

## Samer Hakoura on Lessons from Owning Private Family Businesses

We had the pleasure of speaking with fellow MOI Global member Samer Hakoura about how his experience owning, managing, and selling a couple of family businesses has helped him be a better investor in public equities.

Since 2013, Samer has served as principal of Alphyn Capital, based in New York. Alphyn invests in a concentrated portfolio of competitively advantaged public companies with high returns on invested capital and long runways for growth, run by talented and aligned operators focused on long-term compounding, with the occasional special situation where the market presents an attractive risk-reward opportunity.

*The following transcript has been edited for space and clarity.*

**John Mihaljevic, MOI Global:** It's a great pleasure to welcome Samer Hakoura. Based in New York, Samer serves as principal of Alphyn Capital, which invests in a concentrated portfolio of competitively advantaged public companies with high returns on invested capital and long runways for growth, run by talented and aligned operators focused on long-term compounding. He also occasionally looks at special situations. Samer, you have a most interesting background in terms of owning and selling a couple of family businesses and are now pursuing value investing in public companies. To begin with, do you mind delving a little into your background?

**Samer Hakoura:** I'm delighted to be here. Over the years, I've derived so much value from MOI in terms of hearing well-thought-out, actionable investment ideas, as well as being able to become good friends and connect with the intelligent, thoughtful value investors you have. It's a real privilege for me to give back to the community.

I started off as an investment banker about two decades ago, working on some \$11 billion worth of M&A transactions and IPOs back in the day when \$11 billion was considered a larger number. I enjoyed it a lot, but I always wanted to be a principal rather than just an agent for deals.

After business school, I joined my father in his family investment office. He's primarily a real estate investor. Some time ago, he helped the Abu Dhabi royal family set up their commercial real estate portfolio in London, and that translated into him doing some of his own real estate investments. I joined him just as that second phase started to kick off, and I was privileged to be able to work with him and learn how he approached things. Even though I wasn't familiar with the term value investing at the time, looking back, I can see a lot of what he did meshed in really well with the whole value investing philosophy, so it came fairly naturally to me when I branched out on my own.

Other than real estate, one of the investments we made was in a supermarket business in the Turks and Caicos Islands. Through family friends and a fairly long convoluted story, we ended up being owners of this bankrupt supermarket business along with two other families. It turned out to be one of the best investments we made over 15 or so years, and I was extremely fortunate to get involved on a very deep level with what turned out to be a local wide-moat compounder. Those are things which helped me, and I try to replicate them in some way when I look at public companies.

**MOI:** Did you spend time in London or away from New York City at that point?

**Hakoura:** I grew up in London and spent most of my time until business school there. After that, I moved to the Turks and Caicos for about five years and then to New York in 2012-2013.

**MOI:** Tell us a bit about the transition from doing the private side with the family office to doing public investing. Why did you decide to take that step? Have you found if some of the things you learned along the way are now transferrable to the public market?

**Hakoura:** When we sold the business in 2013, I looked at trying to buy lower middle-market private companies in the US. I moved here for personal reasons and love it here. I found out that when you're trying to do private deals, you have to pick a couple of industry sectors and go really deep, network in those sectors, spend anywhere from one to five years getting to know people involved in them. I approached things very much as a generalist, and while I was looking for private deals to do, I started deploying my own capital into the market to try and earn a return while waiting for the deal. I can't tell you exactly when, but at some point, I hit that inflection point where I said, "You know what? I'm practically spending most of my time investing in public market securities at this point. Why don't I make a full-time job of that?" I haven't looked back since.

As for your question, I think there are many parallels. The way I approach things is "business is business," whether you're buying a public or a private company. The famous quote "It's not just numbers flicking about in a screen; behind it, there are real people doing real business" is very applicable. There are some constraints in terms of when you buy a private business. Unless you're a very large fund, you typically tend to look at one thing at a time, and you buy the majority or the entirety of the business. When you buy a public company, you usually acquire fractional ownership, so you get the opportunity to spread your bets a lot more. I run a fairly concentrated portfolio of about 15 to 20 positions, but compared to the private market, that's still much more diversified.

