# Multi-Cap Value Strategy (Partners Value Fund) Webinar Transcript

Weitz | INVESTMENT MANAGEMENT

Portfolio Managers: Wally Weitz, CFA & Brad Hinton, CFA
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**Jo Ann Quinif**: Thank you. Good afternoon and welcome to our third conference call in our 2015 call series. We started a regular series of calls this year and hope to provide timely information regarding our portfolios and our views on the markets. We encourage Q&A and Wally actually prefers it. So, please be sure to submit those questions and often the best tidbits come out of that portion of our call. So, please feel free to email in your questions or post them on the screen as the announcer mentioned. In addition, we welcome all sorts of feedback and are always striving to improve. So, if you have comments or recommendations please send them our way as well.

Our next conference call will be with our Fixed Income team; Tom Carney and Nolan Anderson on October 29. Tom has managed our Short Intermediate Income Fund since 1996. Last year we launched our Core Plus Income Strategy, which Tom and Nolan manage together. Core Plus is in the top 5% of intermediate bond funds for its first year. Please be sure to join us when they discuss our funds, interest rates and the overall fixed income landscape. Today Wally and Brad are going to specifically discuss our Multi Cap Value strategy, known to many, as Partners Value Fund. It is our original expression of our investing style. As its name implies, we are able to invest opportunistically anywhere we believe there is value. Our willingness to exercise this flexibility and manage high conviction, concentrated portfolios that focus on the long-term is part of what has led to our solid long-term performance.

Another contributor is attracting and maintaining a talented investment team. We have been fortunate that the core of our team has been together for a very long time and we were able to add to this group this summer. Wally will provide additional details on that in a few moments. Wally Weitz is our Founder, Chief Investment Officer and Co-portfolio Manager of the Multi-Cap Value Strategy. Brad Hinton has been the Co-Portfolio Manager on the strategy since 2006 and is our Director of Research. Today Wally is going to kick off with the principals and a little bit of our strategy overview, and then Brad will drive into more details on the portfolios. Following that will be the Q&A. So, with that housekeeping - and I think that's all the housekeeping, out of the way, I will hand it over to our (brain trust) and they will take it from here and I'll be back for the Q&A.

**Wally Weitz:** Thank you, Jo Ann and this is Wally and I am going to make some general comments first, and then Brad will fill in the details. Then we'll take your questions.

First, our general principals; I will remind everybody we're research-driven. We do want clients to be informed and well served, so we do calls like this but investing is what we focus on. As a corollary to that, we don't think about creating products that might sell. We invest client's money the way we want our own invested, and in fact virtually all our teams' investable capital, including mine is invested in our own funds.

We want to understand how businesses work and what they are worth to their owners, because we believe that business value is what drives stock prices over the long-term. We keep improving our investment process. We've been building our investment team over the years. Nathan Ritz joined us about four years and was recently promoted to analyst from research associate, and Dan Walker joined us in July from another like-minded value shop. He brings our team to 12 investment professionals.

We're active managers with high conviction portfolios. We'll buy stocks we think are cheap, without regard to Index or Benchmark weightings. This means we will out of step with the market much of the time. I think this means we have high active share. People seem to like this in theory but in practice they only seem to like it when we are out of step in a positive way. But we can't do anything about that. We are driven by common sense, flexibility and intellectual honesty. You wouldn't want it any other way. Now this means we'll change our minds when the facts change or we realize we've made a mistake and we'll acknowledge that there is some art to interpreting our own rules.

Our interests are aligned with clients, our firm is employee-owned and we've made sure it can stay independent forever. Our personal investments are in the same funds as yours and we win or lose with our clients.

Strategy; this is a Multi Cap Strategy. We go wherever value takes us, large companies or small. Our market cap exposure flexes overtime and our portfolios were roughly two-thirds, large cap and one-third, small or mid at the end of June.

We manage concentrated portfolios, usually 25 to 40 companies and typically 35% to 55% of the portfolio is invested in our top 10 positions. We invest like owners; we take a long-term approach to business valuation. We don't buy and forget but we hope that business value will grow and allow us to hold on for a long time. As a result, our turnover has averaged 28% a year over the last five years and that's probably somewhat inflated by takeovers, and because we sometimes trade around our positions. Now, I will turn the call over to Brad for some details.

**Brad Hinton**: Thanks Wally. Before we dive into some numbers, here are the required disclosure slides. Gives me a chance to thank a couple of folks from our marketing team for helping to pull the presentation together, David Kratz did a lot of the number crunching and Leah Thrasher made sure the charts and slides look nice. These slides, aesthetics notwithstanding, a great as always, from both of them on the deck.

