make up the remaining 28%. The company has grown primarily through acquisitions, completing 63 transactions

throughout the company's history. The c-store market is extremely fragmented (top 4 players account for 8% of c-stores) and larger players are poised to benefit from scale advantages.

Share Information

(@06/15/2006)

Price	51.41
Market Cap:	\$1,165.0 million
Volume:	\$13.4 million
Short interest	7.9%

each. I see no reason why PTRY should not be able to continue to make prudent acquisitions going forward.

Attractive relative valuation, strong cash flows

C-stores historically trade at valuations between drug stores on the high end and grocery stores on the low end. Current valuations are in-line with this rule of thumb. PTRY is the cheapest name in the c-store space and is actually trading closer to the grocery store multiples.

7 Eleven, the largest c-store player, was taken private last fall by 7 Eleven Japan. 7 Eleven Japan, on a PE basis, paid 33x current year earnings and 28x next year earnings. I do not expect PTRY to command a multiple that high but it does make the current PE of 14 and next year's PE of 15 look attractive. On a EV/EBITDA basis, 7 Eleven went for roughly 12x TTM EBITDA which also looks attractive relative to PTRY's 7.1x.

Over the past five years, half of CAPEX has been used to remodel and upgrade stores. This implies that maintenance CAPEX is roughly only 50% of CAPEX, which means that FCF% will increase if/when PTRY takes a break from acquiring stores.

Ability to manage gas price volatility

PTRY has demonstrated the ability to manage the volatility of gas prices relatively well and earn generally stable gross

profits as measured by cents per gallon. In general, gas retailers suffer declining margins as the cost of purchasing inventory increases faster than their ability to pass on cost increases. These fluctuations are short term in nature, gas margins tend to be mean reverting because the increasing prices on the whole offset the declining prices. The overall profit level has been relatively stable between \$0.10-0.13 per gallon.

Casey at the bat

Casey's General Stores (CASY) reported strong Q4 2006 numbers last week and the stock subsequently rallied +20%. The 20% move brought CASY up to a valuation that is more in-line with c-store Couche-Tard and in the middle of the drug stores and grocery stores.

If PTRY is able to report strong earnings, I think a similar upward revaluation is likely. I think it is reasonable to extrapolate CASY gas margin and demand results and expect that PTRY will experience similar tailwinds.

Investment risks

Gas margins go against the company

High gas prices cause a decrease in demand at the pump & in the store

For questions, comments, or to view the full report, please contact Ben Mackovjak at MackovjakB07@darden.virginia.edu

Benjamin Mackovjak

DynCorp

June 22, 2006

Investment highlights**Strong cash flow generator, attractive valuation**

DCP generates significant FCF with FCF% in 2006 of 8.72% and an estimated FCF% in 2007 of 10.3%. DCP's revenue stream looks relatively stable due to the long-term nature of their contracts.

Most major contracts have lives of 3-10 years remaining. DCP also has a backlog of \$2.7 of which \$1 billion is funded. Historically, essentially the entire backlog has been converted to revenue at or above contract value.

DCP has limited CAPEX requirements, CAPEX was \$8.7M in 2005, \$3.5M in 2006, and \$4M is forecasted for 2007. DCP is bidding on \$10.6 B in work, the company's win rate over the past three years has been 83%.

DCP has fallen roughly 50% since the IPO last month. Management attributes the decline to a weak IPO market and concern over the concentration of revenues from Iraq and Afghanistan. Management reiterated on the earnings call on Monday that nothing has fundamentally changed with the company.

On a EV/EBITDA basis, DCP trades at a significant discount to the peer group. On a PE basis, the firm looks a little pricey which is primarily due to the large interest expense associated with the high debt level.

Many attractive competitive advantages

DCP enjoys many competitive advantages including long-term client relationships, dominant market share, and high barriers to entry. The unique industry that DCP operates within has high barriers to entry, it would be very difficult for an upstart to compete in this arena.

Continued growth potential

DCP looks to be in the right business at the right time during this period of geopolitical turmoil. Revenues will increase as the US troop drawdown in Iraq and Afghanistan begin to take place. DCP security forces will increase to fill the void. The company has benefited from the nation-building efforts in Iraq and Afghanistan. If future situations were to occur in Iran, Syria, or North Korea, DCP would certainly be involved in the re-

Investment Snapshot

DynCorp
(NYSE: DCP)

Business: DynCorp (DCP) is a professional services provider to military and civilian agencies, primarily in the U.S., specializing in critical missions including security, maintenance, and logistics support. DCP has two primary units – International Technical Services (ITS), which accounts for 66% of revenue, and Field Technical Services (FTS), which accounts for 33% of revenue. During FY 2005, DCP generated 35% of revenue in the US, 25% in Iraq, 13% in Afghanistan, 12% in other Middle

East countries, 8% elsewhere in the Americas, and 5% in Europe. Key contracts include International Police Liaison Officers in Iraq (30% of revenue), Contract Field on-site equipment maintenance for Dept of Defense (18%), Drug Eradication (12%).