**MOI:** Do you have any preferences in terms of the industries or any focus, especially in light of the private experience that included some real estate investing? Have you used that experience in the public side as well, or are you looking for the more capital-light compounder businesses?

**Hakoura:** These days, I tend to find myself looking much more at the capital-light compounder businesses. The general admonition to make sure you understand what it is you're looking at and stay in your circle of competence is very important, in my opinion. Beyond that, I take a pretty open approach towards industry. I haven't found myself doing much in real estate. I won't do stuff in biotech, for example. Given my background, it's not surprising that the things I invest in at the moment tend to be family holding companies with what I consider compelling valuations and multiple levers to pull because they have what you would call a synthetic leverage, like float and various other things. On the other hand, I also look at a few smaller-cap, cloud-based, capital-light businesses where the opportunity for growth is tremendous, especially if you can buy them before they're widely known and their valuations become aggressive.

**MOI:** Is this now your sole focus, or are you still doing some things on the private side?

**Hakoura:** I have a directorship at a small company my brother is now running quite well. Other than that, I'm totally focused on this. In fact, I'm in the process of establishing some

managed accounts where the goal is to take on other entrepreneurs or families who might think they could benefit from some help and guidance with where to put their money and how to invest it in the equity market.

**MOI:** You mentioned family-controlled holding companies. Is this on a global scale? How do you go through the process of evaluating a family that's a majority owner and judging whether they're going to be the right stewards of capital going forward?

**Hakoura:** I'll tell you about one of my favorite current position, where I have tremendous respect for the person heading it and where I think I'll be able to hold on to this company for many years as I compound value. That's Exor and John Elkann, who is widely known and respected.

When you think of someone who has deep understanding of the business and cares strongly about safeguarding his family legacy yet is bold enough to do transformational deals to bring what used to be an old-school conglomerate into the modern world, riding alongside someone like John Elkann should be a pretty good thing to be able to do. If you read his letters to shareholders and the thoughtful interviews he gives, it's evident that this is someone who would like to take his family company and see it last another hundred years and continue to prosper. That's the type of situation I'd like to be involved with if I can.

Moreover, from a valuation point of view, it has a double discount, so it's trading at a significant 30-something percent to the sum of its parts, and the parts themselves are extremely undervalued, in my view. You're in the fortunate position to be able to join in with Mr. Elkann at a very undemanding valuation. Other things he's done include effectively copying the Berkshire model by buying an insurance company and generating float, then assembling a high-level, high-caliber advisory council featuring people like the former Chancellor of the Exchequer of the UK, Jorge Lemann from 3G Capital, Rob Speyer from Tishman Speyer, and various other impressive people whose job is to advise him on buying companies at a discount when there's a market dislocation. All of this gets me excited about the potential for the company. That's one example of the type of thing I like to do.

**MOI:** A large portion of Exor's value currently seems to be the Fiat holding. How do you go about assessing such a major investment? Do you need to be comfortable to invest in Fiat and then say it's even better to invest in Exor? Do you look several years forward to where Fiat might be a smaller portion of the overall portfolio?

**Hakoura:** I was quite fortunate in 2017, early part of 2018 to be a shareholder of Fiat itself. I love situations where you have an incredibly strong management team who, instead of giving you quarterly guidance, say, "This is our five-year plan." Then they go into a huge amount of detail about their plan based off the strength of some of their brands, like Ram and Jeep, and the success they've been having with some of their vehicles and platforms. When I got involved with the business, it was a company with a market capitalization of about €18 billion and some €10 billion in debt. It said, "Within a fairly short time, we're going to pay down the vast majority of that debt." I don't think you need to build a complicated model to realize that's going to generate huge amounts of value for the equity shareholders. With minor missteps, it did what it said it would do. This is one of the few times where I actually timed my exit near the top, but it was more due to luck than anything else.