So, let's start with the long view today. We look for companies that can compound business value at high rates over long periods of time. So, it only makes sense to see how we've done on that same score for our investors. In our view the longer the time frame the more relevant the results. Top panel shows annualized returns after all fees and expenses for the Partners Value Fund, along with comparative returns for the Russell 300 and the S&P 500. The bottom panel is the goal that we are really after. It shows annualized excess returns for the fund over the indices, over the relevant periods. We're proud of the wealth compounding track record that we've been able to accomplish over the years.

Let's fast forward to modern times and a set of slides we've titled, Riding the Bull. We carved the last six years of the bull market into two year slices a time to try to help make several points. The first slide highlights returns coming out of the financial crisis. As you would expect, the absolute returns were very strong, well into the 20% range annualized, and our relative results were good as well. We were closer to fully invested early in the period, as valuations were extremely compelling, and many of our stocks enjoyed outside gains over the next few years.

The next slide highlights returns that moderated in years' three and four of the bull market, but remained healthy.

We continued to outperform the broader indices while our average cash levels crept higher in response to broadly rising valuations. Note however the wide range in cash levels even within this period. We invested aggressively in the fall of 2011 when price to values fell back into the low 60s then trend our exposures again as valuations became more full later in that period of time.

The final side shows that we've had more difficulty keeping up over the last two years. That's no real surprise for a value manager late in the bull market. Our absolute returns have still been good and cash levels have continued to float up as we sold more expensive holdings and have had difficulty finding attractively priced replacements. The one last point on the portfolio cash range, you will see during each one of these slices of time, a pretty wide variation which shows that we are actively managing the portfolio. When things become cheap, we are going to invest with conviction, and as they become more expensive we are very willing to term our positions and kind of wait for our spots.

Turning now to this year, we've called it a Tale of Two Markets. We were off to a solid start early in 2015, both in absolute and relative terms. The winds started to shift around the middle of April. At that time the oil price rally had started to plateau and the broader market stalled out as well. We've had our own pockets of weakness that have impacted near-term returns; a few small cap companies that are undergoing operational turnarounds; Iconix Brand Group has an entirely new senior management team; the Company's (prosaic) capital light brand management business continues to generate significant free cash flow even during this transition, while the Avon Products turnaround is taking longer than anyone expected, with additional headwinds from currency and competition in emerging markets not helping. From today's prices, we think both of these stocks offer favorable risk reward trade-offs.

Another bucket our energy stocks fell as we look to be experiencing a lower for longer commodity price environment. We are focused on companies with long-lived low cost reserves in the best basins; Range Resources in Marcellus natural gas and Pioneer in Midland Basin Oil. Both of these have astute management teams and balance sheets that can withstand low prices for a fairly prolonged period of time.

Then most recently media content companies have come under attack. Both Fox and Discovery are down mid-teens year-to-date for us. Our variant industry view is that the cable bundle will not unravel as quickly as skeptics believe. We also think that both of our companies have unique attributes, including valued content and significant international businesses that will help them adapt to the evolving media landscape.

So, putting it all together, year-to-date returns have been soggy but not specially out of the ordinary. The market has bounced around a fair amount in a low return world and so has our strategy. This is really not our market. Growth and momentum have been leading the charge. You all know the names that have been driving the boarder markets; Amazon, Facebook, Apple, Netflix, Gilead, Starbucks, these are not the kind of companies that you would expect a value manager to make hay with. Outside of a few of these high profile leaders, the broader market has really started to breakdown. You will see year-to-date the value indices are roughly flat, growth is up 7% plus.

Let's move to a portfolio update. We got kind of a year-over-year look to start

things off here. The first chart titled Flashing Yellow, shows some of the portfolio metrics back in June of 2014. The price to values of the fund on a weighted average basis was up near 90%, which is the very high end of a normal range and our percent invest in equities was relatively low at 72%, which meant residual cash was up in the upper 20s. You see also on the bottom part of the chart the price to value bands. So, you basically have no companies trading under $0.70 on the dollar, which is very unusual and then you will see the various price to value metrics in the up to the mid-80s and then above 85.

Fast forwarding to June of this year, sort of seeing shades of light green, is how we've characterize this. The price to value has drifted back down closer to 80 and our invested level is up about 10 points from the low 70s to the low 80s putting residual cash in the high teens. Looking at the bottom part of the chart, you see a portfolio that's becoming a lot more balanced. So, we have more companies trading under $0.70 on the dollar. A lot of those are concentrated in energy and some of the companies that have been a little more beaten up that we described a minute ago, but nonetheless quite a few more businesses trading in that $0.70 to $0.85 range as well which provides the potential for a lot more future compounding overtime.

