

It's not often that value investors find bargains on *Fortune* magazine's list of most profitable companies. At most points in time, share prices for these leading companies command high valuations in the marketplace, reflecting widely recognized strengths and growth prospects. The 2009 list of most profitable companies shows virtually all of the companies are household names with leading brands.

However, during the adverse 2008-2009 market environment it seems the only thing to expect is, well, the unexpected. Volatile stock prices, an economic recession, and a focus on short-term developments have contributed to many investors heading for the exits.

Amid this adverse environment, many of the most profitable firms have seen their share prices fall to levels below our estimates of their current intrinsic values.

For example, as of March 31, 2009, Brandes Investment Partners ("Brandes") portfolios held as many as nine of the 20 most profitable firms (according to *Fortune* magazine) – global leaders such as Microsoft, Intel, and General Electric – in various Brandes portfolios. Typically, the number of these firms in a Brandes portfolio would be far fewer, and sometimes none would be deemed as undervalued. In addition, seven of the most profitable technology firms recognized by the magazine are also held in Brandes portfolios. This stands in stark contrast to the late 1990s, when technology and internet stocks were widely in favor – and widely absent from Brandes portfolios. Today, we are finding opportunity in companies that normally command premium valuations.

We believe there are two takeaways from this most unexpected development. First, we believe the current valuations ignore the impressive earnings power of these firms. In our opinion, share prices for these companies reflect a short-term perspective from market participants. Second, we believe the current market adversity has been so pervasive that disciplined value investors are finding rare opportunities. Just as a high tide lifts all boats, the recent low tide has lowered all boats – or, in this case, share prices. If the stock markets in the late 1990s were referred to as experiencing a period of "irrational exuberance," we might characterize today's market environment as one of "irrational indifference."

Let's look at why we see undervaluation in these profitable companies and what factors are contributing to the markets "getting it wrong" with valuing these profitable companies. While not all traits apply to all Brandes holdings from this list, the majority of strengths (and obstacles) are relevant for each position.

#### Long-term strengths

- Recognizable, diversified brands
- Strong free cash flows
- Substantial economic moats
- Healthy balance sheets
- Impressive record of growth and innovation
- Skilled management
- Future R&D productivity

#### Short-term challenges

- Decreased consumer demand
- Dividend reductions
- Required raising of additional capital
- Diminished pricing power/brand loyalty
- Uncertainty surrounding economic downturn

At Brandes, we've often said "A good company does not always equal a good investment" when the company's share prices reflect an expensive valuation. Today, we believe in many cases a great company equals a good investment, as shares of many profitable companies trade at very compelling valuations.

The information provided in this material should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings, or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. Strategies discussed herein are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities.

The foregoing reflects the thoughts and opinions of Brandes Investment Partners<sup>®</sup> exclusively and is subject to change without notice.

Brandes Investment Partners<sup>®</sup> is a registered trademark of Brandes Investment Partners, L.P. in the United States and Canada.