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"THE TIMES, THEY ARE A CHANGIN'"

As I stood in front of the Wilmington Trust ATM at 11th and Market last Friday I thought of Bob Dylan's 1963 anthem to the importance of change. Here I was, sticking a piece of plastic into a machine and receiving two hundred dollars along with a statement showing my checkbook balance. I suddenly realized that it had been 20 years since I'd spoken face-to-face to a teller. Back then I presented a check made payable to cash in order to get the same amount of money from my account and received no corresponding check book balance information. What a difference 20 years does make.

Charles Darwin had this to say about change: "The survival of the species goes not to the strongest, nor to the most intelligent. Rather it goes to those most responsive to change."

Who would have thought in 1985 that the day would come when I could walk down Market Street holding something called a cell phone and hear my two-year-old grandson Isaac's laugh from Santa Monica, CA? Who could have imagined that we would communicate by leaving recorded telephone messages on something called voicemail? Better yet, who would have thought that we would communicate with our family, friends and colleagues through a new form of letter-writing, through something called e-mail? Or that we could pay our bills online, over the Internet?

I remember the IBM Selectric typewriter. I remember my secretary using a product called Whiteout to make corrections. I remember carbon paper. I remember the 1985 technological advance which permitted my secretary to backspace over a single misspelled letter, thereby erasing it.

Twenty years ago I had no idea how to type. Today I spend several hours every day on the computer with my fingers madly fumbling over the keys. I'm slowly getting better, too! I make the corrections and the computer spell checks it; grammar is parsed; and a copying device prints me a hard copy

or scans it to my e-mail addressees as an attachment.

In 1985 the Internet was known to a few techno-geeks but certainly not to the masses. And what, among other things, has that Internet done? Well, it has made more information available to more people than ever could have been imagined. And it has literally facilitated career change.

Let's use Westover Capital Advisors as Exhibit A. WCA wouldn't exist without the Internet. Why? Because without the Internet I could not, as a one-person money management firm, secure the financial information I need. The Internet permits me to see the income statements and balance sheets of every publicly-traded company. It let's me read the filings the companies make with the SEC, as well as their news releases. It lets me track all the numerical indicia that go into my decision making on what to buy, what to sell and when.

The Internet let's me communicate with my wonderful Merrill Lynch colleague, Tracy B. McGuire, and her assistants no matter where I'm located. I can provide them with instructions to buy from Duck, NC, as I did this past June. I was able to provide them with instructions to sell from Manchester, England the week The Twin Towers were brought down in 2001. I can and do view the account statements of Westover's clients from literally anywhere in the world. A year ago I watched over them while Randy and I were in Vienna, Budapest and Prague. In short, if the Internet didn't exist, Murray Sawyer would not be in the private asset management business.

And speaking of Westover, I'm happy to announce that our assets under management now exceed \$40MM. As a consequence, we have transitioned our registration from that of the State of Delaware and its securities division to the SEC. Here's a disclaimer: Federal registration is not an endorsement of any of Westover's policies or practices, but merely is recognition that we now are considered one of the "Big Boys." If you ask me I still feel like a very small fish in a very big ocean.

The famous historian, Henry Steele Commager, wrote that "Change does not necessarily assure progress, but progress implacably requires change." Here at Westover we recognize and acknowledge change every day and along with it, we seek to make progress in growing our client's accounts.

What's in Westover's Bag of Tricks?*

The two stocks I think have good long-term prospects today come from two very different industries. The first, Boston Scientific (BSX), is in the medical equipment industry while the second, International Game Tech (IGT), is in the casino gaming business.

Both have, in the words of Warren Buffet, wide "economic moats", thereby making it very hard for competitors to gain a competitive advantage in the same industry. Both are presently selling at Jos. A. Banks prices, meaning at a substantial discount to fair value. And both have very strong financials, thereby suggesting they can stay the course.

Let's talk about some of the specifics of BSX. One of my colleagues believes its competitor Guidant is a better choice. For my money, if that's true then Paul McCartney's best band was Wings.

Boston Scientific is a Massachusetts-based medical device manufacturer which produces medical instruments for use in blood-clot filtration, angioplasty, catheter-directed ultrasound imaging, upper gastrointestinal tract tests, forceps as well as the treatment of kidney stones and incontinence. It markets its devices to health-care professionals and institutions around the world. Foreign sales account for 40% of its total revenues. As I dictate this it's selling for \$27.80 and I believe it could top out at more than \$50.00 three-to-five years from now. Its price/earnings, price/book, price/sales and price/cash flow are all below industry averages. That's where you want them.

