Charles River Laboratories (US: CRL) is the dominant pre-clinical research services out sourcer, with almost 20% market share in a $15bn+ end-market growing in the high-single digits. Charles River's animal testing models, toxicity testing, and pharmacokinetics -- techniques required by the FDA and global regulatory agencies before a drug can proceed to human trial -- were used in 85% of the drugs approved last year. CRL's closest pre-clinical peer, Covance/LabCorp, has just 7% preclinical share with no other domestic competitor above 5% share, making CRL the clear choice for full-suite preclinical projects.

Several recent initiatives should supercharge earnings in 2020 and 2021: 1) cross-selling discovery services to a large list of safety clients (just 1 in 5 safety clients use CRL for discovery today); 2) ability to layer on emerging growth opportunities, like the December 2019 acquisition of a cell therapy asset growing at 30%/year (HemaCare); 3) commitment to surpass 20% Adjusted EBIT margins by the end of 2020 (vs. 18.8% in 2019E); and 4) a supportive industry backdrop. Biopharma R&D spend should grow 10% in 2020, with even faster growth in the early-stage animal trials where CRL makes its living.

Assuming CRL reaches its target margin in 2021 and adds another $600m of acquisitions (consistent with management targets), Sahm thinks CRL can earn over $9/share in 2021. Well-owned clinical-stage CROs like IQV and ICLR trade for 22-24x forward earnings, and CRL has historically traded at a 2-5x premium to the S&P 500. Using Kerrisdale's $9 earnings estimate and a 22x 2021E P/E, Sahm thinks CRL shares can approach $200/share by the end of the year.
Gaurav Aggarwal, Portfolio Manager, Metis Capital Management

**Time Technoplast** (India: TIME) is the world’s fourth-largest industrial rigid packaging manufacturer and has a dominant market position in Indian plastic industrial packaging (mainly drums, jerry cans, pails, and intermediate bulk containers) used chiefly by chemical, petrochemical, and food and beverage industries.

The key reasons for Gaurav’s long-term optimism spring from a few fundamental factors, the foremost being the passionate, innovative, and transparent characteristics displayed by the management team since 1992, which owns 51% of the equity. From 2010 to 2014, the firm aggressively expanded operations overseas and has become a market leader in Southeast Asia and the Middle East.

India is the leader in Asia for usage of plastic drums and containers, with about 55% plastic / 45% metal. In the rest of Asia, the mix is closer to 10/90, so there is a long runway of growth as the company continues to steadily convert sticky customers to use safer, longer shelf life, lower lifetime cost product vs. similarly priced metal containers.

Given the ongoing focus on value added products and 74% capacity utilization in the overseas industrial packaging business (~30% of revenue), Gaurav expects ROCE to continue to rise for next few years toward 20+% as margins and growth remain in the range of market expectations. Due to negative market sentiment in small-cap space, the valuation is compelling: a conservative DCF and comparable sales multiples suggest potential upside of 100+%

Daniel Baldini, Managing Partner, Oberon Asset Management

**Cashmere Valley Bank** (US: CSHX) is a Washington State based community bank with a long record of growth, good profitability and conservative management. The bank recently traded at an attractive valuation on a stand-alone basis and has good growth prospects. There is an ongoing process of consolidation among community banks and Cashmere is an attractive acquisition candidate. Were the bank acquired, Daniel believes it would likely go for a substantial premium to the recent market quotation.
Bogumil Baranowski, Founding Partner, Sicart Associates

Cars.com (US: CARS) is one of the leading online car listing sites, with net sales of ~$620 million. Dealers and individuals pay a fee to list vehicles. The other major profitable direct competitors are private. The competitive advantage comes from the traffic to the site/app and the dealership relationships. The online shift is still underway, and Cars.com has a strong and improving position as well as an ability to capture market share and profits in this niche, attractive market segment.

Cars.com has been around for two decades and used to be a part of big publishing companies. It was spun off in 2017. The shares initially traded sideways. Eventually, an activist investor bought a stake and pushed for a sale, bidding up the price from the mid-$20s to about $30 per share. When management decided against a sale, the shares eventually dropped under $10 per share. The shares were recently quoted at ~$12 per share.

Putting a potential sale aside and looking at the business itself, we see that it has room to grow and improve. There are also some catalysts that may help improve profits, margins, and the depressed stock price. The balance sheet carries some debt due to the separation from its former parent company. Cars.com shares recently traded for less than 10x normalized earnings. Bogumil believes they could double over the next 3-5 years.

David Barr and Don Walker, PenderFund Capital Management

Indigo Books and Music (Canada: IDG) is Canada’s largest omni-channel book, gift and specialty toy retailer. They operate 89 superstores under the Chapters and Indigo banners and 111 small format stores under the Coles, Indigospirit and The Book Company banners. With a market cap of 115mln and an EV of 50mln, Indigo shares are trading at around .05x EV/revenue with precedent private market transactions around .19x ev/sales. Over the past year, the stock has sold off significantly after they undertook a very aggressive capex program to transform their stores which led to prolonged stores closures/renovations. This, coupled with a postal strike in their crucial December 2018 holiday season, a mature product assortment and a weaker consumer led to SSS and margins turning negative. With store renovations complete and a strategic focus on improving margins, we think Indigo is poised for a rebound. Further a net cash balance sheet and over 55% family ownership/control gives us downside protection.

Hamilton Thorne (Canada: HTL) manufactures and sells equipment and products to fertility clinics around the globe. They have sold equipment to around 1,000 fertility clinics, giving them
roughly a 20-25% market share. The company started solely as an equipment manufacturer (lasers), selling their products through distributors. Five years ago they initiated a plan to build out a direct sales force and add other products to cross sell to their existing customer base. Today, consumable and services, which are recurring in nature, represent around 60% of total sales where as five years ago they did not have any contribution. The industry is growing at around 5-10% per year with the growth coming primarily from delayed childbirth around the globe and the increased adoption of Assisted Reproductive Technology (ART). There has also been an increase in funding sources, with many government and company sponsored health plans now including full or partial funding for in-vitro fertility. In the most recent quarter, HTL reported 17% organic growth (19% in constant currency), outpacing the industry due to success in their strategy of direct sales and cross selling products.

John Barr, Portfolio Manager, Needham Funds

KVH Industries (US: KVHI) provides communications services and content for the maritime industry, with an extra bonus of supplying a key part of the navigation system for self-driving cars. The company’s AgilePlan Connectivity-as-a-Service offering, could serve 50,000 vessels up from 1,500 today with $25 million of revenue in 2020. KVH Watch, an IoT solution for remote monitoring by maritime equipment manufacturers could be as large an opportunity as AgilePlans. KVH’s new photonic-integrated chip fiber-optic gyroscope (FOG) for self-driving cars, could be a multi-hundred million dollar opportunity. KVH’s TACNAV could be part of the Army’s A-PNT (assured positioning and navigation) program with a $150-750 million multi-year opportunity. At $250 million of revenue, KVH could earn $1.50-$2.00 per share. Risk exists with regard to new products and their effect on revenue and earnings.

At $11.25 per share, KVHI has a market cap of $200 million, $55 million of cash and $160 million of revenue. Even without the growth opportunities, KVH could be valued at $13-14 per share based on 1.1x enterprise value/ revenue. Downside protection could come from a recently enacted one million share buyback. Additionally, Vintage Capital, has a 9.4% stake in KVH. Should the company fail to execute, Vintage might push for structural change or a sale.

Portfolio holdings subject to change. Needham Funds’ ownership as percentage of net assets in KVHI as of 9/30/19: NEEGX: 5.33%; NEAGX: 8.44%; NESGX: 3.16%.

The information presented in this commentary is not intended as personalized investment advice and does not constitute a recommendation to buy or sell a particular security or other
investments. This commentary is not an offer of the Needham Growth Fund, the Needham
Aggressive Growth Fund and the Needham Small Cap Growth Fund. Shares are sold only
through the currently effective prospectus, which must precede or accompany this report.