How did we get here? It's really been active remixing from more expensive into cheaper stocks; we talked about a few tactics which are really basically taking what the market gives us overtime; we've harvested a handful of fully priced investments, which we'll describe in more detail in just a moment; planted a few new stocks at discounts; and then we've traded around some of our positions, things like Valeant which has been extremely strong. Our share count's down significantly but the position size is still very meaningful to the strategy; and then some of the companies like Range Resources, where it's been mostly adding on the buy side although we've been able to turn that position back earlier in 2015 when commodity prices were a little bit stronger.

So overall, we had a big group of companies where business values are growing. Many of them, the stocks have just sort of, what we would describe has taking a breather. It's very natural. I think we felt for several years prior to now that stock prices might have been ahead of business values and maybe now we're in little bit of a period where business value growth for the most part is exceeding what's happening with the stocks. Then we have had a narrow window or two of broader opportunity, October 2014 is the one that comes to mind. We've talked about that at length. The market took a fairly significant dip during that period of time and we were able to add a handful of securities to the portfolio. Then last bucket are the ones that we're least proud of, where the price to values are improving in quotes organically. It's basically the stocks going down but much faster than our business values have changed in those cases.

So, let's talk a little bit about some of our successful harvested investments over the past few years. Now, don't get us wrong, the market's been strong, so we should expect solid IRRs during a period like this. But the new thing is that our really big winners like Valeant and Transdigm don't show up on this list yet because we still own them. So, going down the list, Catamaran was one of the three leading independent pharmacy benefit managers; our research leverage due diligence that Dave Perkins had already done on CBS Caremark and Express Groups, we

expected Catamaran to be an active participant in further consolidating the PBM industry. It turns out they did just that, but as a seller rather than a buyer. United Health's OptumRx subsidiary purchased Catamaran in July 2015 at a healthy premium.

Live Nation, we had owned Ticketmaster since it was part of Barry Diller's IAC, a terrific network business, with very strong competitive advantages. In 2010, Ticketmaster merged with Live Nation, which produces concerts and manages artists. The deal increased the combined company's sphere of influence in the live music industry. The concert business is cyclical and Ticketmaster made significant investments to update its ticketing platform a few years back and as a result the stock has been quite volatile. Jon Baker did a great job of helping us buy and sell the business well along the way. He encouraged buys under $10 a share at several points in 2010, 2011 and 2012 and ultimately encouraged sales in the upper 20s as the stock reached our value estimate. It's a very good example of patience paying off handsomely. I think if you had been with us during '10-11 and '12, Live Nation would have been a source of consternation on the stock price side of things but ultimately business value went up.

FIS is a core banking and payments processor for financial institutions around the world. Barton Hooper has followed the industry since the mid-2000s. He recommended the stock to the team in early 2013, at a significant discount to estimated value and a very modest multiple of free cash flow. We realized the double dip return we hoped for as business value grew at a double digit rate and the gap between price and value closed over the next two years. We sold the stock when it traded above our estimated value. FIS is a solid business that we would gladly own again at the right price and in fact they were in the news lately buying SunGard. So, probably creating a more valuable company for the years to come.

DIRECTV, well known satellite television distributors that sold itself to AT&T earlier this year, more on that one in just a minute. Barton's investment thesis on Microsoft was spot on but it took time and a management change to play out, which dampened the IRR and we sold Target after a few pillars of our investment thesis changed. Business value didn't progress at the pace we originally expected. Still we bought the stock with enough margin of safety that we realized a nice return over our holding period. In retrospect, we may have sold too early as investors are now excited by steps a new management team has taken but nonetheless a favorable outcome for an otherwise sub optimal investment.

Shifting gears now to a related topic, takeover activity. We have had three portfolio companies taken over in the last year or so. All three were acquired by strategic buyers, not private equity and we think the prices paid provide nice validation of our team's valuation work.

We'll start with DIRECTV; Drew had followed DIRECTV since joining the firm back in 2009 when we owned DTV indirectly via Liberty Media Entertainment. DIRECT had a more mature cash cow type of business in the United States together with a faster growing operation in Latin America. Drew recommended the standalone stock again in 2012. Investors were worried about the terminal value issue facing a pay TV distributor without a strong broadband offering. During our two year ownership, the company generated free cash flow and bought back a lot of stock at a discount to

value. You can see nice business value per share progression in the stair-step blue line. Ultimately, the company sold to strategic buyer AT&T. The deal was announced in May 2014 at a price slightly above our value estimate. The deal had a heavy stock component and we did not aspire to take AT&T stock price risk, so we sold our final shares in early 2015.