Share Information

(@06/22/2006)

Price	10.63
Market Cap:	\$645.0 million
Volume:	\$6.68 million
Short interest	9.6%

building. In addition to war-related projects, DCP looks to grow by adding projects from other countries. DCP has recently signed contracts with Serbia and Belgrade to build airports and with Abu Dhabi for development of security operations at planned resorts. Another source of growth could be drug eradication in Afghanistan- this project has recently ramped up after a period of political delays.

Investment risks**Increases portfolio exposure to defense spending companies:**

DCP benefits from many of the same forces (defense spending, geopolitical turmoil, etc.) that also drive existing fund holdings AH, CRDN, UIC. On its own, I like the stock here but the context of a large defense overweight adds a bit more risk. We need to ask ourselves are we buying at the peak of defense spending?

Concentrated exposure in Iraq and Afghanistan:

Iraq and Afghanistan make up roughly 38% of DCP's revenues. Analysts and management have been attributing the post-IPO pull back to this. I'm not convinced as this exposure has been known long before the company went public. I do not view this exposure as a huge risk because the revenues are coming from the US Government not the Iraqi/Afghanistan governments and the US has continually vowed to provide help until these governments are fully self-sustainable.

High Debt Level: DCP maintains a very high debt load, total debt to capitalization is at 66%. Total debt is 4.2x trailing EBITDA. The interest payments are steep, roughly \$55 million annually, but the strong cash flows are more than adequate to cover said expenses.

Possible Share Overhang: DCP was taken public by a private equity firm that bought them in the 1980's. The private equity investor still own 52% of the shares and are in a mandatory lock-up period until December 2006.

Volatile and dangerous business, headline risk: DCP operates in some of the most hostile and dangerous environments in the world. The company and more specifically the employees are exposed to a magnitude of risks from insurgents, terrorists, etc. As perverse as it seems, increased turmoil may be perceived as bad news for DCP by the market but it will actually be good for business. In addition, some politically driven negative press may impact the stock short term but over the long-term I expect fundamentals to drive share price.

For questions, comments, or to view the full report, please contact Ben Mackovjak at MackovjakB07@darden.virginia.edu

Luke Semple

Horizon Lines

September 5, 2006

Investment thesis

Horizon Lines is a cargo shipping company operating in three U.S. markets under the protection of the Jones Act of 1920, which specifies that any ship delivering goods from one U.S. port to another U.S. port must be built in the U.S., flagged in the U.S., owned by U.S. citizens and be crewed by at least 75% U.S. officers and crews. U.S. made ships currently cost ~\$150 million versus ~\$55 million for a comparable ship built in Asia. Subsequently, the Jones Act provides significant barriers to entry from potential competition.

Horizon currently trades at a discount to publicly-traded Jones Act peers. At just 6.1x and 5.9x 2006 and 2007 EV / EBITDA levels, it is significantly below the current blended 7.1x multiple on 2007 EV / EBITDA for peer companies, Alexander & Brown (ALEX) and Kirby Corporation (KEX). Using discounted cash flow analysis with conservative assumptions yields a fair value of ~\$20 per share.

Investment highlights

Overlooked IPO: pricing at issue of \$10 was below the initial IPO range of \$14 to \$16; minimal analyst coverage / investor interest up to this point

Steady nature of business: two LBOs in last three years; revenues are not tied to commodities or low-margin cyclical goods such as autos; economically and geographically diversified

No imminent major cap ex: management considers useful life of ships 45 years (versus typical 25 year life for other types of ships); HRZ average ship age is 29 years (peers average 24 years); a leasing deal completed in April that goes on-line in the first half of 2007 will lower the average age to 20 years; no major capital expenditures forecast until after 2010

Declining operating expenses: Lease deal will lower cost per ship per year by ~\$3 million as well as allow for increased fleet rationalization and utilization; expected EBITDA margin expansion through productivity and efficiency improvements and improved cargo mix (higher margin products)

Investment Snapshot**Horizon Lines**

(NYSE: HRZ)

Business: Horizon Lines is a premier Jones Act container shipping and logistics company that accounts for roughly 37% of total domestic marine container shipments from the continental U.S. to routes in Alaska, Hawaii / Guam and Puerto Rico. Founded in 1956 as a marine container shipping company (Sea-Land Service, Inc.), the company was purchased by CSX Corp. in 1986. In 1999, it became part of CSX Lines as international operations were sold to Maersk. The company was renamed Horizon Lines in 2003 when it was acquired by the Carlyle Group. In July

2004, Carlyle sold Horizon to Castle Harlan.

