



BANYAN CAPITAL MANAGEMENT

October 20, 2015

Dear Client:

Banyan's equity composite was down 0.7% year-to-date through September 30, 2015. The S&P 500 was down 5.3%. While we are never pleased to show even the slightest negative return, we are gratified to outperform the market by such a considerable margin. Returns for your portfolio will differ from the composite due to variations in account holdings and other client-specific circumstances. ([Explanation of how composite is compiled](#))

Our portfolio of companies is more valuable today than at the beginning of the year, even if stock prices at the end of the third quarter did not indicate such. In fact, there were some most positive developments with four of our holdings in particular. It was these events more than anything that enabled our portfolio to maintain itself relative to the market. Rather than preparing a detailed research report on a single holding as we normally do, we offer you a summary of the positive developments for these four companies.

DIRECTV

During the third quarter, the purchase of DTV by AT&T was completed. Since this was a cash and stock acquisition, we sold our shares just before the completion of the transaction. We did not want to become AT&T shareholders. We were gratified to receive a price that was within an eyelash of the highest ever obtained. Before this deal was announced, we estimated the fair value of DTV to be around \$95 per share. We are pleased the sale of our shares was within a dollar of that estimate.

Precision Castparts

The investment thesis for our newest purchase can be found in the research report we prepared for you last quarter. Evidently other investors were reaching similar conclusions at about the same time. Hence, the recent announcement of the acquisition of PCP by Berkshire

Hathaway. This \$37 billion acquisition is the largest in Berkshire's history. For now, we will continue to hold Precision Castparts because it delays the capital gain into the first quarter of 2016 for taxable accounts. Furthermore, there is a reasonably attractive spread between current prices and the \$235/share cash takeover. Should prices change, we may sell sooner. We are delighted to continue to benefit from the bright future for this company through our investment in Berkshire Hathaway.

H&R Block

Developments at HRB improved the value of the company overnight. The long-anticipated sale of H&R Block Bank has finally closed. This frees the company from oversight by bank regulators and makes for a more flexible capital structure. Since the sale of the bank, the company has successfully completed a tender offer for about 15% of shares outstanding. HRB also announced the intention to repurchase an additional \$2 billion in shares in the open market over the next few years. The stock responded well to this news and we believe there are even more positive developments to come.

Post Holdings

This company has been on a program to deploy excess capital generated by the mature breakfast cereal business into other packaged food businesses with faster growth potential. In the process of absorbing these numerous acquisitions, the company experienced a modest operational stumble. While we considered the stumble to be temporary, we didn't anticipate how quickly this situation would be corrected. In the most recent quarter, POST reported a robust increase in revenues and profits beyond the expectations of most investors. Subsequently, POST announced yet another acquisition that appears to have about a 19% profit margin. Though the purchase price was not disclosed, the company does not have a habit of overpaying for acquisitions. This newest purchase should add nicely to the bottom line. The stock has responded quite well to all this good news.

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While stock prices do not always follow improvements in business values in lock step, we know that eventually stock prices must follow gains in intrinsic values. In our judgment, all of our portfolio holdings have shown improvements in the underlying intrinsic value this year. The four mentioned in this letter are only the most visible lately.

Thank you for your continued trust in Banyan Capital Management. Our goal is to build permanent wealth on your behalf.

Best,

Gary L. Watkins
President