Patrick Brennan of Brennan Asset Management presented his theses on Jefferies Financial (US: JEF) and Permanent TSB (UK: IL0A) at Best Ideas 2019.

Summary:

Multiple financial names have experienced substantial declines over the past three months as leverage concerns, tax-loss selling and recession/interest rate fears have all led investors to quickly dispose of “risk off” names. Blind selling has driven shares of Jefferies Financial Group ($6.3 billion market cap) and Permanent TSB Group Holdings (~€730 million market cap) far below a reasonable fair value estimate.

Jefferies Financial Group: Despite CEO Richard Handler’s strong long-term track record at Jefferies, investors have never embraced the company following the 2013 merger with Leucadia. But, JEF trades (~70% of tangible book value) far below reasonable fair value estimates and below our downside valuation estimates.

A series of value enhancing actions (National Beef/Garcadia monetizations, capital return from Jefferies, aggressive share repurchases) should serve as a catalyst for a hated stock.

Permanent TSB: While depressing macro headlines, negative interest rates and no-deal Brexit fears dominate any discussion of European financial names, the Irish economy continues to post solid economic growth and experience a red-hot housing market. For Irish banks, this favorable backdrop is masked by government ownership stakes and high non-performing loan (NPL) ratios.

Trading at below 40% of tangible book, TSB’s bombed-out valuation offers substantial downside protection and allows investors several ways to win. Meaningful NPL reductions following recent securitization announcements should allow aggressive capital return in 2019/2020 with dividends amounting to a sizeable percentage of the bank’s total value. While interest rates have been low for years and may stay this way, even small increase would offer meaningful net interest income upside.

Finally, a sale is possible. Several U.S. financial names generated huge gains following government exits, and this could repeat in Ireland. A long-rumored sale of TSB could repay taxpayers, drive synergies and offer the highest shareholder returns.

The following transcript has been edited for space and clarity.

We focus on just a couple of industries and areas that have empirical evidence showing they outperform. Within those industry groups, outside of media and telecom, the financial service space is an area we spend a lot of time on.

In recent months, we’ve been in full-blown “risk off” mode. Many names that were statistically cheap, probably heading into the sell-off at the end of the year, maybe held up fairly well for a bit, but then cheap got a lot cheaper. Interestingly, if you think about risk off names sold, what screens particularly well for what investors do not like right now would be financials, levered names, something with exposure to slowing growth and low interest rates, anything with a hint of exposure to Europe, and complicated stories. Between them, the two names in this presentation check off all those boxes. Obviously, there's a lot of bad news priced in, even in cases where there is a pretty strong story going on. At current levels, you don't need much to go right to do well, so we think it's kind of the proverbial "Heads – I win potentially a lot, tails – I don't lose much."

Let's start with Jefferies. When I say Jefferies, think the historical Leucadia, which most value investors should be quite familiar with. The name was changed from Leucadia to Jefferies, and the investment bank is named Jefferies as well. Jefferies Financial Group is the new holding company name. I use Jefferies here to refer to the investment bank, which accounts for half of the total net asset value although there's a lot beneath the surface.

Taking a step back, Jefferies was a standalone investment bank. With value investing legends Ian Cumming and Joe Steinberg, Leucadia compounded value for years. They had an equity investment and long-standing relationship with Jefferies and its CEO, Rich Handler. They didn't have a clear succession plan and made a deal to acquire Jefferies at the end of 2012, closing it in 2013. It's been a deeply unpopular stock since then. One thing that is not well appreciated is how strong the track record was at Jefferies. People know about Joe and Ian, but probably less well-known is what Rich did while he was at Jefferies. There was a long history of rising shareholder returns up until the last trade before the merger was announced. From 2000 to 2013, when Rich Handler was CEO of Jefferies, we had two very full economic cycles and two big downturns, the dot-com blowup in 2000-2001 and then the great financial crisis. Despite the returns generated, shareholders want nothing to do with this company.