Share Information

(@09/05/2006)

Price	15.99
52-Week Range	36.63-71.45
Market Cap:	\$537 million
Shares outstanding:	33.5 million
Enterprise value	\$985 million

Estimates

(in millions, except per share)

	2006E	2007E
EPS	\$0.90	\$1.13
P / E	17.8x	14.2x
EBITDA	\$161	\$167
EV / EBITDA	6.1x	5.9x

Cash flows and de-leveraging:

LFCF projected to be between \$75 million and \$85 million for next five years, which assuming debt repayment will lead to an enhanced capital structure (Net Debt / EBITDA decreases from ~3.0x to ~1.8x from 2006-2008)

Market position: only carrier that serves all three major Jones Act trade routes and possesses number one or two market share in all markets served

- long-standing customer base (avg. relationship over 20 years)
- new customer penetration (recent service contracts for U.S. military has opened a new revenue source)
- proprietary technological system, HITS, provides complete order through collection shipment capability
- relationship with Maersk boosts backhaul utilization (non-Jones Act routes)

Market dynamics: three primary markets enjoy relatively stable demand (island markets with primary cargo of perishables and foodstuffs); Jones Act protection coupled with high cost of new U.S. vessels generate high barriers to entry that should lead to increased capacity and price stability

Management: average industry experience over 18 years (CEO Chuck Raymond at ~40 years); six of top eight managers have been with Horizon for over 16 years; management owns about

11% of the company with incentive plan based on EBITDA and cash flow targets

Valuation

In July, management detailed the anticipated costs and benefits of their 5 ship leasing deal as well as the TPI (trans-Pacific) agreement with Maersk. It also unveiled a cost-savings initiative, EDGE. The combination is expected to yield incremental EBITDA of \$38 million in 2008 (\$51 million in 2009). This incremental EBITDA is not accounted for in current analyst estimates (2008E EBITDA is \$168 million) and further emphasizes the EV / EBITDA discount of HRZ to its peers. Applying a 6.7x multiple to an estimated \$206 million 2008E EBITDA yields an implied share price of \$26.20. Assuming revenue growth of ~3% and no margin expansion after 2007, a discounted cash flow analysis of the unlevered free cash flows implies a per share value of roughly \$20 per share.

Investment risks

Threat of new entrants

Operating cost pressures

Macro-economic conditions

Age of fleet

Repeal of Jones Act

Luke Semple

America's Car-Mart

September 12, 2006

Investment thesis

America's Car-Mart is the only publicly traded "Buy here / pay here" car retailer with 85 stores in eight states. Car-Mart sells and finances (over 90%) used automobiles to consumers with limited savings and little, no, or blemished (read: obliterated) credit histories. Due to macro-economic conditions evidenced by rising fuel prices and inflation for other basic goods, Car-Mart's primary consumer has been pinched. As a result, Car-Mart has experienced a recent compression in earnings and margins. However, it is a profitable business with a strong platform and excellent management. Currently trading at 9.5x 2007E EPS, Car-Mart is attractively valued.

Investment highlights

A collections business that sells cars: Car-Mart sells affordable transportation, but might be better viewed as a collections business. In the fragmented "Buy Here / Pay Here" used car market, their aggregate experience yields a competitive advantage.

Strong model / strategy: decentralized store operations are highly structured; incentive compensation for store managers and employees is based on store's net income as well as collections, rather than sales; focus on communities with populations under 50,000 people; provide basic transportation (average vehicle sales price ~\$7,500); high level of repeat customer business ("Elite Club" with silver (5 cars), gold (10 cars), and platinum (15+ cars) levels recognizes repeat purchasers; over 3,000 members) as well as an estimated 10-15% of sales from referrals.

Management: average tenure of senior management is over 16 years; several store managers have been with Car-Mart for over 10 years.

Controlled organic growth: forecasts average store expansion rates of 8 – 14% per year; will purchase existing "Buy Here / Pay Here" dealers when suitable, but prefers organic growth.

Low cost operator: management focuses on a low-cost, no frills model that keeps their costs among the lowest in the industry.

Investment Snapshot

America's Car-Mart
(NASDAQ: CRMT)

Business: America's Car-Mart, Inc. is an automotive retailer in the United States focused on the buy here/pay here segment of the used car market. The Company's operations are principally conducted through its two operating subsidiaries, America's Car-Mart, Inc. and Colonial Auto Finance, Inc. (collectively referred to as Car-Mart). The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. As of April 30, 2006, Car-

Mart operated 85 stores located primarily in small cities throughout the south central United States.

