This article by Matthew Sweeney is excerpted from a letter of [Laughing Water Capital](#).

EZCorp (EZPW) – EZCorp has moved past the stock price weakness caused by the convertible bond offering which I detailed in our 1H'17 letter. More importantly, the company recently announced a major acquisition in the form of 112 Latin American stores. While operationally this appears to be a good use of cash, there are larger implications which I believe will play out in the months and years to come as the market digests the news. First, for the last few years the narrative surrounding EZPW has been somewhere between "it is a disaster" and "they have a lot of changes to make." As the company enters the final year of their 3 year plan with a cleaned up balance sheet and incredible operational improvements, the narrative should shift to, "they are back on a growth track," which should lead to increased interest from the investment community. Secondly, for the last few years while EZPW struggled, their largest competitor, FirstCash (FCFS) has been hoovering up large pawn operations throughout the western hemisphere without any competition. Now that EZPW has signaled they are back in the game, I believe it is likely that FCFS will realize that their best move would be to buy EZPW, even if it required a large premium. First, FCFS would be able to realize massive synergies by eliminating virtually all of EZPW's infrastructure. Second, if they do not buy EZPW, FCFS will be living in a world where all of their substantial growth ambitions will lead them to competitive bidding processes, driving up prices. Simply stated, paying up for EZPW means they will be able to pay down for every other pawn group. EZPW remains a top 5 position.

Iteris (ITI) – In our last letter, I noted that curiously management created a new, separate legal entity to house the agriculture/weather business, which suggests that an eventual sale of this business may be somewhere on their radar. Adding to the intrigue, Iteris recently hired Jim Chambers to run the agriculture/weather business. A review of Mr. Chambers' CV reveals that of the previous companies where he was employed, four (4!) of them were acquired. It seems clear that management has positioned the agriculture business for eventual sale, and hired an executive that knows a thing or two about selling businesses. However, the company has also registered a shelf which would allow them to raise capital in a secondary offering. If the agriculture business was sold in the near term it would be unlikely that the company would need to raise additional cash, so the tea leaves are muddled. This is just fine because the company continues to execute at a very high level, and the traffic management business remains an undiscovered gem at the forefront of the future of intelligent transportation and autonomous vehicles. ITI remains a top 5 position.

Now Inc (DNOW) – I have sold our shares in DNOW. The original thesis was that an investment in DNOW was an investment in the beaten-up oil space that would benefit independent of oil prices as management used their massively over-capitalized balance sheet and long track record of successful M&A to gain market share by buying struggling Mom and Pop players in the oil field distribution business. Shares rallied quite a bit from our purchase price as the price of oil recovered, but quickly gave back the gains. The price of oil was never germane to our thesis so we should have exited on this brief move, but we did not. Management has since signaled that the rally in oil prices has made M&A increasingly unlikely because bid-ask spreads between buyers and sellers are too wide.

Absent the opportunity to take market share through M&A, in my view DNOW is a bet on oil prices, and I have no reason to think I am any good at predicting oil prices so we exited the position.

Revlon (REV) – Revlon's wild ride continues, with shares having traded hands below $16 in mid September and above $27 in late September. Business value just doesn't change that quickly absent catastrophic events, but as a stock Revlon is its own animal as controlling shareholder Ron Perelman and the largest independent shareholder, Mittleman Brothers, do battle through SEC filings that seek to influence the supposedly fiduciary minded board of directors. Notably, Mittleman asked for Perelman to agree to not squeeze out minority shareholders for a period of five years. Perelman agreed to not exceed 90% ownership for a (woefully short) one year period. From our perspective, it is of course frustrating that shares have traded down from ~$35 earlier this year, but they remain drastically under-valued if you are a long term, patient shareholder. Lower prices make Revlon an attractive candidate for tax loss selling, but Perelman's 1 year standstill agreement had the curious side effect of emboldening short sellers (who are likely hedging debt investments) who no longer have any reason to fear a buyout deal at a premium. As a result, we are presently earning a ~15%+ yield lending our shares to those who are concerned with short term volatility while patiently waiting for long term value to develop. Getting paid 15%+ to wait for something that I believe may ultimately be worth multiples of its present price helps sooth the pain of our mark to market losses incurred this year.