COMMENTARY

February 19th, 2009

Dear clients and colleagues,

The Dow Jones closed today at its lowest level since 2002 down 48% since the peak reached on October 10th, 2007. Actually, the index had reached 7500 for the first time in 1997, 12 years ago. So those afraid of a correction or a potential lost decade ahead can get some reassurance, we are already there. And apart from some troubled financial or highly levered companies, this market is all about liquidity and not fundamentals. We are still seeing a liquidation of equities as an asset class.

We remain positive and expect a meaningful rally some time soon. Economic data, although still very weak shows some sign of stabilization. And various stimulus plans have now been approved and should start to impact the economy.

This week I attended the Roth US small cap growth conference. Over 200 companies were presenting from various sectors of the economy including around 60 Chinese companies listed on US exchanges. I have attended this annual conference for about 6 years now and I used to come back with very few investment ideas mainly because of excessive valuation levels. This year, we met (I was assisted by a former classmate who is from Dalian China) around 50 companies. Some of the highlights were the following. Since the beginning of January, many companies are seeing signs of stabilization and even a small uptick, although visibility remains very limited. Companies feel that they have adjusted their cost base to the new level of business and do not need to do much more if the economy does not deteriorate further. Balance sheets are in good shape and companies are focused on cash generation. Valuations are at multi-year low. Many companies believe consolidation will accelerate. So we are coming back with a lot of good ideas on which we will do more work in the coming months.

We made no changes in the portfolio this week. 3 of our companies reported results, all in line with expectations. Curtis Wright in the Aerospace and Flow control sectors had sales up 15% for the year, 2% for the quarter and guided for flat sales and profit growth for 2009, no decline. Zebra, the leader in bar coding and rfid reported sales up 12.5% for the year, flat for the quarter and guided for 2009 slightly down for both sales and profits. Pride International, an offshore driller reported record sales, day rates and profits and guided for a strong although lower 2009.

This week we will profile:

AptarGroup (ATR US - $27.46)
www.aptargroup.com

Founded more than 50 years ago, AptarGroup is a leader in packaging sector, particularly in the global dispensing systems industry. They make the valves and sprays, etc. that dispense the product in the bottle. The company has over 9000 employees in 19 different countries. Its main product segments are in the pharmaceutical, beauty and home products and closures. The company is a real technology leader and product innovator. I often like to give the example of the famous Heinz ketchup, the product is the same for over 75 years, the bottle has changed every few years…

Market cap $1,853M, div yield 2.2%, p/e 12/09 13.6x, roe 13.5%, ev/ebitda (TTM) 5.4x, sales: $2.1B, 5 year sales growth: 13%, Net debt/t12 ebitda: 0.3x, insider ownership 2.5%, last stock offering 1998, ratio of retained earnings/capital: 20x, one year return -27%. Sales distribution are US:25%, Europe:50% and ROW: 25%.

Target Market Size
The company has around 10-15% of the global closure market, (market of $20B growing at around 4-6% per year)

Competitive advantages
The company is one of the top 3 players in its markets. It has the best focus and balance sheet. The company is a product innovator.

The company has a global presence allowing it to serve its multinational customers.

Growth strategy
The growth in packaging, especially in emerging economies exceeds GDP growth.
The company's strategy is to innovate with new products and follow its customers around the World.

Risk
Raw material costs have been very volatile in the past few years.

Investment Theme
It's all about marketing and convenience. The company is a leader and is now facing competitors that are non core divisions of larger companies.

Valuation
Target price = $50 for a 90% return, using DCF model at growth rate of 10% for the first 7 years, 7% after, discount rate of 8, payout at maturity of 60%

Have a good week

Robert.