Investment banking has probably been a bit of a tougher business since the financial crisis. The perception is that a lot of banks were levered up 30 to 1. They took huge risks, and the financial crisis blew them up, permanently impairing the model. As with any narrative, there are parts which are true and parts which don't hold up to scrutiny. Jefferies has expanded quite a bit, with revenues more than doubling from 2006 to 2017. However, there is more capital against the business, so it's not as profitable. I think it's important to note that when Jefferies was really humming pre-financial crisis, it was not levered. This was not Lehman Brothers – 11x or 12x leverage is very responsible. It's even lower now. Its return on tangible equity is not as strong as it was, but while it may no longer be worth 2x to 3x book, is 70% of tangible book a reasonable number for this business? The other thing to keep in mind is that the profits from the investment bank do not have to just go back to it – they can be recycled into other investments. We think Rich is a pretty good capital allocator, and this fact will ultimately be reflected.

I'd also point out that revenues have rebounded for American banks while European banks have had to pull back, and Jefferies took a lot of share. All these businesses have a lot more equity against the revenue base, so profitability has declined across the entire industry.

In terms of the historical performance, the point I'd like to get across is that since the merger closed in 2013, the investment bank has had some inconsistent results. The more recent period has been a lot stronger, with roughly a 10% average return on tangible equity in the last seven quarters. For those wondering why I use tangible equity instead of full equity at the bank, the thing to keep in mind is that the goodwill created was solely based upon the Leucadia shares exchanged for Jefferies shares. There was a 20% premium paid. The goodwill is simply a function of what the stock price of Leucadia was when it issued shares for Jefferies. There was a commodities future business Jefferies had purchased, and it thought it got a good deal purchasing at book value. The business produced losses in 2014 and 2015. It was shut down and sold, but that negatively impacted the results. Maybe the last couple of quarters in the last couple of years have been more a reflection of what the run rate of the business is. If you think about the money from Jefferies being, going forward, 50% of this is dividend back to the holding company to invest in stock repurchases, other deals, or something else, and it's not quite as good as float from a property & casualty company below a 100% combined ratio, but it's a better income generator than anything Joe and Ian had to work with over time. Those two did a fabulous job, but they were forced to pull a rabbit out of their hat on a regular basis.

As regards leverage, Jefferies has always behaved responsibly and continues to do so. Its numbers are not that out of whack with a normal commercial bank. At roughly $40 billion of total assets, Jefferies investment bank is not subject to the significantly important financial institution rules, such as Dodd-Frank, so it has a lot more leeway with the products it can pursue. The entire holding company can make investments in merchant banking businesses that will be harder for the largest investment banks to do under the post-financial crisis rules.

Even if someone is comfortable with the leverage, they can still have concerns about what's on the balance sheet of an investment bank. One quantitative way to measure this is to say that Level 3 assets, the "mark to model" assets, are a very small percentage of the total asset base of the investment bank and a very reasonable percentage of the total tangible equity base. Jefferies was never a big player in the famous CDO, CDO-Squared, the non-exchange derivative products markets, which is important. It is active in leveraged loans and is an active issuer of high-yield bonds in a given quarter. Could it have a hung deal it has to take a write-down on? Absolutely, but I think the bigger fear is some of these more esoteric products. Again, it has far less exposure than other banks. Also, the insiders hold a lot of stock, so one could think about this as the old school Wall Street partnership where it's the partners' own money at stake, and they behave a little differently. Despite the huge rise in Jefferies' stock over the last 20-some years, Rich Hander has never sold a share outside of charities and tax, which I find impressive. He's one of the 10 largest shareholders, and I think your entire risk management framework changes when you're a significant equity owner.

Since the big revenue increase after 2006, the company has bought teams and introduced products. It's had another wave of investments since 2017. The big takeaway message here is that if you bring over a team of industry bankers who usually have restricted stock at the previous employer, you have an upfront compensation cost for them, and then it's a question of how long it takes for them to produce revenue. There's a lag, and so as you expand, it's going to be negative to the P&L initially. It takes time for this wave of investments to show through. Some of the investments immediately post the crisis were beginning to show up in the last couple of years, and this new wave of hiring can also begin to bear fruit over the next couple of years.