Please read the prospectus or summary prospectus and consider the investment objectives,
risks, and charges and expenses of the Funds carefully before you invest. The prospectus and
summary prospectus contain this and other information about the Funds and can be obtained
on our website, www.needhamfunds.com

Investment returns and principal value will fluctuate, and when redeemed, shares may be worth
more or less than their original cost. Past performance does not guarantee future results and
current performance may be higher or lower than these results. Performance current to the most
recent month-end may be obtained by calling our transfer agent at 1-800-625-7071. Total return
figures include reinvestment of all dividends and capital gains.

Short sales present the risk that the price of the security sold short will increase in value
between the time of the short sale and the time the Fund must purchase the security to return it
to the lender. The Fund may not be able to close a short position at a favorable price or time
and the loss of value on a short sale is potentially unlimited.

All three of the Needham Funds have substantial exposure to small and micro capitalized
companies. Funds holding smaller capitalized companies are subject to greater price fluctuation
than those of larger companies.

Alex Bossert, Founder, Bossert Capital

Seritage Growth Properties (US: SRG) is a REIT created in July 2015 through a rights offering
to Sears Holdings shareholders. Through this equity raise and a debt offering, Seritage
purchased select properties from Sears in a sale-and-leaseback transaction. Seritage now owns
217 high-quality properties in advantageous locations in 44 states across the United States.

Seritage is transforming legacy Sears real estate for 21st-century use. The superior location of
this real estate is reflective of the influence Sears had at one time as the dominant retailer of an
era. That status allowed Sears to command favorable locations in the best malls in the United
States. Seritage’s real estate is cherry-picked and includes some of the best mall and
free-standing locations from the Sears portfolio.
At the time it was founded, Seritage leased the majority of properties to Sears Holdings. Seritage has been aggressively diversifying away from Sears and rental income from Sears is no longer a material factor (representing less than 11% of Seritage’s annual contracted rental income). Seritage has successfully replaced nearly all the Sears income it was receiving when Seritage was founded. Although investors may continue to associate Seritage with Sears, the rental income from Sears is no longer material.

Sears has vacated most of the real estate leased from Seritage. This enables Seritage to redevelop and retenant the real estate. In the process, Seritage is raising rents from ~$4 per square foot to $20+ per square foot, and earning incremental unlevered cash returns of 10-11%. With cap rates for these properties around 5.75% after stabilization, Seritage is creating ~$2 of value for every dollar invested in redeveloping properties, on an unlevered basis. With the use of modest leverage, the returns to equity holders are more compelling.

At a recent price of $40 per share, Seritage trades at a 40+% discount to net asset value, which Alex estimates exceeds $70 per share. Additionally, the company is growing net asset value by $5-8 per share annually. Seritage has a large supply of real estate available to redevelop, and this level of value creation is likely to be sustained for many years. A $2 billion term loan from Berkshire Hathaway has taken funding risk off the table.

Patrick Brennan, Portfolio Manager, Brennan Asset Management

Megacable (Mega) (Mexico: MEGACPO) is the second-largest high-speed cable company in Mexico, with ~3.6 million unique subscribers. While operational performance has continued to be strong, Mega shares have sold off along with other Mexican assets following the election of Andrés Manuel López Obrador in 2018. The selloff has occurred despite a neutral to positive telecom regulation environment for Mega.

Historically, Mega has traded for 8-10x EBITDA, but Mega recently traded at ~6x 2020E EBITDA. At the highest level, Mega shares look attractive relative to the company’s pristine balance sheet (net debt of 0.4x 2019E EBITDA and the company has often carried positive net cash balances historically), consistent execution, and double-digit projected EBITDA growth from 2018-2020.

Mega should benefit from increases in broadband penetration rates, continued growth of its fiber network, and a robust commercial offering. Broadband penetration rates are ~65% within Mega’s footprint, with Megacable estimating penetration rates expanding to 74% over the next
five years. Mega has generally been expanding the numbers of homes passed by 4-5% over the past three to four years using existing city fiber rings within its footprint as well as additional passings less than ten kilometers from existing towns.

Mega has also benefited from increased bundling of services. The company targets a ratio of 2.5x revenue generating units per customer over the medium term. This bundling, combined with price increases and value-added product up-sales, has allowed for recent 3-4% increases in average revenue per user. Megacable also benefits from a robust commercial offering, which accounts for 18% of revenue, with the largest sub-segment roughly tripling revenue over the past three years. Commercial revenue could expand at a 15+% CAGR over the next three to five years.

A strong possibility exists of a Megacable takeout within the next several years. Rumors of a Televisa/Megacable merger have existed for some time, and the companies could argue a combined company would be better-positioned to compete against incumbent América Móvil. Mega could also attract interest from other companies who would like to enter Mexico’s cable market and use a deal to expand scale against a wider Latin America offering. Considering the growth profile, balance sheet strength/inefficiency, strategic importance of the asset base, and low relative/absolute valuation levels, the risk/reward in Mega shares appears highly favorable.

*William Brewster, Analyst, Sullimar Capital Group*

**Restoration Hardware** (US: RH) is one of the more fascinating business stories of the recent past. The company bet its future on larger stores when the world was betting on the death of retail. What was once a company with a moderately upscale brand image is attempting to become a true luxury brand.

The company retired over 50% of shares outstanding by aggressively accessing debt when markets were accommodating. With a large short interest, Mr. Market disagrees about RH’s future. A recent Berkshire Hathaway purchase, it is a case study we can learn from.

*Francisco Carrillo, Chief Investment Officer, Mexico Value Partners*

**Gruma** (Mexico: GRUMAB) is the leading tortilla and corn flour producer in the world. With solid branding, it has leading market share in the US and Mexico and an important presence in
Europe, Central America, Asia, and Oceania. Gruma’s scale, footprint, and brand awareness in the US have created a wide moat that will continue to keep competitors at bay while also allowing for increased profitability in that region. With respect to the Mexican operations, ample growth exists given the relative under-penetration of the market and the fact that Gruma continues to take share from competitors and traditional method of making tortillas, which are still the most popular method (two-thirds of the market, as compared to Gruma’s 25% share). Europe is also a growth opportunity for Gruma.

The high-quality, anti-cyclical business trades at a low valuation of ~7x 2020 EBITDA and ~13x P/E, likely because it is listed in Mexico, which has suffered a de-rating for reasons that have nothing to do with Gruma. The company generates a majority of sales and income in the US, and although Mexico is its second most important market, the international expansion opportunity is perhaps the most interesting part of the thesis.

The balance sheet is strong, with net debt to EBITDA of 1.2x, and there is strong ownership behind the company, which Francisco views as an added positive. Taking advantage of depressed market prices, management instituted an active buyback program in 2018 and has repurchased $180 million of shares during the past two years. Francisco estimates fair value at 260 pesos per share, as compared to a recent market quotation of 200 pesos per share.

Edward Chang, Portfolio Manager, Pledge Capital

Avid Technology (US: AVID) is the leading supplier of video and audio editing software, storage, and audio mixing equipment to the professional film, television (scripted, sports, and live news), and music industry. The company has made major strides to improve its software tools. This includes the commercialization of cloud-based solutions that will bring about major changes to media workflows – enabling the creation of next-generation content. These powerful cloud-based editing tools are available under a Software-as-a-Service and Infrastructure-as-a-Service model. Enterprise adoption is at a “tipping point” and the new model will greatly democratize access to these editing tools. As a result, the company should gain share outside its traditional Hollywood and music markets. This should help it sustain low to mid-teens paid-user growth for its software.
Bill Chen, Managing Partner, Rhizome Partners

Griffin Industrial Realty (US: GRIF) owns a portfolio of Class A warehouses in the LeHigh Valley, Pennsylvania; Hartford North, Connecticut; and Charlotte, North Carolina. After netting out non-core office buildings and a land bank, the portfolio recently traded at a 9.4% cap rate while public comparables and private transactions indicated valuations in the 3.6% to 6% range. This implies private market values 70-80% higher than the recent price.

