

Motiwala Capital LLC  
2015 Loma Alta Drive  
Irving, Texas 75063  
[www.motiwalacapital.com](http://www.motiwalacapital.com)

---

**Dec 2011 Report**

Dear Friends,

This is our quarterly letter to clients for the period from October 2011 to December 2011. Global equity markets remained extremely volatile during this period just like the rest of the year.

**Portfolio activity**

We had a very busy quarter by our standards. We took on twelve new positions in the quarter – 3 regular positions and 9 special situations. We discuss all these positions below. Two portfolio companies (Bolt and Vodafone) declared special dividends. Bolt paid out a spectacular \$1 per share special dividend on a \$10 stock at the time. Shares appreciated nicely since the dividend was announced. We reduced our position size in Microsoft and also reduced our position in Western Digital as the stock appreciated significantly from the lows and allowed us to scale down this position to a more regular size. After these trades, we feel comfortable with the sizing of all existing positions.

**Generals: 3 new positions**

**Becton, Dickinson and Company (BDX)** is a medical technology company. It develops, manufactures and sells medical devices, instrument systems and reagents worldwide. BDX had sales of \$7.8 billion and generated free cash flow (FCF) of \$1.2 billion. BDX had a market cap of \$15.2 billion and traded at around 12x trailing twelve month FCF.

**CSG International (CSGS)** provides outsourced customer care and billing solutions to the cable, satellite and telecommunication industry worldwide. CSGS had sales of \$700 million and generated \$90 million in annual FCF over the last five years. While CSGS has about \$200 million in net debt, it is well covered with its recurring revenue base and profitability. In two years, CSGS should have the ability to pay down the debt. CSGS trades at a 7x normalized FCF multiple.

**Gravity (GRVY)** is a tiny Korean game developer that offers multiplayer online games, casual and social games. The main game is Ragnarok Online that was a success but its next generation game has been delayed for several years now. While investors have been disappointed, at the price we took the position we feel there is limited downside. Shares trade significantly below cash and securities held on the balance sheet.

**Merger arbitrage**

We did not participate in any new merger arbitrage positions in the quarter. We closed the existing positions in KCI and MMI for 4% and 3% gains respectively. We also received cash for our arbitrage position initiated in the 2<sup>nd</sup> Quarter in SHMR. While there was extra paper work and delay involved in this position, the end result was a 5% gain.

#### **Closed end fund tenders – 3 positions, all closed.**

Closed end funds Asia Pacific Fund (APF) and Malaysia Fund (MAY) allowed us a second chance to tender shares in the year. We participated again and earned 8.8% and 3.2% for tendering our shares. We participated in a third tender for Neuberger Berman Real Estate (NRO) and earned 10% for the tender.

#### **Share tenders – 4 positions, 2 closed, 2 active**

Another new area of investment for us this quarter was cash tenders for shares. This is similar to the closed end fund tenders above. However, in this case the underlying investments were equity positions v/s closed end funds. We participated in four such cash tenders. We successfully tendered and received cash payment for CRFN for a 5.5% gain. We also tendered shares of MCKK and the press release indicates a 13.6% gain on our position, for which we await payment. Two other tenders are in progress and we will disclose their outcome in our next report.

#### **Dual share Class arbitrage – 2 positions, both closed.**

Some companies have multiple share classes listed in the market. Differences between them are usually related to the number of votes per share and liquidity differences. This was a new area for us and we experimented with long short positions in the dual classes of Viacom and Heico Corp. The cost of borrowing for Viacom was much higher than we would have liked and we closed the position for a 2.5% loss. On the other hand, we closed the position in Heico for a 4% gain.

#### **2011 performance**

Out of the total 13 general investments, we only had one real disappointment in Aeropostale (-37%). Our biggest winners were GameStop (22%), Gravity (+21%), Big Lots (+17%), Conrad Industries (14%), Abbott Labs (12%) and Vodafone (11%). The rest of our positions have small gains or losses. In addition, 13 of the 14 special situation investments were profitable and positively impacted our portfolio returns.

We would like to thank each of you for placing your trust in us. I wish everyone a prosperous and happy new year.

Adib Motiwala  
Portfolio Manager  
Motiwala Capital