It’s also worth noting that not only have European banks pulled back and allowed Jefferies to move up the tables, but there are also few Asian players that could enter “tier one” investment banking in the United States. There is something of a scarcity value for the kind of non-bank global investment bank that Jefferies is right now.

The narrative was it had this good long-term track record, the deal closed, investors don’t like owning a New York investment bank. Jefferies had some struggles with the Pru Bache write-downs early on, and there were also the problems with National Beef. You get the picture of shareholders not supporting this, there’s little Wall Street coverage, and it’s conglomerate. Also, the stock has not responded as well as Rich Handler and Brian Friedman had hoped. In April 2018, the company announced several investments monetizing a good portion of its largest merchant banking asset, National Beef, for an enormous gain, and selling part of the car dealership business, Garcadia. Berkadia and Leucadia Investment Management combine with Jefferies, and there is an energy investment as a follow-on. The company switched the fiscal year for the merchant bank and investment bank to November 30th, which may not sound like much, but it had a lot of blackout days where it was restricted from buying stocks. It upped the buyback program considerably. If you were going to wage an activist campaign and say, “Gee, simplify this. Buy back stock,” it did that on its own. The stock responds immediately but then falls back.

Berkadia is now part of the investment bank Jefferies – it owns half, and the other half is owned by Berkshire Hathaway. It’s a commercial loans originator and servicer. The loans it originates are generally sold to the government agencies. It has top market share and is a very predictable and stable business. The 50% share in this was worth a good amount of money, but investors did not seem to be ascribing any value to it because of its being part of a conglomerate. By moving it into the investment bank, Jefferies will add, give or take, $200 million of pre-tax income, or more like $100 million because it keeps half. That’s still a sizable shot in the arm, and it also will have a stabilizing impact for the other aspects of the investment banker.

With Leucadia Asset Management, Jefferies decided to start from scratch rather than buy an asset manager. It’s got $17 billion of AUM, which is not material to the overall value of both Jefferies investment bank and Jefferies the entire merchant bank, but its optionality. This can grow over time. This type of investment would be a little more difficult for some of the larger banks to fund on their own. I think slow and steady wins the race, and over time, you can have a decent little fee stream from this business.

One of the big issues with Jefferies the investment bank is what I call the Goldman issue. When people start looking at this as a possible name and you have a period where Goldman Sachs sells off, you naturally ask why you’d want to mess around with Jefferies if you can own Goldman Sachs below tangible book value. I won’t argue Goldman below tangible book is not very interesting – it has generated more consistent returns over time. But what’s less well appreciated is that, historically, the smaller investment banks had traded at larger premiums. The largest banks are an amalgamation of multiple different businesses, but interestingly, it’s the smaller, advisory-only businesses that have traded at large premiums to book value. One of the great points that came out of the October analyst day in 2018 was that Jefferies itself has quite an M&A advisory franchise and margins similar to those of advisor boutiques. If you did a sum of the parts analysis, I'd find it hard to believe you're going to get a value consistently below at least tangible book value for a period of time. I do think there will be a premium ascribed to it, assuming that results can continue to be steady and/or there's potentially the opportunity for somebody else to come in and take a minority stake in the investment bank.

There are quite a few subsidiaries, but I want to highlight two of them. I think they can drive really interesting returns over time. These businesses are a combination of legacy and Leucadia investments – Joe and Ian investments, if you will – that were held on to or disposed of at favorable prices and new investments that have been made since the merger closed.