The company is growing NAV by about 10-12% a year at the recent price through cash flow generation, rent increases, development of warehouses, and sale of land parcels. This is likely the most misunderstood aspect of the Griffin thesis, as most investors focus solely on the cash flow yield relative to the market cap. The company is transitioning the portfolio from "hard-to-value" land parcels and using 1031 exchanges to buy income-producing warehouses. Warehouses enjoy a long-term structural tailwind due to the shift from bricks-and-mortar retail to e-commerce.

Griffin is also a natural acquisition target for publicly traded REITs and dozens of real estate private equity firms, such as Blackstone. In the last few years, there has been significant consolidation in the warehouse space as Blackstone has made more than a dozen acquisitions totaling almost $50 billion.

Ian Clark, Managing Partner, Dichotomy Capital

Pinnacle Renewables (Canada: PL) is a wood pellet manufacturer facing temporary headwinds while enjoying long-term tailwinds. As a stand-in for some coal plants, wood pellets enable countries around the world to embrace baseload renewable energy and transition away from fossil fuels.

Pinnacle is the second-largest wood pellet manufacturer and has years of growth ahead of it as the company expands plants and continues to sign long-term offtake agreements. The company has a backlog of $7.1 billion, with a weighted-average term of nine years.
Kevin Cope, Chief Investment Officer, Hutchinson Capital Management

Coca-Cola Hellenic Bottling Company (UK: CCH) is the fifth-largest Coca-Cola bottler by revenue. Domiciled in Zug, Switzerland, and trading on the London Stock Exchange, CCH stock trades in GBP, but reports financials in Euros.

In his presentation, Kevin addresses the critical top-of-mind issues he had to get comfortable with before proceeding with this idea; those are sugar-related health concerns and plastic waste. Also, because of the two large shareholders, The Coca-Cola Company (23%), and Kar-Tess Holding (23%), Kevin delved deeply into the company’s corporate governance, which is covered in the presentation. That said, the principal investment drivers include:

Several ways to win: Kevin expects solid TSR from improving ROIC (from both rising NOPAT and lower capital intensity), plus cash distributions from the regular payout, plus probable future special dividends. Even though it’s cheap relative to European staples, Kevin’s base case does not require the stock to rerate.

Durable competitive advantages: The company’s relationship with Coca-Cola has never been stronger, and with their incentive pricing agreement, the bottler benefits as a brand partner with KO. Contract duration is ten years, with the next renewal in 2023. Because of its size and regional expertise, CCH’s logistics expertise and route-to-market presence make replacement or replication uneconomical (if even possible). Additionally, Coca-Cola owns ~23% of CCH’s equity and has two board seats. Within sparkling beverages, CCH has #1 share in 22 of its 23 markets. This translates into 40% total market share across its footprint.

Multiple avenues for growth: The company has a large and expanding total addressable market. Its footprint spans 28 countries, housing over 600 million consumers. The company serves three core markets: (1) Developed, (2) Developing, and (3) Emerging. It is the Developing and Emerging (D&E) markets that hold the most interest. With young and growing populations, coupled with improving per capita GDPs, Kevin sees a long runway for growth. Unit economics are compelling: The per capita consumption rates in CCH’s D&E markets are well below those seen in more developed markets. As an example, total company revenue in 2018 was €6.65 billion, but a single incremental serving in just their central and southern European markets would add €4.0 billion in revenue.

Kevin looked at the valuation in several ways and determined that it offers ~40% upside from its recent price of £26 per share. Cash economic value should be driven by continued margin expansion and lower capital intensity as the company finalizes a restructuring plan begun in
2014. The balance sheet is strong, giving CCH optionality to pursue its growth opportunities. There is also a significant catalyst that would strengthen the company’s position in the attractive African market.

James Davolos, Vice President & Portfolio Manager, Horizon Kinetics

Aker ASA (Norway: AKER) is an industrial investment holding company controlled by Kjell Inge Røkke, with investments focused in energy and maritime businesses. The shares recently traded at a ~20% discount to NAV, with ~88% of asset value in liquid, listed companies. Nearly 70% of asset value is in Aker BP, a leading independent energy exploration and production company on the Norwegian Continental Shelf. Aker BP has full-cycle breakeven costs below $35 per barrel and lifting costs falling to less than $7 per barrel, including the Johan Sverdrup (Equinor operated) field, with lifting costs nearing $2 per barrel. Existing drilling inventory has the potential to grow production organically at a CAGR of 20% through 2025, more than tripling current production.

Additional components of NAV include various shipping, engineering, and oilfield service entities that are experiencing cyclically depressed cash flow and market multiples, as well as dynamic, growth-oriented companies in industrial software and krill oil (held at book value).

The Aker companies are leaders in ESG initiatives, with Norwegian Continental Shelf production generating 60% less CO2 compared to the global average, plus engineering and service companies with growing exposure to wind power and carbon capture/storage projects. Aker ASA is positioned to provide efficient (low-cost and low-carbon) energy production and services as the world transitions to lower carbon output, while having leverage to nascent renewable projects and technologies, including proprietary industrial software technologies.

Aker ASA has tangible upside of 100+% if the shares trade at 1.0x NAV and the valuation of Aker BP fully reflects non-sanctioned projects. NAV has additional upside levers from cyclical recoveries in the remaining public asset portfolio as well as market multiples for the book value investments. Finally, the Norwegian Krone exposure, ESG attributes, and dividend yield could justify a valuation premium in a different market cycle.
Stephen Dodson, Portfolio Manager, Bretton Fund

Progressive Corporation (US: PGR) is the third-largest auto insurance company in the US, behind State Farm and GEICO (part of Berkshire Hathaway). It is an “old saw” that insurance is sold, not bought, and most insurance companies work with an army of independent agents who go out and find customers. The agents receive a commission (typically 12-15%) for each customer they bring in and continue to clip renewal commissions (typically 5%) for each year a customer stays with a carrier. From the insurance company’s perspective, it is a low-risk way to grow a business; the company only pays for the customers who actually sign up. However, it is an expensive and unwieldy tool for a sticky product like auto insurance, where customers often remain with a carrier for six to eight years. The direct companies — largely GEICO, Progressive, and USAA — pay for their own sales efforts, which requires a greater upfront investment, but then allows the companies to keep more of the lifetime value of the customer relationship. The direct companies have steadily, if slowly, taken share from the companies that use agents.

From a financial perspective, it is helpful to think about Progressive as two different companies: an insurance company that writes policies and pays claims and an investment company that handles the money put up by policyholders.

On the insurance side, Stephen expects Progressive to write ~$35 billion of insurance in 2020. Roughly $25 billion will go back out the door in claims and about $7.5 billion will go toward overhead and marketing, including almost $1 billion to “bombard” TV viewers with “Flo.” That leaves $2.5 billion in underwriting profit, which, adjusted for taxes, equals ~$3 per share net.

On the investment side, Progressive’s $35 billion portfolio is split between ~$27 billion of debt and ~$8 billion of equity. The conservative bond portfolio should yield at least 3.5% for $950 million, and Stephen expects the equity portfolio to earn at least 6% for another $480 million. In total, Stephen expects the investment portfolio to yield about $2 per share after taxes over the medium term. However, accounting rules can introduce tremendous volatility in reported results: e.g., a rise in interest rates is reflected as a sudden loss in the investment portfolio, even though the company benefits from investing new funds at higher rates.

As a combined entity, Stephen looks for Progressive to generate slightly less than $5 per share in earnings in 2020. Progressive has consistently generated double-digit policy, revenue, and earnings growth, and while the top line may slow over time, a slowdown in newer, more expensively acquired customers would increase profitability and earnings.
Javier Echevarria, Chief Investment Officer, Invexel Patrimonio  

**Gestamp Automoción** (Spain: GEST) is a global Tier 1 auto supplier, specializing in the design, development, and manufacture of metal automotive components, with a market-leading position in body-in-white and chassis production. The main shareholder is the founding family (57% ownership), who set up Gestamp in 1997.