Catamaran, as mentioned Dave has followed the PBM industry closely for years. We first bought CVS in 2011, then Express Groups in 2013 and through this ongoing due diligence on those companies, you learn more about Catamaran as it emerged as one of the big four players in the industry. Catamaran owns the industry's most widely used claim adjudication engine. In our view, the company was the natural consolidator of the remaining small and mid-market PBMs. The company also had an attractive organic growth profile over our investment horizon. Dave published a teaser piece on Catamaran in late March 2014, which is identified by the T on the stock chart and this is how a lot of our research projects get started. He spent the next few months doing his detailed due diligence, then published his company view report valuation and buy recommendation in June.

While you will see from the chart that we missed one window of buying opportunity in April of 2014, this highlights our discipline in making sure that we do the work first, and we were still able to buy at a healthy discount when we got around to making our first purchase in June. During our short ownership period, business value rose modestly as M&A activity was sparse but the business did fine on a standalone basis. Then earlier this year, United Health's OptumRx subsidiary, the other big four player in the industry announced that they would acquire Catamaran for $13.2 billion. While we were a little surprised to see management and the Board sell now, the price was consistent with our business value estimate.

The final and most recent example is Precision Castparts, a leading manufacturer of castings and forgings for the aerospace, industrial gas turbine and energy markets. Dave Perkins did his deep dive work on PCC back in early 2013. He and I both visited the company out in Portland in March of that year and we came away impressed with the culture and intense focus on continuous improvement. Dave attended several small group meetings throughout the next year or two that confirmed our positive impression of management. Still the price wasn't quite right. We finally got our chance when the market broke last October. We bought our first shares down around $220 a share, then added to our position near $190 in January and then again in July.

This is an interesting example for a couple of reasons. First, you will see that our business value estimate increased steadily for a few years, then more recently it had been stepping down. The value declines were essentially due to stiff energy market headwinds. These near-term challenges were basically the same things that provided Berkshire Hathaway the chance to buy Precision at a reasonable price. Our business value estimate was higher than the price that Berkshire paid and we are confident that PCC will be worth more five or 10 years from now. Still, we wouldn't expect Berkshire to pay top dollars for any asset and the deal was a very good fit on both sides. While we would have liked to see a higher take out price, fortunately we will continue to benefit from the growth of PCC as large owners of Berkshire Hathaway.

Finally, let's look at the class of 2015 investments. Opportunism is the word that best describes this class so far. Fossil Group is a leading watch producer and the largest global licensor of watch brands. It has lot of the attributes that we look for in a new investment. They have manufacturing scale, company is the global leader in distribution, they are vertically integrated, they are the preferred brand licensor for anything looking to get into the watch and jewelry categories. They have a lot of international white space; so plenty of room to grow overtime and the opportunity for margin expansion, as they continue to grow. The stock trades at a very modest multiple of free cash flow and the company continues to buy back stock at what we think will prove to be very attractive prices. Nathan Ritz did a great job on the analysis and wrote Fossil up in the most recent analyst corner for those interested in more detail.

Endo International is a specialty pharma company led by Valeant alum, Rajiv De Silva. Our investment leverages prior research that Dave has done, both on the industry and the company. We've owned Endo in the past in some of our other strategies. Investors didn't like the most recent Par Pharmaceutical acquisition but our view is that management is on the right track by participating in generics only through differentiated delivery mechanisms and relatively protected niches like controlled substances. It is too early to tell how this will play out but Endo trades at a reasonable discount to our value estimate and we are looking forward to seeing our business progress in the years ahead.

Post Holdings on the other hand has been our terrific investment already. Our only regret is being too price sensitive and not getting enough bought. Post is now a multi-category consumer packaged foods company with operations in ready to eat cereal, egg products, other protein categories and active nutrition. We bought when the avian influenza scare knocked the stock back down into the low 40s. We think the Malt-O-Meal deal was a solid transaction in the cereal category and we expect more deal making in other areas going forward. Today the stock trades near our value estimate, so it is no better than a comfortable hold here.

With that, I will turn it back over to Wally.