One of these subsidiaries is National Beef, which ran into problems at the same time the investment bank was struggling. National Beef, a very steady business and the fourth-largest beef processor in the United States, had a 100-year storm that was partly caused by a drought that ravaged ranchers and led to a big spike in commodity prices. It was very expensive to maintain herd levels, and those were depleted to historically low levels. The ones that came for slaughter were more expensive, and that's the cogs for a processing business. This was a huge part of the combined company at merger closing. The business that had been generating a couple of hundred million dollars went negative, and it happened at the same time that Jefferies was struggling. When the stock price was weak in 2015, it happened at a time when the two largest businesses were struggling. This one was negative for several quarters of the past year. It generated over $600 million of EBITDA. You have fantastic visibility because it's very expensive to build a new processor, but the business can have a downturn. Jefferies sold a high 40s percentage portion of the business and now has 30% left. It's probably going to continue to produce very strong profits for the next couple of years. This will be a nice steady dividend stream coming in, but the company monetized this and made it a more reasonable percentage of the total business.

Linkem is another historical Joe-Ian investment, and a follow-on investment was made with Rich-Brian. This is wireless broadband, and if you're familiar with European broadband, you'll know that Italy is an extremely difficult, hilly country. By United Nations surveys, I think Italy ranks near the bottom of developed countries in terms of total broadband access. It's using a mid-band spectrum technology. With 5G on the horizon, this spectrum is very valuable. The quarterly subscriber numbers have gone up in a nice stair-step function, but the spectrum alone, according to the last auction, would be at a pretty good premium to the last mark on the business. An IPO of this one is quite possible, and it could be a big return for the company.

In the effort at better disclosure, Jefferies announced during the investment day in October 2018 that in addition to the November 30th fiscal year-end, it is going to mark all of its merchant banking assets twice a year. The valuations may be open to debate, but this at least forces people to say, "What is this stuff worth?" Most of these businesses are pretty reasonable. The fair value of Linkem was just under $500 million, and it's a little over 54%

diluted stake. Forget about the business, the entire spectrum is probably worth $750 million-ish. You add this up, if we take the base value, with a 15% premium to book for the investment bank, it's not hard to get a $30-ish value per share. On the bear side, if you haircut everything and say the investment bank is impaired and worth 75% of book value, it's really hard to get down to $18 per share. If you take a more realistic view, there's solid upside. Share repurchases are highly accretive.

This has been statistically cheap. Jefferies is a little better balance sheet-wise. It did a nice job on some of these investments, and the stock still trades down. Part of investing in these types of names is that you have big swings in sentiment. If the market sells off, these things sell off. A big change was taking out 7% of the shares in the first nine months. In October, Rich was probably as vocal as he'd ever been about the stock being very cheap at $24 a share. He said, "Look, we're not going to hype it, but we're going to keep buying it." I think that's the real answer. There was a unique period in time in 2015, when both National Beef and Jefferies were struggling. The merger had just been completed, and the company wasn't in a position to make as aggressive share repurchases as it liked, so the stock's almost back to where it was then, but there is a much stronger franchise and a much stronger willingness to purchase a lot of shares. The combination of taking out stock at a material discount to tangible book value, at a huge discount to likely fair market value, combined with a couple more wins on the merchant banking monetization could just be a light bulb that goes off saying, "I trust these guys. I think they're pretty good." There's a comfort that comes with acknowledging that there's a lot going on, but book value per share is going to grow over time. I enjoy investing alongside these folks who have big skin in the game.

One of the key risks here is a key person risk, that is, if something were to happen to the top two guys. There could also be inconsistencies, and Jefferies could do a bad deal. Another risk is dead money. People could permanently ascribe a discount for Jefferies. That is possible but will hopefully be mitigated by taking on a lot of shares.

If someone is wondering what could be more unpopular than a US investment bank, one thing would be financials in Europe. It feels like a graveyard of problems. You have well-known macro problems, such as Brexit and interest rates that feel like they're never going to rise in our lifetime. It's somewhat similar to the feeling in the US in 2010-2011, when it looked like you were staring into the abyss, and it felt like things would not improve for another 10 years. That's where we are in Europe.