Over more than two decades, the company has achieved a successful track record, becoming a key partner for most of the international OEMs. This expansion process and intensive investment cycle is complete and allows Gestamp to perform a critical role in the light vehicle manufacturing process, helping the brands to comply with stringent new regulation.

Gestamp shares trade at ~6x earnings in a normalized scenario, which in Javier’s opinion means that Mr. Market is giving investors a sizeable opportunity to acquire a great company at a significant discount to intrinsic value.

Mesut Ellialtioglu, Chief Investment Officer, Talas Turkey Value Fund  

**Borusan Investment** (Turkey: BRYAT) is a diversified investment conglomerate based in Istanbul, Turkey. BRYAT holds investments in the Borusan Group companies. It is active in construction machinery (Caterpillar) and luxury auto distribution (BMW, Land Rover, Jaguar), port operations and logistics, and galvanized steel and steel pipes production.

Borusan Group is the exclusive distributor and service provider for Caterpillar in Turkey, Kazakhstan, Azerbaijan, Kyrgyzstan, and the Russia / Far East regions, with Caterpillar sales and service revenue of $850 million. The Group is also the single largest exclusive BMW distributor in the world, with annual sales of ~25,000 cars. In port operations and logistics, Borusan Gemlik Port is a major port used for handling vehicle exports and imports in Turkey. Borusan Mannesmann is Turkey’s leading spiral welded pipe manufacturer.

BRYAT’s market capitalization recently stood at $230 million. The company had a net cash position of $80 million at the end of Q3 2019. The shares recently traded at a ~60% discount to Mesut’s estimated NAV of $600 million.
Harry Fraser, Partner and Portfolio Manager, Oldfield Partners

Zooplus (Germany: ZO1) is Europe’s largest online pet food and accessory retailer with roughly 50% online market share. The company was founded by the current CEO, Cornelius Patt, in Germany in 1999 before expanding across the rest of Europe. Revenues grew to €10m in the first two years and had grown to €80m when it went public in 2008. Today revenues stand 19x higher than then at €1.5bn. Zooplus’s cost position allows it to price its products at a level where its offline competitors would lose money, so it has been able to consistently take market share. Online penetration is unusually low in pet food and accessory retail at just over 10% because of high customer loyalty, so there remains enormous growth opportunity. This year the growth rate fell from 21% to 14% due to factors that (we believe) are temporary. This lower growth rate led to a large fall in the share price resulting in the valuation falling to just 0.4x sales, a huge discount to peers. Zooplus has net cash and operates entirely within its own free cash flow. We expect net margins will be between 2-5% at maturity with sales being 4x higher than today’s levels.

Steven Gorelik, Portfolio Manager, Firebird Management

Cars.com (US: CARS) is a digital automotive marketplace that connects car shoppers with dealers and car manufacturers. The key purpose of the website is to empower shoppers with resources to make an informed buying decision.

Since spinning out of Tegna two years ago, the Cars.com has struggled as a public company, with declining revenue and customer numbers due to intense competition and a flawed sales network that partially relied on newspaper companies to sell their product. 2019 was a turbulent year with a failed sales process and significant costs incurred on restructuring the sales network away from affiliate (newspaper) relationships.

The shares recently traded at distressed levels, including a normalized 2019 FCF yield of 14% and EV/EBITDA of 8.5x, which is roughly one-fourth of comps levels. 2020 promises to be an inflection year, with easing competition and the elimination of one-time charges. Cars.com has one of the more interesting risk/reward propositions in the market, with estimated IRR of 30+% over a three-year holding period.
John Heldman and David Hutchison, Portfolio Managers, Triad Investment Management

Mohawk Industries (US: MHK) is the world’s largest flooring manufacturer, with global market leadership across carpet, tile, and laminated flooring. The company is the low-cost producer in the flooring industry, with revenue in excess of $10 billion, plants in 19 countries and customers in 170 countries.

Mohawk has grown in large part due to 44 acquisitions since 1992, including recent purchases in Brazil and Australia. It controls some of the leading brands in flooring such as Karastan, Mohawk, Dal-Tile, American Olean, Godfrey Hirst and IVC. CEO Jeff Lorberbaum owns approximately 14% of Mohawk’s outstanding shares, and has been a good steward of shareholder capital since joining the company in 1994.

Over the next three to five years, John and Dave expect revenue growth driven by both new products and geographies. They also see margin improvement from commodity cost declines, more efficient factories, and reduced new product costs. John and Dave see these factors driving Mohawk shares meaningfully higher from recent levels.

Brian Hennessey, Portfolio Manager, Alpine Woods Capital

Diamond S Shipping (US: DSSI) is an international shipping company specializing in the transportation of crude oil and refined products. It owns 16 crude and 50 product tankers.

The company was formed in early 2019 when privately owned DSS Holdings purchased Capital Products Partners’ (CPLP) crude and refined products fleet, and shares began trading on the NYSE in March 2019. The company is led by CEO Craig Stevenson, a legend in the product tanker space, having sold his and Robert Bugbee’s previous tanker venture OMI Corp at the top of the market in 2007 for a forward EV/EBITDA multiple of nearly 11x and a forward P/E multiple of nearly 13x.

DSSI’s fleet offers exposure to two of the hottest asset classes in the tanker space: medium-range product tankers and suezmax tankers. A step change in demand from environmental regulations known as IMO 2020 (which will see the largest reduction in Sulphur content of transportation fuel at one time in history), combined with historically low order rates (new supply), an aged worldwide fleet, and increasing ton miles create the perfect backdrop for tanker stocks.
DSSI trades at one of the widest discounts to NAV of the peer group and trades at a consensus 2020E P/E of ~4x and P/FCF of ~3x. By the end of 2020, net debt should be down to at most $500 million and NAV should consequently increase to $26+ per share. At 100% of NAV (the long-term average), that would imply 70+% upside for DSSI.

*Charles Hoeveler, Managing Partner, Norwood Capital Partners*

**Keywords Studios** (UK: KWS) is the “picks and shovels” for the video game content creation industry, featuring low- to mid-teen organic growth for the foreseeable future as both gaming content and content outsourcing continue to grow.

The company has ~20% share of the outsourcing industry, consistently taking market share from smaller competitors due to deep-rooted customer relationships (including 23 of the top 25 global gaming companies), strong service quality, and a unique ability to offer the full menu of content outsourcing services. Keywords’ durable competitive advantage stems from its relative scale (significantly larger than the next competitor and very fragmented long-tail). The company has an attractive, high-ROIC, low-risk long-term consolidation opportunity.

The market quotation declined in 2019 due to a slowdown in M&A and an understandable margin decline as the company invested in opex and capex for future organic growth. The shares are reasonably valued for a long-term 15-20% compounder, at mid-teens forward EBITDA and low-20s forward levered FCF per share.

*Curtis Jensen, Portfolio Manager, Robotti & Company Advisors*

**Stelco Holdings** (Canada: STLC) is an integrated steel producer with two production facilities, including the Hamilton works and the Lake Erie Works. The company shipped 2.6 million tons in 2018, of which three-quarters was hot rolled coil, with coated and cold-rolled products making up the balance. Lake Erie is the newest greenfield integrated facility in North America and management believes it is one of the lowest cost producers in North America.

Stelco declared bankruptcy in 2014, was reorganized and emerged debt-free with an IPO in 2017. The reorganization enabled Stelco to limit its legacy liabilities and created one of the strongest balance sheets among peers. The company's cash flow and financial flexibility are
enhanced by ~C$800 million of NOLs, while significant real estate holdings open up further opportunities for value creation.

In a reasonable economic environment, the company ought to earn C$1.50-2.00, suggesting a fair value of roughly C$20 per share as a going concern and potentially higher in a change of control. Hoping to regain market share lost under prior management, Stelco’s management has made internal investments a priority, suggesting additional earning power in future periods. Bedrock Industries, which helped to reorganize Stelco, and Fairfax Financial own more than 60% of the common stock.

