



William A. Harris, CFA
Portfolio Manager

What's In a Name?

In a peculiarity of industry jargon, portfolio managers often refer to individual companies as "names," as in "Wal-Mart... that's a name we've held onto despite its rough patch lately." I don't care for the expression: it robs the underlying businesses of their dimensionality, making them sound flat and dispensable as arcade tokens.

Actual Companies, Not "Names"

When we buy equities for you, we had better be buying more than a name. So let's talk about businesses... about enterprise and competitive position, about plant and equipment, about cash flows and customers. These are what determine whether or not we're trading your dollars for value. Here are *businesses* we've been buying into:

Canadian Pacific Railway

The name sounds boring, but this freight-hauler enjoys something few companies do these days: pricing power — it can raise prices without losing revenues. To wit, a new rate agreement with CP's largest customer will increase rates for the next two years by 33% over last year's levels, and 60% over 2003's levels. And though fuel costs are up, CP is able to pass along much of the burden to customers via surcharges. Across its network, such critical metrics as revenue per loaded ton, car miles per day, and train speeds have been increasing, and 1st quarter net income grew 47%. The company is using its wealth both to increase its dividend (by 15% this year) and invest for the future by buying more cars and laying more track.

What's more, CP is an indirect play on Canada's resource riches, with coal, forest products, fertilizer and grain freight making up over half of revenues. While commodity focused businesses are vulnerable to changes in broad economic cycles, they also provide a measure of diversification from the host of companies which typically suffer from higher commodity prices, a trend we see continuing.

Teva Pharmaceutical

A generic drug company which makes 1 in 16 US pre-

scriptions, Teva can indeed be considered a triumph of namelessness as price advantage. The growing strength of managed care providers and perennial calls for health care reform, all against the backdrop of aging baby boomers, ensure that price will only increase as a factor influencing pharma purchase decisions. The low-cost provider of off-patent drugs stands to benefit from these trends.

Also, Teva is preparing to assimilate generic peer Ivax. Though takeovers too often prove to be a value-destroying proposition for shareholders of the acquirer, this one makes strategic sense, and Teva showed again with its acquisition of Sicor last year that it can make takeovers pay off. In the generics business, driving down cost demands scale, and enfolding Ivax promises to make Teva the predominant low-cost producer.

Moreover, the company is vertically integrated, owning its own bulk chemicals business that supplies other drug makers... so as well as controlling its own supply chain, it also owns a piece of its competitors' supply chains as well. One more thing. Teva raised its dividend 36% this year.

Anheuser-Busch

Uh oh, I've backed myself into an irony. Sometimes brand (a name!) *can* represent value. Budweiser. Like it or not, the name is synonymous with beer.

More important, underlying this brand are a first-class distribution network, 49% US market share, a history of riding out economic downturns, and a growing presence abroad. A-B controls Mexico's largest brewer, Modelo, and has a significant foothold in the world's largest beer market, owning China's fourth largest brewer Harbin and a significant stake in Tsingtao, the biggest. While the stock has suffered due to an ongoing shift in American tastes toward wine and spirits, as well as renewed competition from once hapless Miller, we take heart that tastes are fickle (e.g. Atkins, a diet fad company and noted beer carb despiser, has now declared bankruptcy), whereas consistent dividend hikes (+16% in 2005), high ROEs, and positive free cash flows tend not to stay out of style for long.

I'm almost tempted to finish by saying, "Anheuser Busch... that's a name we're getting interested in despite its rough patch lately." Brandwise, that's something I really mean, and A-B's qualities run deeper than labels alone could suggest.

Bill Harris