I'm concerned with Ireland, which had a spectacular housing boom and bust. Housing prices are down 60%. The government had to guarantee all the liabilities on the banking side, including sub-debt. It was an extraordinary action. It also had to nationalize many of the banks. This was a really traumatic experience for Ireland, but the interesting thing is that it has really rebounded. In the face of all the gloom in Europe you read about, Ireland's economy is on fire – we're talking 3% to 4% projected growth, coming off even faster levels for the last couple of years. At the same time, there has been a resurgence in the housing market. The combination of this big economic expansion, the migration into Ireland, partially Brexit, and a pent-up demand post the financial crisis has caused housing prices to boom although they are still below the absolute peak levels – about 108% of 2005 levels.

One part of the Ireland story that is probably even less well-known is the household formation. The country needs a little over 30,000 units annually to keep up with demand, and it’s roughly at half these levels right now. Certainly, there are projects being developed and built, but it could take a decade to fully remedy the supply-demand imbalance. Interestingly, another company we own, Kennedy Wilson, the largest commercial landlord in downtown Dublin, has spoken about this housing demand-supply imbalance. It’s very much true on the residential side.

One quick note on Brexit: it’s an unpredictable outcome, but generally speaking, Ireland has benefited to some degree because a lot of businesses and families are considering moving. It’s an English-speaking country right next door, a very popular destination. Without a doubt, it’s had a big impact on commercial and residential prices in Ireland.

Naturally, somebody has to finance all of this, and it’s going to be the banks. Interestingly enough, when you look at the cost of mortgages in Ireland, they’re a lot higher than the euro average. The main reasons include a highly concentrated banking system. Historically, the banks have a large number of tracking mortgages, which are tied to negative ECB rates. A lot of capital has to be held against those businesses. Then you also have a very messy closure process. Thus, you get this weird mix of a strong economy, huge demand for housing, and extremely restrictive financial capital rules against Irish banking assets.

As we studied this backdrop, we came across Permanent TSB. It’s a smaller bank that is 75% government-owned. It did an IPO in 2015, and the stock has declined 60% since then. If we could get back up to where the rest of the bombed-out European financial names are trading, we can do pretty well on this thing. The bank has a respectable presence in the mortgage market. Bank of Ireland and Allied Irish Bank (AIB) are by far the two largest and control a huge portion of the overall mortgage market. There is a void for a third challenger to those two, so there is the possibility of a merger between Permanent and another bank. If rates rise a little, the entire sector in Europe will probably go up, and Permanent TSB is highly sensitive to that. In addition to potentially being a sale candidate, the most interesting part is the capital return. There is a self-help story that if everything else goes wrong, it can return a lot of capital.

The bank was nationalized and came back to the public markets via an IPO. Since 75% of it is owned by the government, the tradable float is horribly small. Could it get any worse? Yes. The NPLs, non-performing loans as a percent of total assets, are 26%, which is a gargantuan number. If you’re talking a number above 2%, 3%, or 4%, people would say, “We’re in the middle of a horrible recession,” and you’d think we’re on the brink of a catastrophe here. However, a lot of this is legacy issues, and some of it is just flat-out accounting. Under the accounting standards that exist and with the Central Bank of Ireland rules, if any loan was modified, even if the borrower has been fully current on the modified loan for a period of time, it still shows up as an NPL.

This is a problem because Irish banks have two sets of regulators – the ECB and the Irish Central Bank. The ECB says, “You’ve got to get all NPLs to south of 5% over the medium term.” The only realistic way to do this is via a block sale of a chunk of these loans. The problem is that Irish regulators say, “We don’t want home loans. We’re having to deal with private equity firms." The private equity moniker has not taken off among Irish politicians. These firms are simply known as vultures. Two transactions were announced, one of them completed and the other about to close. This takes a chunk of these NPLs and securitizes them off balance sheets, so the NPL ratio will be down to 10%. We estimate it's going to rapidly fall throughout the rest of 2019. On a screening basis, this is going to look like a substantially improved story.