**Wally Weitz**: Okay, you will notice that our positioning is relatively conservative, reflects our outlook in the price to values of our stocks. We like our companies but we are not crazy about their prices. So, we are holding reserves and we have less aggressive position sizes than when stocks are cheaper. This first slide shows a diversified group of 4% to 5% industry positions. This is much less concentrated than you might see at other times in the past or the future. We have more companies than usual in the portfolio at 35. We have a smaller percentage in the top 10 at 36%; we are holding more cash than usual at 18%. There is some very low price to value stocks in areas like energy and we own a few in our portfolio. There is others in our on deck list but the timing of the cash flows is uncertain enough that we are limiting our exposure. We are not slaves to our estimates of price to value. Humility dictates that we require an extra margin of safety for commodity-related companies that have less control over the timing of their cash flows.

So finally our outlook, and as you know we never know what the market is going to do in the short-term but here is what we think we see. There are several areas of uncertainly, Brad mentioned them, investors disagree on energy, media, specialty cable content companies, healthcare, ((inaudible))

China geopolitical tensions and more. We're trying to position the portfolios in a way that we don't depend on having the right answers to the short-term outcomes in these areas and we'll let you steer the conversation by your questions for more detail.

From a market sentiment point of view, investors seem to be suddenly concerned about uncertainties that have been around for a long time. We don't know whether this signals the beginning of a normal correction, which is long overdue, but if it is that would serve us very well. We're not oblivious to market dynamics but we look at companies one at a time. We try to have the patience to wait for our pitch and our price but we want to have the courage of our convictions to swing hard when the bargains do turn up.

It's price versus value, that's what we focus on; what's it worth and where does it trade. This is what drives our buying and selling and in the short-term run prices are blown around by market weather, but eventually the gravitational force of value takes over.

Thanks everybody for being on the call today. We're going to turn to questions now. You should have had instructions on how to send your questions in by email, and Jo Ann will be our moderator for the Q&A.

**Jo Ann Quinif**: Right, well we have received several questions so far, and I thought it might be best just to start off with the easy ones, because there are some complicated ones in here. So, the first one came in from (Gary) at Morgan Stanley and he says as a multi cap fund do you consider yourself a global fund or do you limit foreign holding?

**Wally Weitz**: We are allowed to buy companies all over the world, but we really want to feel as if we have an edge in evaluating them and measuring their business values. So, we tend to have either domestic companies or I think we have a several companies that are domiciled abroad but more for tax reasons, than because of where they do business. Having said that, a lot of our companies do a global business, even though they are domestic, have their domestic registrations, and then there is some like Liberty Global, that is based in Denver but 100% outside of the United States. But, unless we had feet on the ground, especially in emerging markets, we think we are better off dealing with companies that we can be closer to and spend more time with Management.

**Brad Hinton**: I think the only thing I would add to that is just that our research efforts have naturally been more global in nature. So, we are doing a lot more traveling to see companies in other parts of the world, again focused on multi nationals more than anything else but it's certainly not something we are ignoring.

**Jo Ann Quinif**: Right, so we are going to move into the media questions next and there is actually a variety of media questions. So, I am just going to take this first one is pretty broad and encompasses most of the questions together. So, with U.S. ad supported TV businesses trading as structurally impaired assets, how has the past few weeks created an opportunity in your market for media content? Do you see content value being recaptured, albeit in a different structure or do these businesses top line revenue decline slowly overtime? I think I got that question correct, and in conjunction there is specific questions around Discovery and our outlook for Discovery. So, maybe just encapsulating media in general.

**Wally Weitz**: Well, we've been investing in media companies of all kinds for 30 or 40 years and newspapers gave away to

TV and radio, which gave away to cable and so on. There has been debates overtime about the relative power of the content providers and the distributors. I think what's going on now is just further fragmentation of the players and the way they get paid and their relative positioning with each other. There is fear in the cable world about cord cutting when somebody pays $8 for a month's worth Netflix and then watches 30 hours of House of Cards, it does change the ratings for other programming and there is a lot of confusion about where that's going to settle out.

We think that changes in the total amounts of money involved are going to be more glacial and less dramatic than recent headlines would indicate, and another factor is that there is some old timers in the business like Malone and Brian Roberts and so on, who I think will find ways even as their subscribers change what they pay and what they buy, they will find ways to hang to the revenue stream. So, we are watching carefully, trying to understand it and trying to maybe give ourselves a wider margin of safety. But when we see Discovery at 26 and selling at 13 times earnings, we think we have something pretty valuable there. Want to add to that Brad?