Then I sat down and said, "What do I do with the capital I was fortunate to have made?" When I discussed the situation with some experienced and wise friends of mine, they suggested I look at Exor, the parent company, in more detail. I realized I liked what it was

doing and, hopefully, I wouldn't have to make this sell decision, which is always a difficult one, if I held the parent company. I'm quite familiar with Fiat because of my previous holding. I can't know this for sure, but I think Mr. Elkann will find a way, whether through the current deals being spoken about with Renault or some other way, of merging the company and then potentially taking those cash flows or the cash from selling it and redeploying it into capital-light compounders.

**MOI:** Speaking of capital-light, you mentioned that you look at companies with a cloud or a recurring revenue business model that don't require capital to grow. Could you give us an example of the kind of company which would attract you in that space?

**Hakoura:** I'm looking at a much smaller company right now. My advantage in not managing vast sums of money is that I can look across industries, capital structures, and market capitalizations to try and find value wherever it may lie. I like having a significant amount of my money in the Exors of the world where I can feel fairly safe. It's not a bad idea for someone in my position to also see if I can find much smaller companies where I believe there's an opportunity for real growth and value generation.

Like many people, I've longed admired companies like Constellation Software, Roper Technologies, or OpenText. These are companies that generated large amounts of free cash flow, redeployed it into acquiring other businesses at high rates of invested capital, and then used those expanded cash flows to go and buy some more companies and keep accelerating that process. They have done incredibly well over the last few decades.

Quarterhill, the company I'm looking at, is much smaller and unproven. It's a mini version of those larger companies. In fact, the CEO came from OpenText, where he was formerly head of business development and oversaw the deployment of \$2.5 billion of capital into acquisitions and integrations, so he seems to have the right background. What I like about Quarterhill is that it has a legacy business, patent litigation, which is strongly cash flow-generative but highly irregular. If there's one thing we know, it's that the market strongly dislikes irregular cash flows, and the stock has been punished. However, if you look at this as an easy-to-model business, which the sell-side typically looks for, but instead view it as a source of recurring cash flow for acquisitions, and you pair that with a CEO who's done this thing before, there's huge optionality in the name.

One benefits from that famous Mohnish Pabrai quote "Heads, I win; tails, I don't lose much," where investors have the opportunity to buy into this company at a really cheap valuation. Should the CEO effect a large acquisition with those cash flows, I think the company will do great. Should he not do that, it is sitting on a very large cash balance which could be dividended back out to shareholders. There are other ways to realize value where even if he doesn't succeed, you're probably not going to lose much money at all.

**MOI:** Could you elaborate a bit on how you would think about valuing a company like this? It sounds like there's a balance sheet component with some asset value there. Also, how do you think about the value of the legacy business versus what might come in the future?

**Hakoura:** As a matter of principle, I shy away from building complicated models. When I was an investment banker, it was my job, and one of the things I learned was that a model will tell you whatever it is you ask it to tell you depending on the inputs you provide. I like things to be obvious and simple, which is something I learned the hard way.

This is a company with a market capitalization of about \$125 million, with \$70 million in cash,

so an enterprise value of around \$55 million. Its legacy business has generated EBITDA of some \$400 million cumulatively over the last 10 years, so on average, \$40 million a year, very variable. Free cash flow has been slightly lower than that, but it's generated huge amounts of cash flow relative to its size. Management highlights the fact that they've dividended out and done buybacks cumulatively of about \$135 million over the last 10 years. Those are rather large numbers compared to a \$55 million enterprise value, so I'm not too worried about the downside in terms of value. The market can and will be highly volatile, but I think the risk of permanent capital impairment is fairly low. That's on the downside.