Clarke (Canada: CKI) is an investment company trading at a discount to the sum of its parts, which include both publicly-listed stocks and private assets. The company’s holdings include a limited service hotel chain, whose portfolio is being optimized, a deeply discounted, but well-managed energy services company and a growing manufacturer of oil and gas storage and processing equipment, currently under-earning its potential.

Clarke and its holdings are conservatively financed and management strives to engage constructively with all investees. Book value, adjusted for cumulative dividend payments, has compounded at 13% over the past fifteen years; management has repurchased 40% of shares during that period. The Armoyan family and Clarke executives own more than 50% of the common stock.

Ashish Kila, Director, Perfect Group

Info Edge (India: NAUKRI) is a platform company providing online classifieds, primarily in the areas of recruitment, real estate, and matrimony. Revenue has grown at a CAGR of 19% since the company’s public listing in 2006.

In light of the large increase in Internet penetration due to Jio, revenue is expected to continue growing for a long time. Info Edge is also a play on the Indian startup ecosystem as it ramps up its core recruitment business and uses surplus cash flow to invest in promising startups, which results in optionality (e.g., Zomato, Policy Bazaar).

At the recent quotation, the market is only giving value to the core recruitment business, Naukri, and Zomato. Investors receive the other businesses for “free”, including 99 Acres, JeevanSaathi, Shiksha, and 25 startup investments (including Policy Bazaar).
Shawn Kravetz, President, Esplanade Capital

Century Casinos (US: CNTY) is an owner/operator of casinos. Century has closed on the transformational acquisition of three properties from Eldorado Resorts, yet the shares recently remained ~25% below their 2019 highs, achieved after the acquisition was announced. With the company’s existing assets in Canada, the U.S., and Poland ramping organically, Century appears poised to more than double corporate EBITDA in 2020, leading to the industry’s lowest EBITDA multiple (6x) despite robust growth. While Century has added some debt to finance the acquisition, it still has one of the least leveraged balance sheets in the industry and is positioned for further acquisitions in 2020. Century presents a catalyst-rich play on the North American casino industry. The stock is worth $14 per share in Shawn’s base case.

Mike Kruger, Managing Partner, MPK Partners

Terravest Industries (Canada: TVK) (C$332 million enterprise value) is a rollup done the right way, with a focus on dirt-cheap M&A, synergies, and building competitive moats. The company makes wellhead equipment for natural gas in Canada, as well as all manner of fuel storage containers for residential and commercial use, from heating oil at a furnace to propane on a truck.

Since 2014, management has committed ~C$150 million (all-in) to acquisitions, which are generating unlevered pretax FCF of ~C$33 million (4.6x). Excluding changes in working capital and growth capex, FCF per share has grown at a 45+% CAGR despite miserable conditions for E&Ps in Canada, which provide nearly half of earnings.

Terravest was once a failing and unfocused income trust, but was led to redemption by Clarke Inc., a highly successful value-based investor in Canadian small-caps. The top two managers own shares worth ~6x and ~8x their cash compensation, respectively. The chairman owns over 260x his cash compensation. Pro forma for the integration of the two latest acquisitions, Terravest shares trade at ~6.4x FCF.
Rimmy Malhotra, Portfolio Manager, Nicoya Capital

Concrete Pumping Holdings (US: BBCP) is the largest concrete pumping services provider in the US and UK. The company has excellent unit economics, an irreplaceable competitive position, and provides a critical service to customers.

The company is run by industry veterans, with insiders owning 60+% of the business. The company went public a year ago at $10 per share, traded to $15 per share, and was recently quoted at ~$5 per share. Rimmy believes that in the next three years the company will show earning power (without making heroic assumptions) to warrant a price of $15-20 per share.

Juan Matienzo, Managing Partner, Mercor Investment Group

GigaMedia (US: GIGM) has a small and unprofitable entertainment software business, but it trades at a large discount to cash net of all liabilities.

Trilogiq (France: ALTRI) is a French maker of tubular structures that has been unprofitable in the recent past, but it trades below liquidation value and might turn around.

Charle Co (Japan: 9885) is a Japanese seller of women’s underwear that trades at a discount to cash net of all liabilities. It has a long history of profitability and returns cash to shareholders via buybacks and dividends.

Jacob Ma-Weaver, Portfolio Manager, Cable Car Capital

Celgene contingent value rights (US: BMY-R) present an interesting exercise in subjective probability estimation and valuation. The rights will be worth either $0 or $9 per right in about one year’s time. Due to structural and technical factors, recent trading levels may discount more risk to upcoming FDA approval decisions than warranted.

Michael Melby, Founder and Portfolio Manager, Gate City Capital Management

Macro Enterprises (Canada: MCR) constructs oil and natural gas pipelines, builds energy-related infrastructure facilities, and provides maintenance and integrity work on existing pipelines. Macro is headquartered in Fort St. John, British Columbia and conducts most
operations in Alberta and British Columbia. Macro has a market capitalization of C$124 million and an enterprise value of C$101 million. Macro has established itself as one of the largest pipeline construction companies in Western Canada and has built a strong reputation for safety and reliability over the company’s 34 years of operations.

Macro has recently benefited from a sharp increase in pipeline construction activity in the area and has built a record backlog of $870+ million. This backlog includes large contracts on both the Coastal GasLink Pipeline and the Trans Mountain Pipeline Expansion. A large portion of both projects is cost-plus in nature, dramatically reducing the company’s execution risk. Macro continues to bid on additional projects, and Mike expects the company to continue to add profitable work to its backlog. Additionally, Macro has four master service agreements with large pipeline operators to provide maintenance and integrity work on existing pipelines. These service contracts provide Macro with a higher-margin, recurring revenue base.

The company’s recent valuation metrics are attractive, with Macro trading at a P/E ratio of ~3.5x, EV/EBITDA of ~1.5x, and price/book of ~1.2x. Macro has a clean balance sheet, with net cash of C$23+ million and owned property, plant and equipment with a book value of C$75+ million. Management is aligned with shareholders, as founder and CEO Frank Miles owns 30+% of shares outstanding.

Raphael Moreau, Fund Manager, Amiral Gestion

Jacquet Metal Service (France: JCQ) is a specialty steel distributor Raphael had presented at MOI Global’s European Investing Summit 2012. The stock price has done relatively well since then (+143% total return) but is down 47% since its peak in April 2018. The story is the same as in 2012 and the valuation similar. The company operates in a sector with low barriers to entry, but its size and execution disciplines provides it with strong competitive advantages. Company founder and main shareholder Eric Jacquet is also very strong at restructuring exercises, as it has brilliantly shown every couple of years for a decade. As in 2012, the stock price trades below book value, the latter being comprised mostly of working capital (inventories) and real estate (warehouses), hence offering limited economic downside. The upside is significant on a standalone basis but even more if you incorporate future M&A value creation, that has a good probability of happening.
Michael Morosi, Equity Portfolio Manager, MAPFRE AM

OL Groupe (France: OLG) and AFC Ajax (Netherlands: AJAX) are two listed European football clubs with storied traditions that compete in the first divisions of their respective domestic leagues as well as the pan-European Champions League.

Historical mismanagement and a perception that fundamentals are driven by unpredictable match results have created a bias against investing in football clubs among institutional investors. However, the sector has demonstrated consistent long-term growth and is generally acyclical given the favorable relationship of cost-to-significance for consumers.

Additionally, the sector is benefiting from multiple secular trends such as the growing popularity of European football in key international markets, like the US and China, pricing power with respect to domestic and international television rights, and technology-aided shifts in content distribution. Finally, the level of professional management across all levels of the sport has improved dramatically and “real money” buyers, including international private equity firms, have started deploying capital in the sector.