**Brad Hinton**: Sure. Let me talk a little more about Discovery, since it - they came up and maybe some of this example will shine some light on the broader question too as we go through it. I think bottom line we started investing in this most recent round at a time when the assets were not priced as though they were structurally impaired and that ended up being too early. The reason that we're still there today is that I think we would agree with your assessment that the select businesses that we do own are starting to become priced as though the businesses are structurally impaired, which provides some potential opportunity.

In the case of Discovery Communication, it's a business that's about half international and growing pretty nicely overseas; so in the high single digital growth rate with a lot of their business in Europe and a growing focus on an asset called Eurosport, which is both a pan-European live sports network as well as country specific. So, sports is one of the few areas that is less likely to be time shifted or intermediated away by the Netflixes of the world. So, potentially a pretty valuable franchise there. They also have a large operation in Latin America, which is still sort of at the bend in the adoption curve for pay TV. So, potentially a lot of room for growth yet there. So, half the business overseas, not seeing the same things that we are seeing here in the U.S. yet although they are clearly are concerns, certainly in Western Europe that it is coming.

Turning to United States, half of their business, it's roughly half of that, so a quarter of the total is advertising and the other quarter of the total business is affiliate fees, which are basically carriage fees that distributors pay to carry the networks on their platforms and packages. One kind of leads another. I mean, I think the general outlook for the U.S. ad business is flattish. Discovery has actually had pretty good ratings performance at particularly the flagship Discovery channel of late. So, they are actually are seeing a slight uptick in the current third quarter but nonetheless let's call that kind of a flattish business. The affiliate fee side is a different story altogether and they actually continue to expect high single-digit growth in affiliate fee revenues over the next several years, even with a percent or more decline in overall pay TV sub.

So, they are essentially incorporating a slow secular decline into their outlook. If it happen to be a lot more rapid than that, it's a different story obviously, but they are expecting things to become more challenging, and the reason for the affiliate fee step ups are kind of twofold. They just recently signed a most recent deal with Comcast which was something that investors were very concerned about, whether they would get that done at all and at what kind of economics, turned out that they ended up with a nice increase of where they were along with annual step ups going forward, for really two reasons. One, they provided TV Everywhere rights for their content which had not been included in the previous deal. So, it allows Comcast to carry them on demand - their programming on demand. The second thing really is that it's a totally different business today than it was four or five years ago when the last round of negotiations was struck and that's because the Discovery ID channel for example didn't even exist at that time and it's grown to become pretty valuable property with very strong viewership. So, throughout the course of the last deal they weren't getting paid for that hardly at all. So, it's recognized that some of the value of that in the numbers around it is, I think their share of the economics is something like 3% or 4% and share of the viewership is substantially higher than that.

So, we think there is room to continue to move forward on the U.S. revenue front over the next couple of years, even in the face of pretty stiff headwinds. So, you put all that together and as Wally mentioned you have a business trading at, in our view about 13 times forward cash flow at today's flows that we think can still grow on an EBIT basis in kind in kind of high single-digits, potentially let's call it high single-digits (share), and overtime has the potential to continue to shrink the share count and grow EPS even faster.

Now, one of the reasons that the stock is down as much as it is in our view at least is that they have taken their foot off the share repurchase pedal of late in large part because the rating agencies are concerned about a lot of the secular issues that we are discussing right now. We think that's a temporary kind of next six months phenomena and not a forever phenomena and Dave highlighted that they are very interested in getting back into buy their stock back, especially at these prices, but just prudence dictates that they basically de-lever for a short period of time here until they get back after it. But, the free cash flow projections for 2016 would indicate that they would have the fire power to buy a lot back. When we look at that story which was much more long winded than I intended at the beginning, seems like a pretty interesting investment opportunity at 2.25%, 2.50% of our assets. So, it's not a 7% or 8% position, given a lot of the secular headwinds but good business run by a very good management team that we think the stock price accounting for a lot of the risk at this point.

**Wally Weitz**: Yes, we've known this one, we've owned it before, we've owned it a long time and as people have gotten nervous and we've started buying it as Brad said between that and Fox, which is another story like that, I think the total position's on the order of 5%. So, if this continues and people get more worried you, might see a third or a fourth programmer, and you might see a total position size twice what we have today, which would be just fine with us but we're not in a rush.

**Jo Ann Quinif**: Okay, so let's go a little bigger picture for a second. One of the questions is can you comment - what - sorry, all right, reading the wrong one here, are you specifically aiming to

reduce volatility relative to your benchmark or is near-term price fluctuation not relevant at all?