On the upside, when you've got a \$55 million enterprise value, \$70 million in cash to deploy into an acquisition, and a CEO who has the right background and speaks articulately about what seems a very sensible plan, it's just a matter of time before he finds an acquisition to do. Should it be a big transformative one, you're probably going to see a large amount of value EBITDA. Should it be a smaller, bolt-on type acquisition, you'll probably see a more muted market reaction. In either case, the strategy will have begun, and provided the CEO maintains this strategy, you have a chance, through buying at such a low price, of legging into a potential compounder for very little money.

**MOI:** Could you tell us about your personal journey and how you see it evolving going forward? It seems you are looking to build an investment business as well. When I myself invest, sometimes there's not that much to do, and if you invest for the long term, it feels like you find a couple of good ideas per year or something like that. Tell us a bit about how you, with your entrepreneurial mindset, look to investing as being the main thing for you going forward.

**Hakoura:** When I was working directly with my father, he made an investment in what turned out to be a wonderful business in a great location, on New Bond Street in London. It was supported by a strong anchor tenant, Ralph Lauren. My father sat on that building for the better part of 18 years, and it compounded in value at about 20% a year over that time. There was a lot of work done with managing the building and making sure it was run properly, but there wasn't a huge amount of activity going on in terms of sourcing all that many new deals for a period of time. We sat through 2008 and a few other turbulent times. I remember having a conversation with my father where he said, "There's a time to buy, and there's a time to do nothing." That time to do nothing could be six months or three years. We just sit on the asset we have and wait for that to happen.

It's one thing to read about this through other investors and quite another to live through an experience like that and say, "If it worked with that asset, let me try and replicate the approach in the public markets." Having seen a bit about managing a compounding asset successfully and given my investment banking background, I'm trying to synthesize all of that into a portfolio company where I manage the majority of my own money. Should family offices, high net-worth individuals, or others decide to come along for the ride, it will be my privilege to go on that journey with them.

**MOI:** I think you had a fascinating experience with that food retail business in the Turks and Caicos. Do you mind sharing some lessons you took away from it?

**Hakoura:** We bought it when it was a bankrupt business sitting on about 64 acres of land in a smaller country in the Caribbean with a smaller population. The previous owners overbuilt it relative to what the market could support. My father and his colleagues managed to buy it at bankruptcy prices. In the first year, it lost money. In the second year, it broke even, and then it proceeded to compound in the 30-odd percent range for a good 15 years. What I noticed

was the first thing we did was hire an excellent hands-on manager who solved the logistics of getting fresh produce onto the island in an economical and expeditious manner. It meant that instead of lettuce sitting in container ships for a few weeks and wilting, we managed to get fresh produce onto the shelves.

A better product attracted customers, and once you have more customers, your sales and cash flows ramp up fairly quickly. After that, we used those increasing cash flows to reinvest back into the business, continue to expand it, add locations, hire more people, and improve systems and processes. One thing leads to another, so when you keep doing this for a few years, you find yourself having 80% of the market, albeit a smaller one. Then you have this wonderful moat of economies of scale: because you're a large employer, the biggest purchaser of food, and one of the biggest users of the transportation system in the local market, you get access to better prices and better economies, and you can produce or deliver higher quality products at better prices to your customers. Once you've set yourself up in that, it's a classic moat, and it's very hard to dislodge.

We began generating large amounts of cash flow and deploying it into building a central commercial hub in the middle of the main island, where we started to develop those 64 acres of land. We built a community, a townhouse village, seven or eight commercial buildings. It's one of those things where the whole became greater than the sum of its parts - we had the supermarket as the anchor tenant for the location, but we built up an entire community there. When we came to sell the business some years later, it added tremendous value to the whole.

**MOI:** Can you talk a bit about idea generation? How do opportunities come your way or how do you find them, perhaps specifically on the investment you made in the Turks and Caicos? More relevant to today, how you go about finding opportunities in the public markets, such as Quarterhill?