Michael’s European football thesis is focused on investing in clubs with outstanding management teams, that are net beneficiaries of the inflationary global player transfer market, have clean balance sheets, are domestic leaders with increasingly global brands, and have hidden real asset value, primarily through material ownership of their stadium. Both OLG and AJAX meet these criteria.

With respect to valuation, OLG (€430M EV / 1.3x Sales) and AJAX (€300M EV / 1.5x Sales) trade at a substantial discount to global sports franchises on both an absolute ($2-4B EV for the top 50 US professional sports teams and top 5 European football clubs) and a relative (3-4x Sales) basis. As the business model continues to evolve and the global brand value is better monetized, Michael expects this gap to narrow by at least half in the mid-term.

Kyle Mowery, Managing Partner, Grizzly Rock Capital

IPL Plastics (Canada: IPLP) is a leading plastic packaging manufacturer that sells specialty products used in the food, consumer, agricultural, logistics, and environmental end-markets. IPL has no exposure to single use plastics and serves markets that should secularly grow over time.
The company IPO’d in 2018 and has since encountered a series of setbacks such as raw material inflation and declining volumes due to temporary end market challenges. These issues have sent the stock price down nearly 60%, and the shares recently traded at 6.0x 2020E EV/EBITDA with a 17% free cash flow to equity yield.

Kyle believes the issues are behind IPL, and 2020 is setting up to be an inflection year for the business. A large multi-year growth capital expenditure plan was finished in 2019 which will lead to strong cash generation and considerable de-leveraging from 3.0x to roughly 2.1x in 2020, increasing penetration of end markets will help the top line return to ~5% growth, and optimization initiatives will lead to stable margin performance going forward.

As the company executes, Kyle believes the shares will re-rate and close the large valuation gap between publicly traded competitors. At a conservative 8.0x EV/EBITDA and 9.5% free cash flow yield on 2020E numbers, IPL would be worth $14 CAD per share and 75% upside to recent prices.

Christopher Mroz, Director and Analyst, AlFAM Group

Canada Goose (US: GOOS) is a 63-year-old manufacturer and retailer of outdoor apparel for men, women, youth and children -- traditionally known for the famous parka. Canada Goose is an organic growth story controlled by an excellent family owner/operator and Bain Capital. Multiple upcoming catalysts drive future growth, including a further expansion into China, an upcoming brand extension into shoes, and continued diversification into apparel and light jackets.

Since coming public, the stock and sales have doubled; however, the underlying operating profits have gone up five-fold. Fixed cost leverage has become more apparent as the business continues to scale and shift from the low margin wholesale business to the direct-to-consumer channel, which has a gross margin uplift of ~ 3,000 basis points. It is rare to find a business growing top-line at a 40% CAGR in tandem with expanding margins (GM +2,200 bps; five years), trading at a discount to luxury peers, while stock is off almost 50% from all-time highs.
A.J. Noronha, Partner; Equity Research & Portfolio Committee, Desai Capital Management

Movado (US: MOV) is a global watch brand with a strong history and well-established, globally-known brand names that recently traded at a substantial discount to both intrinsic value and historical price levels.

The foundation for A.J.’s value investment philosophy is to find companies whose market price trades at a substantial discount to intrinsic value, creating a margin of safety for a long investment position that provides substantial upside and minimizes downside risk. From a traditional value investor perspective, the company offers an attractive valuation using both a multiples (P/B, P/S) and DCF framework, sustainable margins, a reasonable capital structure, and a moderate dividend.

One major catalyst is the large industry trend toward consolidation, which may provide Movado with an opportunity to exit via acquisition that could drive shareholder returns. One major influence on A.J.’s selection of this stock was a recent Forbes cover story on Bernard Arnault using this method to build Louis Vuitton into a powerful luxury brand across multiple industries.

While there are potential industry headwinds via increased smartwatch adoption and declining in-store retail sales, the company has been proactive launching its own smartwatch-enabled watches, acquiring high-growth fast fashion brands targeting the younger market, and has an attractive blend of owner (Movado, Concord, Ebel) and licensed (Coach, Ferrari, Lacoste, Huge Boss among others) brands creating strong brand equity. At a recent price of $21 per share, A.J. believes Movado has over 40% upside.

Samir Patel, Founder and Portfolio Manager, Askeladden Capital

MiX Telematics (US: MIXT) is a leading global vendor of telematics services, providing companies with real-time data about assets and the employees managing them. This data increases revenue and reduces costs, resulting in strong ROI for MiX customers. MiX’s strong technology and global distribution make it uniquely well-positioned to serve the needs of large multinational companies like Nestle, LafargeHolcim, and Total.

The overwhelming majority of EBITDA is driven by multi-year contracts with a high renewal rate. MiX’s recurring revenue, combined with the large, underpenetrated TAM (20-30%), should
allow MIXT to grow revenue at a high-single-digit to low-double-digit rate over the next ten years, with faster (teens) growth in earnings and cash flow, thanks to operating leverage.

At the recent price near $14 per share, MIXT trades at ~15x underlying economic earnings, which are masked by over-depreciation. Samir believes MIXT is worth $20-25 per share, based both on DCF and historical transactions in the industry. Owner-operator Stefan Joselowitz (“Joss”) has a history of making accretive share repurchases, and has recently been utilizing MIXT’s net-cash balance sheet for exactly that purpose.

Scott Phillips, Portfolio Manager, Templeton & Phillips Capital Management

Tyson Foods (US: NYSE) is the largest U.S. protein producer with approximately 20% market share across beef (37% of sales), chicken (30%), pork (10%), and prepared foods (22%). The company is well positioned in both the near-term and long-term due to cyclical factors, secular drivers, and disciplined capital allocation.

On the cyclical front, the firm is a key beneficiary of the widespread outbreak of African Swine Fever (ASF) in Asia. In China alone, industry estimates suggest ~200 million pigs have been culled, representing ~50% of domestic supply. Similarly, outbreaks in nearby markets including Vietnam, Laos, Mongolia, and Cambodia suggest a significant reduction in regional supply (millions of pigs), whereas China is the largest global consumer of pork. In light of the deficits, domestic pig prices in China doubled in late 2019, and the country has turned to imports of a wide array of proteins to offset the price shock and supply deficits. China has lifted preexisting bans on poultry imports, representing a significant potential tailwind for Tyson in poultry as well as across its remaining protein sales. The ASF impact on global protein prices is expected to last more than a year, and should prices and margins repeat historical relationships, Tyson and peers could experience margin expansion.

On the secular front, the firm is well positioned to leverage its expansive distribution and physical assets in the production and sale of plant-based meats. Tyson was an early investor in Beyond Meat with 6.5% of its equity, which was sold just prior to the IPO. Tyson has been outspoken regarding the market opportunity in plant-based meats, and believes it can market its intellectual property through its vast network of distribution. Industry estimates suggest that plant-based meat could grow to a $35 billion market in the years to come, as compared to ~$670 million level today.
Despite its demonstrated success in acquiring value-added brands and future opportunities Tyson shares recently traded at 13x earnings, in-line with its historical average and a material discount to the 19x multiple among packaged food peers.

Brian Pitkin, Managing Member, URI Capital Management

Occidental Petroleum (US: OXY) Much consternation followed the terms Occidental Petroleum accepted with the $10 billion Berkshire preferred equity investment to help fund the acquisition of Anadarko. Billionaire investor Carl Icahn said Oxy was “taken to the cleaners.” With Oxy’s common shares at levels not seen since 2005, down over 40% since just this past April and down 35% since Berkshire struck its financing, opportunity at the cleaners knocks again.

While investors have driven Oxy to $39, today, Oxy common shares can be bought at a level where the current cash dividend is higher than the Berkshire preferred and where capital appreciation starts right now, rather than at $62.50 for the Berkshire warrants. While clearly not apples to apples, the significant declines in Oxy’s share price presents an opportunity for high current cash returns and outsized capital appreciation potential.