**Wally Weitz**: I would say the later. We welcome volatility. I think this is a chance to buy stocks when they're cheap. Our general approach to investing life is that the business value is the center of gravity for each company. It generally grows gradually overtime but the stock price can flip around, above and below it. We think volatility is terrific. So, not only are we not trying to dampen volatility but we really are not paying particular attention to the contents and weightings of any benchmark when we look at our stocks one at a time. We compare each fund to a benchmark because the world - the SEC requires us to and we know clients do that too, but the benchmarks contents don't drive what we do inside the fund.

**Jo Ann Quinif**: Okay, so the next question, which is really kind of a hot topic in the news the last couple of days. Can you comment on Valeant's recent acquisition, without laughing, can you comment on Valeant's most recent acquisition?

**Wally Weitz**: Well, I would say, it's a small acquisition. The product has been in the news because it makes good headlines, but the acquisition is small, it's like a $1 billion and it fits in with Valeant's pattern of building a very large sales and marketing organization to distribute products that other people have spent fortunes inventing and developing. So, the specific nature of it notwithstanding, I think it's perfectly in character with what Valeant does.

**Jo Ann Quinif:** Okay, one of the next questions that we have here is actually a dual question, from multiple people, some of our favorite names in the portfolio. Can you please walk us through your pieces on Iconix, and what do we think about the recent dramatic change in leadership?

**Wally Weitz**: Okay, I'll start on that. Iconix, we've owned for a few years. It buys the rights to various licensed products that other people manufacture and sell, it's asset light, generates lots of free cash flow, and it's been a good start for us over a long period, until recently. There has been questions about the accounting for their joint ventures that cropped up six months or a year ago, and our analyst Barton Hooper, who happens to be a CPA has gone through that with the company and has assured himself and us that there is differences of opinion about whether - well I won't get into the detail, but about how to do the accounting, but there is no question about where the cash is, and that's what matters. So, there's been a cloud over it because of that.

They had a CFO that resigned. Again, the explanations from the company have satisfied us. Then the Board has pushed out the CEO and Founder. That combination of ingredients has scared people badly. We, I think, frankly with that combination of ingredients and what we've been able to find, talking to the management - and the new management, Chairman of the Board who stepped in, we could have imagined the stock falling into the low mid-20s, but it is puzzling that it's 13. We like - the new CEO and the Chairman of the Board or the Interim CEO, he's managed turnarounds before. He developed Marvel into a multi-billion dollar company after it came out of bankruptcy and he sold it to Disney, right. We think they're going to be able navigate through the next period and get a permanent CEO. They still are generating about $3 a share in free cash flow. So, we don't think there is a - we don't think there is a liquidity issue or balance sheet issue.

**Brad Hinton**: We think, we've had chance to spend some time with the CFO on the phone as well, David Jones and our view is it's been a pretty significant upgrade in financial capabilities. One of the twists about Iconix is their funding has been done in part with a couple of convertible issues. So, there was a period of time, a year or two ago when it looked like we were going to be diluted by the conversion of those into equity and now we're sitting around talking about how are we going to refinance to pay those off. So, the two issues in question, it's a $300 million convert that comes due in '16 and then a $400 million convert that comes due in 2018. We're talking about a company that's generating on the order of $150 million of free cash flow a year. They have an asset backed facility into which they've put some of their brands. There is room to put more in there that they've recently purchased which could provide additional liquidity on the order of $100 million plus we think.

So, a lot of flexibility around taking care of at least, the first of those two. When we're looking at a stock price that's done what it is done, that's kind of where we go first. We've spent a tremendous amount of time on the balance sheet, the accounting side, making sure we think our downsize is covered. We've had our fixed income guys involved, trying to look at that marketplace and see if anything is trading funny on that side of things or telling us something different than what we've think we've learned on our side of the house. As we sit here today, we feel like they've got a sustainable business and a reasonable plan to turn things around operationally.

**Jo Ann Quinif**: We had a question on Precision Castparts. So, I think you answered that one pretty well, and Chris, if not please send another message and we'll drill down further on that one but I think -

**Wally Weitz:** I saw that question and every time one buys something, the selling shareholders are disappointed in the pricing phase and we were too. But that's part of the beauty of owning Berkshire Hathaway.

**Jo Ann Quinif**: So, one of the other questions that has come in, I mean this is a little broader, but how do you value commodities like oil and determining valuations for the companies involved in these commodities and where do you see oil at?

