

GIVERYNY CAPITAL INC.

QUARTERLY LETTER TO OUR PARTNERS

1ST QUARTER 2011

Our companies: an excellent first quarter

Our companies, as a whole, had a terrific first quarter this year. Here is some news on a few of them.

O'Reilly Automotive, announced an 8% rise in revenue, with same-store sales increasing by 6%. Earnings per share (EPS) rose by 19%, to \$.83.

For the first quarter, **M&T Bank** announced adjusted EPS of \$1.67, or a 36% increase from the year prior.

Wells-Fargo increased its EPS by 49%. Charges from non-performing loans are on the decline and the company announced a divi-

dend hike and a share buyback program.

Fastenal increased revenue by 23% during the first quarter and EPS rose 42%.

Lumber Liquidators announced a 6% rise in sales. Profits, however, fell by 20%. The implementation of a new SAP system has been completed and the company expects to see higher profitability in the coming quarters. Lumber Liquidators anticipates EPs of \$1.20 for 2011 which would be a 20% increase from 2010 levels. The company also plans on opening an additional 40-50 stores

during the year, representing approximately a 20% in its retail footprint.

Dollarama announced a 12% rise in sales, with about 5% of that figure coming from same-store sales. For the current year, we are forecasting EPS of \$1.92—a 17% increase from 2010.

Carmax had a 23% sales increase during its most recent quarter, with 12% of that growth from same-store sales. EPS rose by 19%.

Mohawk Industries experienced flat sales relative to the first quarter of

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SUMMARY:

- ◆ Our companies: an excellent first quarter
- ◆ The Berkshire Hathaway Shareholder Meeting
- ◆ More acquisitions for MTY Food
- ◆ Sale of CFSG and purchase of BYD.
- ◆ Philosopher's Corner

The Berkshire Hathaway Shareholder Meeting

We made our annual trip to Omaha for the shareholder meeting of Berkshire Hathaway, the conglomerate led by the great investor Warren Buffett. He was accompanied by his long-time partner, the one and only Charlie Munger. We share with you here, as is the tradition, some of the most interesting questions (and answers) from the meeting.

A movie was shown during the first hour (8:30 to 9:30) about Berkshire Hathaway, its managers, subsidiary businesses, (along with some advertising from these businesses). In an adjacent convention hall, you could find dozens of kiosks about several of businesses owned by Berkshire—you can buy anything there: from See's Candy, to GEICO insurance, to cowboy

boots from Justin Brands.

The first half hour of the meeting was focussed on the David Sokol "case" (see page 4). We consider this incident closed and of no real long-term consequence for Berkshire and its shareholders.

Next were questions on the American economy...

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WE REITERATE TO OUR PARTNERS THAT WE CONTINUE TO SEE A STRONG OUTLOOK FOR INVESTING. WE BELIEVE THAT THE COMPANIES IN OUR PORTFOLIO ARE TRADING AT COMPELLING VALUATIONS AND OFFER OPPORTUNITY TO ADD CAPITAL FOR LONG TERM INVESTING.

Warren Buffett on the future of the US (from page 1)

“I was born in 1930, right at the beginning of the Great Depression. Unemployment was at 25% and the Dow was on its way toward its low of 42 (reached in 1932). More than 4000 banks went bankrupt during this period. Since then, the standard of living of the average American has increased six fold. Our capitalist system works: it allows for human potential to flourish. And it will continue to be the case.

My father was against the New Deal from Roosevelt and was very negative about the future

of the country. On the eve of my wedding, my future father-in-law took me aside and told me: “Warren, you will fail in life. You will be poor, along with my daughter. But I don’t want you to blame yourself for this. It’s not your fault—it’s the democrats that are leading us directly to communism.”

Even my hero Ben Graham wanted me to wait to invest in the market because he thought it was too expensive (in 1951).

All my life, people have been

negative. There are always problems and pessimism. There are always things to worry about.