The dividend appears to be safe, and Oxy is committed to returning money to shareholders with a commitment to not only maintaining but growing its dividend. The company grew the dividend through the recent oil downdrafts a few years ago and has laid out its ability to fully fund its 2021 sustaining capex and dividend with WTI at $40 while its 2020 oil production has been largely hedged. With WTI near $60 today, the cash flow from the combined Oxy and Anadarko assets including $3.5 billion in annual cost and capital reductions, will far outpace the dividend allowing for dividend increases, deleveraging and ultimately reinstated buybacks once leverage targets are met.

While a greater than 8% yield for a dividend that is covered by the newly combined company cash flows is certainly attractive, is the dividend alone worthy of investment? No, but it helps.

There are countless variables to assessing new Oxy’s pro forma annual cash flow but $5 billion per year is a reasonable jumping off spot once the cost and capital reductions are in place and assuming oil prices in the neighborhood of current levels. With 893 million shares outstanding post the Anadarko deal, free cash flow per share would equate to $5.60 per share. A reasonable 10x multiple of free cash flow brings fair value to $56 per share. Moving into 2021 and beyond we can see free cash flow extend beyond $5 billion.
Clearly higher oil will drive higher cash flow while the opposite holds true as well. With downside protection to $40 WTI covering both sustaining capital investment and the dividend, the possibility for significantly higher cash flows exists at current and higher WTI levels.

With a share price around $39, there is meaningful upside to near-term fair value bringing solid total return potential when including the dividend. And, as will be discussed, cash flows and fair value should increase further in the years ahead.

Patrick Retzer, President and Chief Investment Officer, Retzer Capital Management

Spark Networks (US: LOV) is a leading global dating company with a widening portfolio of premium and freemium apps. The company was formed in 2017 following a merger between Berlin-based Affinitas GmbH and US-based Spark Networks Inc. Spark further consolidated its portfolio in July 2019 when it acquired Zoosk, making a two-fold increase in scale and making Spark Networks SE the second largest dating company in North America, with over one million monthly paying subscribers. Both transactions, however, gave liquidity to two sets of shareholders that formerly could not easily sell their shares, and sell they did in 2019, driving the stock from a high of $17.64 per share in March to a recent price of ~$4.50 per share. Therein lies the opportunity. Spark’s multiple has contracted from 8x to 2.2x market cap/EBITDA.

A new, proven CEO was recently named and “smart money” has been buying large positions around recent levels. The company has publicly guided to EBITDA of $50 million (about $2 per share) in 2020, and Patrick believes that number will only grow as the company pays down and refines expensive debt and wrings synergies out of its now impressive scale. With the massive liquidation of shares apparently spent, Pat believes the stock should double or triple from recent levels, and two sell-side firms have price targets of $17.50 and $19.00 per share.

Dan Roller, Chief Investment Officer, Maran Capital Management

Ranger Energy Services (US: RNGR) is an off-the-beaten-path US energy services company trading at a cheap price. It is in an out-of-favor sector, illiquid, small cap, and a "broken" IPO, yet has high insider ownership (60+%), is well run, taking share, gushing cash, and buying back stock.
Against its ~$100 million market cap and ~$40 million of debt, the company should generate ~$50 million of EBITDA and ~$35 million of FCF, putting the valuation at less than 3x EBITDA and over a 33% FCF yield to the equity; it also trades at ~0.5x tangible book. This is for a company that is taking share given its new, best-in-class equipment and strong financial position (many competitors have aging rigs and too much debt).

In the past few quarters, Ranger has won new multi-year contracts with oil majors such as Chevron and Conoco. Dan believes the upside is 100% to several hundred percent under various scenarios, and that risk of permanent capital loss is limited.

Jim Roumell, President, Roumell Asset Management

Dundee Corporation (Canada: DC.A) offers a large margin of safety to a conservative-case net asset value in a sum-of-the-parts analysis. Dundee is principally a passive investor in a slimmed-down portfolio, with interesting core assets, anchored by ~20% ownership of publicly-traded Dundee Precious Metals (Canada: DPM), the proportional market value of which recently approximated the total enterprise value of Dundee Corporation.

The company has no real capital commitments going forward as a result of monetization and restructuring events executed over the past few years. Moreover, Dundee is in front of more monetization events and likely share buybacks given the company’s commitment to deliver value to shareholders after several years of destroying capital (under previous managements).

Dundee has no funded debt, and leverage is solely via perpetual preferred stock that has no maturity date, allowing the company to control a significant number of assets with the benefit of a permanent capital structure. Dundee enjoys the benefits of leverage without the typical risks, i.e., refinancing.

Nitin Sacheti, Portfolio Manager, Papyrus Capital

Hemisphere Media (US: HMTV) is a Hispanic media business run by Alan Sokol, a seasoned media executive with a history of building value. HMTV has several businesses, including (1) US pay-TV channels focused on non-Mexican Hispanics, (2) the largest broadcasting business in Puerto Rico, (3) Latin American pay-TV channels, (4) a JV interest in Pantaya, a US-based Hispanic content-streaming business, and (5) a nascent Colombian broadcast business.
The shares recently traded at a high single-digit FCF multiple of the well-protected core businesses, while the early stage Pantaya JV and Colombian broadcast business are just beginning to generate cash flow and could be worth the entire market cap of the company soon. Nitin sees upside to the low $20s per share over the next eighteen months, with 15+% compounding thereafter as the strong management team continues to generate value with the company’s unique assets.

Dave Sather, President, Sather Financial Group

Synchrony Financial (US: SYF) is the largest provider of private-label credit cards and provides various financing solutions to businesses, retailers, and consumers in the United States. Although SYF was spun out of General Electric just in 2014, the business traces its roots back nearly nine decades as a way for people to finance the purchase of GE household appliances during the Great Depression.

Today, Synchrony is not just a bank but also a data analytics business that helps empower partners to make decisions and learn more about their end-consumers. Its proprietary closed-loop networks captures more granular level of transactional data than open-loop networks such as Visa or Mastercard can offer. This value proposition creates switching costs for partners, which can be quantified, as the median length of relationship is more than twelve years.

Fears of a mass exodus after the Walmart non-renewal and a “retail apocalyptic” after the Toys“R”Us bankruptcy have proved an overreaction. 2019 was a successful year for SYF in renewing all major partners and expanding the PayPal/Venmo relationship as well as its unique health care financing platform, CareCredit, which focuses on elective procedures and veterinary care.

Synchrony’s loans receivables and deposit base are growing faster than those of peers, all while asset quality and chargeoff rates are improving. Synchrony’s net interest margin of 15% and an efficiency ratio of 31% are unheard of in the financial sector. Management has returned significant cash to owners, with a shareholder yield of 11+. At a trailing PE of ~8x and a long-term conservative DCF calculation of $55 per share, SYF is attractively valued, with favorable risk-reward dynamics at recent prices.
Adrian Saville, Founder and Chief Executive, Cannon Asset Managers

After going through a trying decade under the mismanagement and malfeasance of Jacob Zuma, South Africa enters the new year and the new decade in a better place than 2019, economically and politically. Under Cyril Ramaphosa, South Africa has much work to do to recover the “lost decade”, but the country and economy are gaining momentum and making progress. With this recovery underway, helped by the strengthening of institutions and policy reforms, South African assets as a broad category are attractively priced. For instance, long-dated government bonds are yielding an effective 8.5% against a consumer price inflation rate of 4.1%. In similar fashion, with a yield of 7.4% cash offers a compelling real yield. In the case of risky assets, Cannon Asset Managers finds an even stronger case for capital. In particular, sentiment towards South Africa means that mid- and small-cap stocks are deeply unloved and substantially underinvested. With history as a guide, recent valuations have corresponded with real returns of between 10% and 20% per annum over the subsequent three years. Adrian believes this makes for a robust investment cocktail.

In this setting, there are three ideas Adrian regards as offering compelling cases, and which make for his “Best Ideas 2020”: property group, Stor-Age; investment holding company, Sabvest; and infotech enterprise, Altron.