One particularly interesting measuring stick for Westover's purposes is to compare the present PE with the 10-year historic PE of the company. Boston Scientific's PE is the lowest it has been in the last 10 years. That's also true for its price to book and its price to cash flow. Its earnings yield is very healthy, even though it doesn't pay a dividend, at 5.14%. That compares with an earnings yield of 5.02% for the S&P 500 and 4.22% for the 30-year T Bond. The 10-year cash flows for BSX are higher than they have ever been, both with respect to cash flows from operations as well as with

* It should not be assumed that the recommendations made herein will be profitable or will equal or exceed the performance of securities not discussed herein. Securities highlighted in this newsletter may or may not be held in an individual client account. The performance of these stocks, as well as those previously discussed, is not a guarantee or predictor of future stock performance results under any circumstances.

respect to what's called free cash flow. Let's tuck this company away in our bag of tricks and pull it out in a couple of years. I think we'll all be happy with its performance.

I don't know about you, but I don't think our fascination with gambling is going to abate anytime soon. Just look at what Delaware did several years ago and now what Maryland and Pennsylvania are about to do. International Game Tech is a Reno, Nevada-based company. It's the world's largest manufacturer of casino gaming machines. Half of IGT's revenue comes from proprietary gaming systems such as progressive jackpots. The other half comes from selling slots outright. It recently innovated games based on TV shows and cashless ticketing systems. It is licensed to operate in every significant gaming jurisdiction in the world.

IGT has the ability, because of its position in its market, to increase prices without much resistance. When the calendar changes IGT typically raises its prices 5%. Its free cash flow, as a percentage of sales, has averaged more than 14% over the last 10 years which is exceedingly healthy. It even pays a dividend at close to 2%.

IGT's cash flows from operations are the highest they've been in the last 10 years. That's true also for its free cash flow. Its trailing 12 months will throw off approximately \$580MM in free cash. It has increased its gross margins to more than 50% while its earnings before taxes is over 25%. Its return on equity is a very healthy 20.33%.

As with BSX, the typical benchmarks of price/earnings, price/book, price/sales and price/cash flow are all lower than the industry, and in this case by a factor of approximately 20% or more each. Its cash return is an exceedingly healthy 6.50%. As Al McGuire, one of my favorite basketball commentators used to say about huge, impressive front-court players, "Make way for this aircraft carrier." IGT truly makes waves in its industry.

If you want to stick your toe in the water of companies which are involved in the gambling business, this is a good one. It's got strong pricing power, great profitability, a decent and surprising yield and a great-looking balance sheet. Right now it sells at \$28.52 and I think it can also get close to \$50.00 in our three-to-five year time range, just like BSX.

My daughter Amy tells me that, for her, looking at company numbers is as exciting as watching a PBS special on coal mining. Having never done the latter, I can't compare the

two, but if I couldn't look at the numbers I couldn't make sense out of what's a good buy at any point in time. And I have the Internet to thank for revealing those black nuggets to me. And Amy to thank for Isaac.

Listen to the Music

As those of you who are regular readers of Westover's reports know, I typically conclude my report with a titled reference to a famous 1972 Doobie Brothers record, *Listen to the Music*. In this section, we generally just try to have some fun and not take ourselves too seriously, but in this Report as you will shortly see, we comment with a heavy heart on our ever-changing world.

This Report has been about change. My attorney friend Tom Preston, who has known me since we were boarding school classmates in the mid-60s, thinks my segue from a lawyer practicing estate planning and estate administration to an investment manager is quite a leap. In one sense perhaps it is. But in another sense it's like bridging the Brandywine River compared to bridging the Grand Canyon when you compare my change of careers to that of a former Doobie Brothers band member, Jeff Baxter.

Mr. Baxter is now 56 years old. He has gone from a rock career that brought him 8 platinum records to becoming one of the national-security world's counterterrorism experts. I kid you not. This guitarist-turned-defense consultant regularly works for the Department of Defense as well as many corporations involved in nation's intelligence community. He chairs a Congressional Advisory Board on missile defense and has lucrative consulting contracts with companies like Northrop Grumman Corp. and Science Applications International Corp, to name but two.

Here are his chilling words when it comes to the concept of change: "We thought turntables were for playing records until rappers began to use them as instruments, and we thought airplanes were for carrying passengers until terrorists realized they could be used as missiles."

Baxter, who still sports a ponytail and handlebar mustache, looks at existing technologies and tries to envision new ways in which they might be used. This he says "happens in music all the time and happens to be what terrorists are incredibly good at." Hearing Baxter's words about change gives a whole new meaning to that phrase "Listen to the Music," doesn't it?

Let me close by saying on a somber note that I am dictating this Report the day after terrorists attacked innocent citizens in London. All of us who abhor those wanton acts, who loathe the cowards who killed innocent civilians had best heed Charles Darwin's injunction. "Survival of the species goes not to the strongest, nor to the most intelligent. Rather, it goes to those most responsive to change."

If you'd like a painless and free consultation or review of your portfolio, give me a buzz. Regardless, have a great summer.

July 12, 2005