But at the end of the day, people who have bet against America have always lost. Growth will not be in a straight line (we have had 15 recessions in our history), but the forces of capitalism are incredible. And it’s what is yet again taking us out of this recession.

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More news from our companies! (continued)



2010. EPS, however, climbed by 20%. Given the depressed construction market and higher oil prices (an important component in carpet manufacturing), Mohawk delivered excellent results.

Disney broke ground on its first theme park in China (in Shanghai). The company

anticipates the park opening in 2016.

Omnicom had an excellent quarter: revenues grew 8% and net income increased by 24%. Due to its share buyback program, Omnicom’s EPS grew by 33%. Growth was particularly strong outside the US, where the com-

pany anticipates generating more than half of its revenue. Medtronic’s revenue grew 3% while EPS grew by 12% (the company’s EPS was also boosted by its share buyback program).

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More acquisitions from MTY Food

MTY Food announced two acquisitions in April.

First, the company bought Jugo Juice. This chain has 133 locations (132 of which are franchised) in seven provinces and had annual sales of \$36.4 million in 2010. This latest acquisition enabled MTY Food to become the

leader in the smoothie market in Canada.

MTY also purchased Sushi Taxi (ST). ST is a well-known chain of sushi restaurants in Quebec. ST has 12 locations—eight of which are corporate-owned and four being franchised. ST had annual sales of approximately \$8.5 million last year and this

acquisition further diversifies the lineup of restaurants owned by MTY Food.



THE LATEST
ACQUISITION FROM MTY
FOOD

Mr. Buffett, why not invest in commodities?

WARREN FINDS IT
 STRANGE THAT PEOPLE
 BUY ASSETS THAT ARE
 PROFITABLE ONLY IF THE
 WORLD FALLS APART. I
 ALSO DON'T VIEW THIS AS
 RATIONAL.
 - CHARLIE MUNGER

In a response to a shareholder question concerning the risk of inflation and the best protective measure against its effects (such as the possible purchase of commodities), Warren Buffett said:

“I also believe that inflation will be an important issue in the future. But one has to consider which of the three major categories of investment offers the best protection against inflation.

The first category is anything that is denominated in a currency (cash, bonds, and money market accounts). Almost all currencies have lost value over time. A dollar from 1930 is worth about 6 cents today. It is built into any economic system that the economy will be easier to work with when the currency is depreciating as opposed to appreciating. As an asset class, currencies will lose value and will not make a good investment, unless you will receive an interest rate that is much higher than what we have today. Someone would ultimately have to know which currency will

depreciate less relative to other currencies (and I don't know the answer).

The second category is represented by commodities such as oil, gold, cotton, copper, etc. These are unproductive assets which do not “create” anything. You can have all the gold in the world and all you could do is polish it. Since it's an unproductive asset, you're really just hoping that someone pays you more money for this asset in the future.

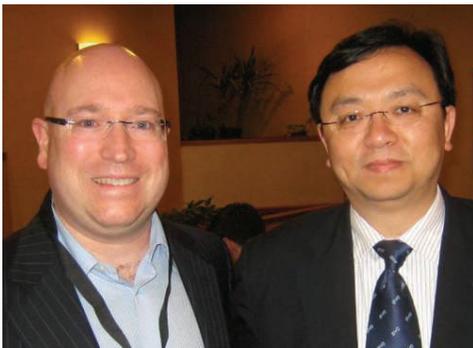
Keynes described all of this in Chapter 12 of *The General Theory of Employment, Interest and Money* when he talked about the famous beauty contest. In this case, the game was not trying to pick out the most beautiful woman among the group, but the woman who other people thought was the most beautiful. When you buy these assets you are just betting on a beauty contest.

But it's envy rather than financial analysis that guides

people. If your neighbor owns gold and he is making money and you are not, it can affect your behavior. People like to get in on things that are rising in price, but over time, that is not a good way to get rich. Cotton has doubled in price recently, but investing in this asset class over a long period of time has not created any wealth.

