

CANADA TIP SHEET: JASON DONVILLE ONLY SWINGS AT PERFECT PITCHES

By Caroline Van Hasselt Of DOW JONES NEWSWIRES

TORONTO (Dow Jones)--Constellation Software Inc. (CSU.T, CNSWF), a maker of customized software, is to the investing world what the "perfect pitch" is in baseball, says Toronto-based fund manager Jason Donville.

Donville, who manages the C\$27-million (US\$27.6-million) DKAM Capital Ideas Fund LP, only commits to perfect pitches, that is, companies that simultaneously possess a top-quartile return on equity and a bottom-quartile valuation. He defines the investing world's perfect pitch as a company that can compound its earnings at greater than 15% for a long time without using excess leverage or accounting gimmicky.

To achieve such growth, the company must have a competitive advantage that prevents rivals from driving down prices and eroding profit margins, and a capital-allocation model or process that allows it to reinvest earnings into next year's operations at a level that ensures return on equity remains high.

According to Morningstar Canada, Donville has batted a few home runs. The fund's one-year performance through Monday was 33.9%. That compares to the S&P/TSE Total Return index, which returned about 20%.

The fund's top holding, Constellation Software, has consistently posted high returns on capital and revenue growth. The stock, recently trading at about C\$75, has skyrocketed 50% this year. Since early April, the Toronto-based company has been reviewing its strategic alternatives, which could mean that it is up for sale, going private or about to engage in a massive share buy-back, said Donville.

"It's the best company to invest in in Canada right now, but unfortunately it's probably going to get sold," he said. "My guess is that it'll get taken out at C\$90 or C\$100."

Paladin Labs Inc. (PLB.T, PLDLF) is the fund's second-largest position. Earlier in May, Donville was in the market, buying the stock at around C\$41. The Montreal-based specialty pharmaceutical company boasts a 40% return on equity, no debt and net cash balances of about C\$10 a share, he said.

"I think this stock is just going to continue to rocket," he said.

He expects both Constellation and Paladin will increase their earnings next year by 20% regardless of what the economy does because they are non-cyclical companies.

Montreal-based MTY Food Group Inc. (MTY.T, MTYFF), which franchises and operates 1,741 fast-food restaurants, is another perfect pitch. "A lot of the other

chains get up to 70 or 80 stores and they get beyond the skills of the entrepreneur to manage them," said Donville. MTY "knows how to manage scale. It's a money machine. It just throws off so much cash."

MTY recently agreed to buy Jugo Juice, a Calgary-based juice-bar chain, gaining 133 outlets in seven provinces with C\$36.4 million in 2010 sales.

"These companies don't get a lot of airtime from the street. But, these are exactly the kind of companies that you want because they are the ones that have such fantastic cash flows," he said.