**Brad Hinton:** Well, in our net asset value analysis of companies like Range Resources and Pioneer Natural Resources, we use longer term estimates of what we think of this marginal cost production, and that has been in - on the order of 375 an MCF on the natural gas side and 75 on the oil side. If we had - I mean, we are not commodity prognosticators by any means, but if we have the gas we would say it's going to be a while before we see - certainly that price on the oil side and the investments in both of those companies, don't depend on that happening in short order. But, any commodity business is a huge supply and demand game over periods of time. A lot of what we've seen from a price standpoint and what we continue to see today on oil makes it more and more likely sometime soon. There were - or sometime in the near future, I guess that there will be more of a supply response than we've seen.

There is some questions still as to how that unfolds, whether it's polite or harder on some of the more levered less liquid layers out there. What would you add to that Wally? You've been in the same commodities a lot longer than the rest of us.

**Wally Weitz:** Yes, the marginal cost of production eventually dictates because

people gradually stop producing if they're not able to cover the cost of additional capital. But, while you're already in the business ironically as prices go lower, there is incentive to produce more because it covers your marginal cost; I mean your cash cost. We've rarely done a lot with commodity based companies but occasionally when it seems as if the commodity is far enough below the long-term marginal cost, we're willing to take a stab at it. We never catch the bottom and this one is worse than usual because OPEC is acting differently.

But, if 30 to 40 is the bottom of the range and 60 to 80 is the top of the range, we ought to be okay from here at $40 oil but it might take a couple of years. Again at - these are small positions if oil goes to 30 or 20, and there is very serious carnage you may see us invest more heavily.

**Brad Hinton**: Yes, I think the one thing to reemphasize too that we've talked about a little in the presentation is the emphasis on really long lived large asset bases that are low cost within the respective commodities. So, a lot of what we're talking about in this lower for longer potential commodity price world is how fast a company like Range Resources or Pioneer Natural Resources can pull value forward. That value realization is clearly delayed in a more stressed commodity price environment, but we don't think it goes away forever. So, a lot of what's important is having partners that you think are doing the right things for long-term value creation and the Range Resources folks fit that build for us that they're going to obviously be taking a hard look at their capital budget every step of the way and every well they drill is going to be approved with the current conditions sort of in mind.

So, whether they drill within cash flow in a low commodity price environment and only grow 10% or whether they're able to go more aggressively and grow 15% or 20% next year doesn't have a ton of impact on the ultimate value of the business. At some point, you have companies with very valuable resource bases that some of the majors will take note of in our view, and that - we're not expecting takeout activity but you have a little bit of a downside backstop if you have really good assets in place and especially a lot of them, as the environment becomes more challenging for longer.

**Wally Weitz**: Yes, I think the last time around when we had the collapse from the middle of '08 down into the '09 period and we bought XTO, I think that was the first time in many years where we had food and energy. But that had - that was a company that had a lot of same characteristics that Brad just described and eventually Exxon came along and took it away from us at a very nice price.

**Jo Ann Quinif**: Okay, so I think we have time for one last question and there were a couple of questions that we didn't get to, and I will be sure to make sure that we follow up individually with those people and most of them are tag on questions to questions we've already discussed. So, last question that we have here is can you talk about the ownership structure for Weitz and how you've set it up for the future.

**Wally Weitz**: No, okay I'll start in on that. I was the Founder and owned a 100% of it starting in 1983. Then in '05, I think '06, we started a program of, at that time, key employees buying stock on a formula price that was half or less of what a market price would be, but a formula that they would use to buy the stock and would also calculate the value of - if they retired or left here. At this point, the employees own 30% plus, I

think no it's probably 25%, and that is going up by two or three percentage points every year. So, they will gradually be buying - essentially buying me out overtime. I expect to be here for decades to come. So, it's a slow process. But when - if and when something happens to me and my wife and we still own a fair amount of stock, we've set it up that that stock will go to our family foundation and be bought out of there overtime by employees again.

So, there is never - there is no circumstance under which it would need a "liquidity event" where we need outside money from anybody. So - and it will be an employee owned company as far as the eye can see.

**Jo Ann Quinif**: Okay. Thank you everyone for participating on the call today, and I do hope that many of you will tune in when Tom Carney and Nolan Anderson review the fixed income.

**Wally Weitz**: They will tell you right where interest rates are going.

**Jo Ann Quinif:** Get it right on the nose, right. Thanks again and we look forward to speaking with you again soon.

**Operator:** Ladies and gentlemen, that does conclude today's conference. We do thank you for your participation. You may now disconnect. Have a great rest of your day.

**END**