The third category of assets is producing assets. You buy a farm because you expect a certain amount of cotton or soybeans. You decide how much you will pay based on how much the asset will deliver over time. You should not care if you get a quote on the price of the farm. We have no stock quote for Dairy Queen or Iscar which is fine with us. This is the same attitude you should have towards the stock market. At Berkshire, we look to own assets that generate capital with which we buy other productive assets.”

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François Rochon with the President of BYD, Mr. Chuan-Fu Wang

Sale of China Fire Security, purchase of BYD

We sold our shares in **China Fire & Security** during the quarter. We did this knowing that the stock remains highly undervalued by the market.

Management announced its intent to privatize the company (management already owned two thirds of the shares). However, the company did not announce the price it was willing to pay for the remaining shares. We were very uncomfortable with

this decision—and our rule when faced with these situations is to sell our shares.

We decided to redeploy our capital in another Chinese company: **BYD**. The stock had fallen sharply in the prior months and appears undervalued. We also greatly admire the company's president, Mr. Chuan-Fu Wang. We had the opportunity to meet him during our trip to Omaha.

More questions for Warren Buffett and Charlie Munger (cont.)

Question: What do you think of banks like Wells Fargo and US Bancorp?

Buffett: These are among some of the best banks (if not the best) in the United States. Like the industry, they will likely not be as profitable as they were in the beginning of the 2000s since they will have lower leverage in the future—which is a good thing for society.

Munger: There is also M&T Bank which is managed by a truly brilliant guy (note: Bob Wilmers). His last annual report is really something. He is prudent and conservative, and his tone is a bit like the Old Testament. He doesn't like seeing banks make money from trading operations. These banks become tempted to make money to the detriment of their own clients. His latest annual report is one of the best I've

read in my life.

Question: What do you think of the behavior of David

Sokol (note: Sokol profited from buying shares in Lubrizol ahead of the Berkshire acquisition of the company)?

Buffett: It's inexcusable and inexplicable. When we bought Mid-American Energy about a dozen years ago, we had intended on giving a bonus of \$50 million to David Sokol and \$25 million to his lieutenant Greg Abel (based on long-term performance metrics). David asked that each should receive \$37.5 million instead. It was not publicly discussed whatsoever, but David left more than \$12 million on the table. So, I was truly baffled to hear that he bought Lubrizol ahead of Berkshire to net a gain of \$3 million. He made no effort at

all to hide his trades. All trades were done in his own name. I don't understand.

Munger: Although it's inexcusable, in the end, everyone is human and can make errors.

Question: What do you want people to remember about you in a hundred years?

Buffett: Old age!

Munger: Warren likes to say that he would like people at his funeral to say: "That is the oldest corpse I ever saw." As for me, I would like to be known for fortune fairly won and wisely used.

More news from our companies! (continued)

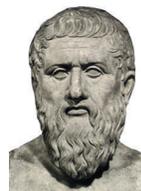
Resmed, our Australian medical products company, announced a 12% increase in sales along with a 10% increase in EPS. After the departure of the company's CEO (which made the company's stock drop), the founder of Resmed, Peter Farrell, will assume the role of interim CEO.

Bank of the Ozarks had a terrific first quarter. The bank's assets grew by 10% and its deposit base grew by 14%. EPS,

however, fell by 10%. One should remember that results for the first quarter of 2010 had been abnormally high, so we consider the company's results for 2011 to have been excellent. This bank from Arkansas also took over the deposit base of two other banks in Georgia. The balance sheet at Ozarks remains solid (with returns on equity greater than 10%) and the bank anticipates further acquisitions of struggling banks.

The most significant news came from **5N Plus**. This Montreal-based company acquired a Belgian company called MCP Group for \$316 million. MCP is several times the size of 5N Plus and will allow the company to significantly diversify its customer base, both in sheer number as well as geographically.

Philosopher's Corner



"To become an adult is to lean to live in doubt and to develop, through experiences, your own philosophy and your own morality. Avoid anything that is "ready-to-think" "

- Hubert Reeves