**Hakoura:** We were fortunate with the Turks and Caicos business. It was through friends of friends of family connections. My mother's uncle was good friends with the father of my father's eventual business partner. It was one of these convoluted family stories, and I think it was down to pure luck. In terms of how I find opportunities in the public markets, there's a bit more of a process there. Some people may disagree with me, but I think ideas are not the difficult part in today's internet age. There are a number of very high-quality ideas that come out several times a year through your platform. It behooves investor to listen to those and get a couple of tidbits, as I've done in the past. If you're looking for capital-light or high ROIC compounders, it's fairly easy with today's tools to screen for them.

One of the best sources of ideas is generating a network of highly intelligent and capable investor friends. In the private markets, information is much harder to come by, and it's a lot more competitive - either you buy this company or I do. In the public markets, I can buy fractional ownership in a large company, and you can as well, so we both benefit. There's a lot more sharing of ideas.

The idea generation is pretty standard. There are a lot of quarterly letters from investors and blogs. What becomes more important is the process of rapid elimination of the deluge of ideas into a more manageable list of higher potential names one can look for. That's where having some experience of running a business or knowing what you like can help you. For me, well-run family offices and public family holding companies are a great source of interest. Seeing a presentation on a company which has generated higher returns on invested capital for many years and is priced in a fairly undemanding way makes me focus

on that pretty quickly.

Once you reduce the deluge of ideas to a more manageable list, it's a matter of simply screening through them all one by one. In some cases, it can be painstaking work to find stuff you like, and many times, this is interesting to learn, but I'm not paying 30x EBITDA or whatever it may be. I'll wait for the market to give me a better price, if ever. I find that maintaining a constantly evolving watchlist of companies is incredibly useful because it means that should prices come down to a more reasonable level, I can act fairly decisively and quickly because I've already done the work on the name. It also helps keep one focused on higher quality ideas versus straying into uncharted waters and potentially making a mistake.

**MOI:** How do you think about holding cash and do top-down considerations have any bearing on the portfolio? Do you consider where we might be in the market cycle or market valuations when you're deciding how much to allocate to the equities in your portfolio?

**Hakoura:** It's a great question and one I spend quite a bit of time thinking about. I don't have a cookie-cutter, formulaic answer to it. As many value investors would say, I'm not a global macro specialist. If you look at what's happened over the last six months or so, it's just one series of data points, but it shows you how difficult it is to know where you are in the market and what's going to happen tomorrow. It's a combination of buying stuff I really like, a micro bottom-up view. If I see a company I like and believe I understand, or I think it's a potential compounder, and the price is attractive to me, I'll probably buy it. I may not buy everything in one go. I might scale into the position over a few months to become more familiar and see how the price develops. I usually approach it that way. I find that if the market's nearer a top than a bottom, valuations typically tend to be higher, so you end up holding more cash anyway because you haven't found anything to buy at the right price.

I read the news like everyone else, and I'm cautious, but I don't believe in my global macro skills enough to come up with a definitive view of where we are in the market. There is something to be said for having some cash to give you the chance to buy things you like as and when the market presents opportunities. I've been doing this long enough to have seen that when you least expect it, every now and again, you'll get a tremendous opportunity to buy something wonderful. It would be a shame not to have spare cash to take advantage of that opportunity.

**MOI:** Thank you so much, Samer, for being here and taking the time to share your perspective.

**Hakoura:** It's my great pleasure, John. Thank you.

#### *About Samer Hakoura:*

Prior to founding Alphyn Capital Management, Samer worked at his family's investment office in London and then managed various family investments in the Turks & Caicos which included the country's main supermarket chain, where he developed processes and systems to enable rapid expansion of the business, a waste management business that won the national recycling contract, a marina, and several real estate developments. Samer applies lessons from managing those businesses to his selection of attractive businesses in the public markets.

Samer started his career at Deutsche Bank in London, taking part in over \$11 billion in M&A and financing transactions. Samer holds an MBA from the Wharton School of Business and an MCHM from Oxford University.