It's not just that the NPLs are coming down – the capital ratios are going up. Is it adequately capitalized? It's a function of what its capital level is relative to risk-weighted assets. The amount of capital a bank has to hold against $1 depends on what regulators deem to be more at risk, so the higher risk-weighting you have, the more capital you'll have to hold against this. Permanent's long-term target is 12%, and it is above this now. We think the number is rapidly going to increase. One thing to keep in mind is the risk-weighting in Ireland, and part of this is understandable given what the country went through during the housing crisis. But when we start talking about an Irish bank being overcapitalized, they are really overcapitalized because of the punitive risk-weightings they have for both residential and commercial loans. Keep in mind that these risk-weightings are happening at the same time that the housing market is on fire. You have a bit of what I call a cognitive dissonance because you have conflicting policy aims – you understandably want to keep the banking sector very safe, but at the same time, a lot of people are getting priced out of the mortgage market. An Irish mortgage is a lot more expensive than across the rest of the EU, and that's not isolated from these policies forcing more capital to be held.

In our view, the big thing to keep in mind is this 25% stake right now, proforma 10%, is going to be somewhere around 6% by the end of the year. That's a very big move down. We also think the allowance for loan loss is going to decline over time. For those familiar with IFRS accounting, Stage 3 would be specific loan losses against individual credits. Stage 2 is a more generic risk allocation for potentially problematic assets, and it's directly tied to Stage 3 numbers. If Stage 3 allowance goes down over time, Stage 2 will as well. We don't show any benefit from that, but it's mechanical. If we're right on the NPL progression over time, then the Stage 2 allowance is also going to decline similarly.

You had a lot of loans in Ireland maturing over the last couple of years. A lot of the tracking mortgages tied to ECB rates from legacy mortgage loans have been rolling off, and it's prevented net loan growth despite the huge growth in new loans. That should change in 2019. Some NPLs that come off the book were actually income-producing – which speaks to the quality of assets in that NPL category – so you do have a bit of a hit from that. The net-net is you will continue to be able to grow your performing loan book over time.

We think the capital ratio, which is currently above the 12% target, will probably rise to somewhere between mid-15s to 16%. From the outside, I think we're directionally on the right idea, but some of this is going to be inaccurate. The key message is the difference between 15% and 12%, which is half the market cap that could conceivably be returned as a dividend. Permanent will need approval from the Irish Central Bank, and it won't be able to do the lump sum at once. Still, when you see NPLs coming down dramatically, capital ratios rising sharply, a dividend beginning to be paid, and then talk about a large capital distribution, it's highly likely you've got a pretty good chance of re-rating.

There are a couple of ways to win, the real bull scenario being a sale. This is not just theoretical. The ECB's supervisory arm had said that Ulster Bank, a subsidiary of the Royal Bank of Scotland, can be merged with Permanent TSB, which is somewhat similar in size, to create a powerful number three to challenge the top two banks. Credit Suisse has said the synergies from this merger would be about €150 million. You can cut at least 20% of the operating expenses – €150 million would be half of the total operating expenses for TSB. Obviously, this is a home run. You have a risk with the government saying a TSB and Ulster merger would mean branch closings and job losses. That could be a factor in the banks deciding against a deal. At the same time, a follow-on sale by the government would be really positive.

If we're right on what the CET capital levels are, if Permanent can operate at the 12% CET ratio with a 50bp increase in interest rates, we're coming close to the magical 10% return number in order to move closer to book value. Admittedly, the length of time for a rate increase has probably been pushed back a little over the last couple of months given the volatility of the market.

As for the risks, the big one is the 75% government stake. There's a reason people would not want the government investing side by side – economic rationalization may not be its absolute top priority, so you have to weigh this risk. Clearly, there's a deal screaming to happen, and that would create all sorts of value, but you have other considerations, so this is a clear risk. The Irish economy is another, and a no-deal Brexit is probably one near-term that's hurting. The market seems to think the risk of a no-deal Brexit has increased. Many would probably say it's not the most likely scenario. The Irish economy benefits from Brexit to a certain extent, but if this was ugly enough, could it interrupt the 3% to 4% GDP growth momentum and push us back into a recession?