Share Information

(@09/12/2006)

Price	14.65
Market Cap:	\$173.5 million
Shares outstanding:	11.8 million
Enterprise value	\$216.9 million

Estimates

(in millions, except per share)

	2007E	2008E
EPS	\$1.53	\$1.73
P / E	9.6x	8.5x
EBITDA	\$35.1	\$39.8
EV / EBITDA	6.2x	5.4x

Well-capitalized: funds and plans to fund a significant amount of planned growth from net income; new stores generally require \$500,000 to \$600,000 in capital for the first 12 – 18 months to fund receivables growth, but are typically cash-flow positive by the end of that period (store's growth then funded through store's own profits); new stores usually profitable within first few months.

Investment risks

Higher default risk: Car-Mart lends to borrowers with limited / no / damaged credit histories which could affect its ability to collect.

Sensitivity to interest rate decreases: Roughly 60% of sales occur in Arkansas, which has a predatory lending law that stipulates that loan such as Car-Mart's must be based off a spread to a floating discount rate (conversely, Car-Mart benefits in rising interest rate environments).

Availability of used cars: tightened used car supply markets would adversely affect business by increasing wholesale vehicle prices.

Allowance for credit losses: allowances may not be sufficient to cover actual credit losses.

Geographic concentration: Car-Mart's locations are concentrated in the

southern United States and subject to conditions in those markets.

Valuation

Car-Mart is attractively valued, both on a stand-alone basis as well as relative to automotive sales peers (no pure publicly traded comparable available).

Applying a forward PEG ratio of 1.0 to 2007 EPS estimates implies a P / E of 12.0x and a share price of \$18.36, a 25% premium over the current share price.

For questions, comments, or to view the full reports for either Car-Mart or Horizon, please contact Luke Semple at SempleL07@darden.virginia.edu

Christopher Pond

International Business Machines

September 19, 2006

Investment highlights

- Despite more than doubling earnings per share since the market trough in 2002, IBM's share price has not experienced a concurrent move as it has maintained a sideways trading pattern.
- At the same time, even though it can be argued that IBM operates in what is now a mature industry, with sales gains becoming more difficult to come by, it is moving into higher-margin, faster-growing industries and away from "commodity" (PCs, hard disk drives) businesses.
- IBM has global reach: well-diversified; strong BRIC performance / growth
- IBM announced recently that it will acquire Internet Security Systems (ISSX) which will fill a hole in its infrastructure-software product line and give the company a large presence in one of the fastest growing segments of IT spending.
- IBM continues to aggressively buy back its stock:
 - 2003 – 49,994,514 shares for \$4.40 million
 - 2004 – 78,562,974 shares for \$7,275 million
 - 2005 – 90,237,800 shares for \$7,671 million
 - As of 12/31/05 \$5,015 million of Board-authorized repurchases still available.
- Benefits under IBM's defined benefit pension plan will stop accruing for active participants effective 12/31/07, and IBM will bolster its 401k plans, helping to reduce costs.
- To the extent that the economy softens over the next year investors could be attracted to more conservative/quality/larger dividend-paying names like IBM.

Investment risks

- Earnings growth fueled by acquisitions and share buybacks is often looked at less favorably than pure organic growth, perhaps contributing to IBM's lack of upward price momentum over the past 4 years.

Investment Snapshot

International Business Machines
(NYSE: IBM)

Business: IBM is the world's top provider of computer products and services. In addition to making mainframes, servers, storage systems and peripherals, IBM's IT services arm is the largest in the world, and it remains one of the largest providers of software (#2 behind Microsoft) and semiconductors. IBM continues to streamline its hardware operations while expanding its services business. In 2005 IBM completed the sale of its PC operations (the segment had yielded

little profit for the company in recent years) to China's Lenovo. In addition, the company has also moved into the high-end management consulting field with the acquisition of PricewaterhouseCooper's consulting and IT services unit. IBM's growing services business now accounts for almost half of its sales.

Share Information

(@09/19/2006)

Price	81.85
Market Cap:	\$124.5 billion
P/E (ttm):	15.45x
EPS (ttm):	\$5.30
Dividend yield:	1.40%

- Even though hardware represents an increasingly smaller slice of the revenue pie, margin pressures in this area could have negative effects on IBM's bottom line.
- IBM is a large, well-known, closely-followed company, which weakens the argument that the market is mispricing the issue.

Valuation

- In the past 30 years, IBM shares have traded at a mean multiple of 14x forward 12 month EPS. Since 1997, the shares have traded in a range between 16-20x forward 12 month EPS.
- IBM is currently trading at 12.87x its calendar year 2007 EPS est. (\$6.36) and 12.52x its forward 12 month EPS est. (\$6.54).
- I think a reversion to the mean is in store for this company, as it should be valued closer to the following:
 - 14x 12/07 EPS est. = \$89.04
 - 14x fwd 12 mo. EPS est. = \$91.56
 - 15x 12/07 EPS est. = \$95.40

For questions, comments, or to view the full report, please contact Christopher Pond at PondC07@darden.virginia.edu