Intrepid Capital Management

Investment Presentation

February 17, 2006
Background

- Bolles School: Jacksonville, FL
- University of Georgia: BA Economics
- EF Hutton, Consultant to:
  - Shands Hospital
  - Clay Electric Co-Op
  - City of Brunswick, GA
  - Haskell Co.
Intrepid Capital Management

- Co-founded in 1995
  - Founding Principle: “Price is not always indicative of value.”

- Where No One Looks
  - Small Cap Stocks < $2 billion market cap
  - Junk Bonds < BBB-rated

- Absolute Return Focus
  - Consultant’s Folly
Intrepid Capital Management
Trailing 5-Year Performance*
December 31, 2005

* Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees for the five year period ended December 31, 2005. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may be materially different from the volatility of any Intrepid composite.
Intrepid Capital Management
Since Inception Performance*
December 31, 2005

* Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees for the period ended December 31, 2005. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may be materially different from the volatility of any Intrepid composite. Inception dates for each composite: Balanced-4/30/95, Equity-3/31/96, Small Cap-10/31/98, High Yield-4/30/99.
* Past performance is no guarantee of future results. Intrepid composite returns are presented net of investment advisory fees and all returns are presented annualized for the five year period ended December 31, 2005. Returns reflect the reinvestment of dividends and other earnings. The volatility of the listed benchmarks may differ materially from the volatility of any Intrepid composite. Risk is the annualized monthly standard deviation.
Valuation

- Private Market Multiples: 6 to 12 times Operating Income
- Enterprise Value = Equity + Preferred + All Debt – Cash
- “Like Buying a House”
Corporate Food Chain

- Secured Debt
  - Bank debt
  - Senior Secured Notes
- Senior Bonds
- Subordinated
- Convertible Debt
- Preferred Equity
- Equity
Intrepid High Yield Strategy

- Add 300-400 bps to 5 year treasury
- Duration usually 5 years or less
- Attempt to minimize credit-specific and interest rate risk
- Concentrated portfolio: approx. 25 names, 4% position weights
Intrepid High Yield Strategy

How are we to be repaid?
- Cash flow
- Refinancing (if window is open)
- Asset sales (in event of liquidation)

We avoid companies…
- Intent on making large, debt-funded acquisitions
- Priced as if cyclical peak cash flows were normal
- That defer interest payments (zero, PIK)
- That are reliant on favorable refinancing environments
Current Pricing: HY vs. Treasuries

• Historically, high yield bonds have yielded about 5% more than treasuries, on average—current “spread” is 3.5%
Credit Metrics

Debt / EBITDA
Alternatives:
(Debt + PV Operating Leases) / (EBITDA + Rent)
(Debt + 8 x Rent) / (EBITDA + Rent)

EBITDA / Interest Expense
Alternative:
(EBITDA + Rent) / (Interest Expense + Rent)

(EBITDA – CapEx) / Interest Expense
- Bond Brokers (my next job)

- Intrepid Successes
  - American Airlines Lease
  - Hilton Hotels Converts
  - 1998 Long-Term Capital liquidity crunch

- Failures
  - Calpine
  - Asbestos-related
  - Adelphia Converts
Itron 7.75% due 5/15/2012

- Largest supplier of electricity meters and automatic meter reading (AMR) technology in the U.S.
- Incurred debt in 2004 to fund $248 million purchase of Schlumberger’s electricity meter business
- Using free cash flow and equity issuance proceeds, has reduced debt balance by $150 million in 12 months
- Trailing 12 months
  - \( \frac{\text{EBITDA}}{\text{Interest Expense}} = 6.7X \)
  - \( \frac{\text{(EBITDA-Capex)}}{\text{Interest Expense}} = 5.5X \)
  - \( \frac{\text{Debt}}{\text{EBITDA}} = 2.0X \)
- Current YTW = 7%; STW = 240 bps
Speedway Motorsports 6.75% due 6/1/2013

• Second largest promoter of motorsports events in the U.S.; owns 6 tracks
• Profitability rapidly increased after NASCAR-negotiated television contract began in 2001
• High revenue predictability, expanding demographics
• Trailing 12 months
  – EBITDA / Interest Expense = 6.8X
  – (EBITDA-Capex) / Interest Expense = 4.2X
  – Debt / EBITDA = 2.3X
• Current YTW = 6.4%; STW = 187 bps
Questions?