The current valuation would suggest this is where we are. Obviously, there's the difference in rates between Ireland and the rest of Europe, and there are competition possibilities, but a new competitor still has to deal with those onerous capital constraints. With regard to interest rates, we're waiting for Godot, and hopefully, he comes soon.

The following are excerpts of the Q&A session with Patrick Brennan:

Q: Please elaborate on the management at both companies — how do you see the alignment and incentives?

A: Jefferies is an easy one to address straight off. Both Rich and Brian own a ton of stock. The compensation proposals for them have been rejiggered, and their pay is now based on a three-year rolling total shareholder return and return on tangible equity. The metrics by themselves are important. I think the comp scheme is an improvement. Is everything perfect? Maybe not, but these guys own a ton of stock and have a massive economic incentive to maximize its value while minimizing risk. I think the alignment sets up very strongly for Jefferies.

On the TSB side, the CEO is called Jeremy Masding. This was an unglamorous job, to say the least – you come in, the government owns a stake, and you've got an angry group of politicians you have to deal with. If you Google Permanent TSB plus congressional testimony, you can see the fire he's put through on a regular basis. The situation here is different. He can't own equity. The incentive structure is not as strong on management ownership for sure, and he's very modestly paid relative to other banking CEOs, as is the case for any bank where the government owns a stake in. In appearance, it doesn't look like the incentives are as strongly aligned with Jeremy. It's been a plodding job, but he's been effective, especially with these NPLs. That is the part where he could add the most value, and he's doing it, as with those two securitizations while having to endure people saying, "You're selling a bunch of stuff to vultures." Unfortunately, even if he was in favor of doing a deal with the Royal Bank of Scotland, in spending time talking with TSB, I get the impression the management thinks that would be a fantastic generator of returns, but ultimately, it will be a government call.

There is a bit of a uniqueness with this situation. The CEO has done a great job of reducing the non-performers. The second part will be getting the capital allocation budget approved. Here again, we strangely have a fantastic alignment of interests. A big capital return would be looked favorably upon by shareholders, plus any dividend back to the government goes a long way to helping repay for the recapitalization. Ultimately, the best alignment is going to be the government's desire to repay taxpayers, and it can do so better by monetizing the stake at its higher price. That's the reality of the TSB investment.

About the instructor:

Patrick Brennan is the founder and portfolio manager of Brennan Asset Management, LLC (BAM), a Registered Investment Advisory firm based in Napa, CA, which utilizes a concentrated value investing strategy. BAM manages separate accounts and is the sub-adviser for the Oceancross Capital Partners Fund. Patrick has given presentations at multiple value investing conferences, including presentations to The New York Society of Security Analysts (NYSSA), The Nebraska Society of Securities Analysts and presentations on various names at the VALUEx Vail Conferences. Patrick coauthored an article on tracking stocks with Lawrence Cunningham for The Financial History Magazine and Patrick was featured in a write-up of Liberty LILAK in The Private Investment Brief. Prior to founding Brennan Asset Management, Patrick managed portfolios and led research efforts at two value investing firms in California: Hutchinson Capital Management and RBO & Co. Previously, Patrick worked at Mark Boyar & Company, where he led the firm's research team and helped manage $800 million of assets across individual portfolios, institutional accounts and a mutual fund. Patrick also worked for six years in investment banking and equity research with Deutsche Bank, CIBC World Markets and William Blair & Company. Patrick graduated summa cum laude from the University of Notre Dame with a degree in economics and was inducted into Phi Beta Kappa. Patrick received the Chartered Financial Analyst (CFA) designation in 2002 and is a member of the CFA Institute (formerly AIMR). Patrick is originally from Omaha, Nebraska.