Vodafone Group PLC (VOD)

Vodafone Group is one of the largest mobile communications companies in the world. At current levels, we find Vodafone's valuation quite compelling; one of the primary reasons being that the market is currently placing zero or very little value on Vodafone's 45% ownership stake in Verizon Wireless despite the fact that this valuable asset generates $26 billion in EBITDA and over $16 billion in free cash flow annually. Due to an accounting convention called the Equity Method, Vodafone's share of Verizon Wireless' EBITDA and free cash flow goes completely unaccounted for, essentially making it a hidden asset. As a result, Vodafone's true cash flow generating power is understated causing the market to value the company well below what we believe is intrinsic value. Based on our conservative estimates of what the Verizon Wireless stake is worth, we feel that Vodafone's stock should be trading at least 30% higher than where it is today.

Vodafone's dividend profile is quite attractive as well. Not only do we earn a 5.3% annual dividend yield from Vodafone's core businesses, but starting this year we will also begin to receive sizable special dividends from Verizon Wireless which will take the combined dividend yield up closer to 8%. Owning a world-class business at a 30% discount to intrinsic value while earning 8% annually in dividends is an investment opportunity we feel is too good to pass up.

The Brick (BRK)

The Brick (BRK) is one of Canada's largest furniture and appliance retailers. The company operates 233 retail stores under a variety of banners and today holds approximately 8.3% market share in the Canadian furniture, mattress, appliance and home electronics markets. During the economic downturn of 2008/2009, the company was negatively impacted by declining sales, restrictive financial covenants and inventory supply issues. As a result, the firm went through a significant restructuring that involved the suspension of unit distributions (Brick was previously an income trust), a debt refinancing transaction led by Fairfax Financial and other institutional investors, and an overhaul of the management team. Following this restructuring, the company now has significant financial flexibility and improved access to inventory. Nearly two years into the turnaround, the new management team lead by Bill Gregson (formerly COO of Forzani Group) has cut costs, improved gross margins, and worked to improve inventory and supply chain management. The company has dramatically improved same store sales, regained market share, and is on track to generate record EBITDA for the 2011 year, up in excess of 30% over last year's strong results.

While The Brick has appreciated nicely from our initial cost base in the low $2/share range, we continue to believe the investment offers material upside. The Brick now has $139M in cash on its balance sheet and only $109M in long-term debt. As the company continues to generate strong free cash flow (which we estimate to be in excess of $55M annually) it has ample flexibility to create shareholder value. The Brick's options include early repayment of its debentures, continued share repurchases, and the potential for future dividend payments. Despite continued solid execution, and a shareholder friendly management team, The Brick trades at a material valuation discount to its peers (3.5x 2011E EV/EBITDA vs. 6x-7x for peers) and on a normalized basis will generate a free cash flow yield in excess of 17% annually. The Brick continues to be a core investment in the JC Clark funds.