**Stor-Age** (South Africa: SSS) is a specialist real estate investment trust (REIT) that was listed on the Johannesburg Stock Exchange in 2015. What sets Stor-Age apart from conventional real estate portfolios, which usually have a small number of anchor tenants, is that it has tenants who each rent a few square metres of storage space. In fact, the average rental is just 10m² of floor space, but carried across 34,600 tenants, this translates into Stor-Age being the largest self-storage property fund in South Africa and a leading industry brand.

The business has successfully developed, acquired and managed self-storage properties for a decade and today manages 71 properties covering 444,000m² gross lettable area (GLA). The R6.4bn portfolio is split R4.2bn (363,100m²) in South Africa and R2.2bn (80,900m²) in the United Kingdom (UK). Rentals are renewed annually with an inflation-plus escalation clause, and this is achieved with an 83.7% occupancy rate.

Importantly, the self-storage market is uncorrelated with the balance of the property industry or with the economy. It is a niche asset class and its drivers are unrelated to the traditional drivers of property, which means that investors benefit from diversification and can find defensive elements in Stor-Age.
The company is on a trailing dividend yield of 7.6% and distributions continue to grow. Total dividend payments over the past 12 months rose 7.0% to R1.10, well ahead of the local inflation rate, giving a strong real return in terms of distribution escalation. Liquidity for Stor-Age is reasonable with daily turnover of some R7.5mn.

Looking at the future, growth in like-for-like net property operating income is 3.7% in South Africa and 3.6% in the UK. The company is building an R850mn property pipeline and has an excellent track record of delivering new capacity under budget, ahead of time.

Stor-Age boasts, in the words of management, “recession resilience”. Despite a South African economy which has performed dismally, the company has grown its bottom-line distribution per share by 9.4% per year over the past five years. Adrian expects this to compound at 7%-8% per annum over the next five years, comfortably ahead of the consumer price inflation rate.

In terms of valuation, the baseline net asset value (NAV) is R11.77 compared to the current share price of R14.10. On a discounted cash flow basis assuming no growth, Adrian arrives at a valuation of R15.00 per share. However, the competitive strength and sustained return on invested capital (ROIC) justifies some franchise value in the case of Stor-Age. On this basis, Adrian can comfortably justify a share price of R16.90, some 20% ahead of its recent share price.

**Sabvest** (South Africa: SBV, SVN): Of Adrian’s three best ideas, Sabvest makes for the strongest case based on an impressive history of sustained returns on capital and a deep discount to fair value. Sabvest is an investment holding group that has been listed on the JSE since 1988. The company has an extraordinary long-term investment track record which, with dividends reinvested, translates into a ROIC of 19.1% per annum over 30 years. Dividend growth over the last 20 years has been 11.6% annualised, and Adrian anticipates that this rate of growth in dividends to shareholders is sustainable.

The figures of 19.1% and 11.6% are important numbers. The mandate of the investment team is to grow net asset value and dividends by 15% and 10%, respectively, per year. If we look backwards over various periods from the past ten years (economically tough years for South Africa) to the past thirty years, this is exactly what Sabvest has delivered.

The company has delivered this growth through a highly diversified portfolio, initially comprising a core unlisted asset called SA Bias (originally SA Bias Bindings), a manufacturer of bias binding and waistbands that today produces and distributes a wide range of products, especially...
in textiles and garments. The group’s strong and diversified cash flow and is valued on very undemanding multiples.

Other assets held by Sabvest include global label designer and manufacturer, ITL, which is owned through Mandarin; alongside a more fragmented book of investment, which include Metrofile, a document storage business; Sunspray Food Ingredients; Flexo Line Products; and Classic Food Brands. In addition, Sabvest holds the unlisted Masimong, a mining and agricultural business, and the listed Rofes, Brait, Net1 and Transaction Capital.

Metrofile, is held on book at R1.60 per share, and it has recently received an offer to purchase the entire business at R3.30, so in Metrofile alone, you have just more than R80mn uplift on a R1.5bn portfolio. This is a meaningful number. If this transaction goes ahead, as Adrian anticipates it will, the group would have a fresh R150mn on hand, equivalent to 10% of Sabvest’s market value and available for reinvestment or distribution to shareholders as a special dividend (something Sabvest has done on a number of occasions).

The shares trade at R34.00 and the net asset value is R59.00. This is a business which is compounding at 19% per annum, generating a substantially greater ROIC than weighted average cost of capital (WACC) and it can be purchased at a 42% discount to NAV.

Historically, a reason for the deep discount to NAV has been the existence of low-voting “N” shares alongside high-voting ordinary shares. This structure is being collapsed with a new entity, called Sabcap, coming to market in the first half of 2020. In addition, recent corporate action has been used to lift liquidity so the company, which was overwhelmingly owned by insiders and thus untradeable, is now far more liquid. Adrian expects this to narrow the discount, but even if it fails to close the gap, he is happy to allocate capital at fifty cents in the rand to a company which is compounding its capital at 19% per annum.

Altron (South Africa: AEL) has undergone a successful turnaround strategy under Mteto Nyati, the former chief executive of South Africa’s telco giant MTN. When he took over Altron, it was an asset-heavy equipment business trying to migrate into the digital space. In 2013, with R24.5bn turnover, Altron delivered a loss of R312mn on shareholder capital of R4.7bn, giving a ROIC of -6.6%. Debt to EBITDA peaked at four times in 2017.

In the space of three year, through the disposal of non-core assets which aided balance sheet recovery, debt to EBITDA is now at 0.7 times and although turnover has shrunk to R15.7bn Altron has delivered a profit of R870m on shareholder capital of R3.5bn – a ROIC of 24.8%.
Altron’s five-year objective is to double 2017 EBITDA of R950m. The company achieved R1.6bn in 2019, underpinned by strong free cash flow, and it is comfortably on its way to realising its goal.

After restructuring, the business remains diversified in a number of ways. The business segments include Altron ICT South Africa; vehicle-tracking business Altech Netstar; and Altron ICT International, representing the group’s UK businesses.

Adrian expects further disposals to lighten the balance sheet – possibly in the form of Arrow, Bytes People Solutions and Document Solutions – which would see Altron progress to become a pure ICT play. At the same time, there have been a few small strategic acquisitions such as Phoenix, EZY2C and Karabina and we look to further similar acquisitions in cloud and data analytics.

Altron is an impressive turnaround story. While Adrian never recommends buying falling knives, he is comfortable buying into reversals. In part, the price chart evidences the solid turnaround offered by Altron which has a R9.3bn market cap and liquidity of R3.0m per day.

In terms of valuation, Altron is on a trailing dividend yield of 3.2% and forward price-earnings multiple of 11.9 times. Adrian believes that this company should be afforded some franchise value, given its impressive migration to the digital arena. Consequently, ROIC sits comfortably above WACC, and on that basis Adrian can justify a fair value of just under R30.00 per share against a price of R23.50.

**South Africa** (ZAR14.25:USD): What about South Africa itself as a destination for investment funds? The country has been through ten tough years under Jacob Zuma’s administration – or rather maladministration – with weak economic growth, high unemployment, entrenched inequality and sagging competitiveness, especially in export markets.

In the face of this, Adrian note that the economy has been through a critical political transition under the government of Cyril Ramaphosa, elected in May 2019. His administration has much to do to repair the damage inflicted by Zuma. However, evidence of recovery is growing, and with this restructuring and restoration under a strong and sensible government, Adrian anticipates earnings recovery and improved (but not elevated) economic growth. While it is unlikely that South Africa is on the cusp of “spectacular” growth, the country finds itself in a better environment and in a better place than we have seen over the past ten years.

Institutional recovery is taking place with moves at the state-owned enterprises, the rand has recovered lost ground, and price inflation is tame. Visa restrictions are being lifted and we will
see the release of valuable spectrum in the communications industry that is likely to aid growth. Gross domestic fixed investment has also showed signs of recovery.

Under the leadership of Cyril Ramaphosa, who has a plan and who is known to play the long game, South Africa’s near-term growth potential of 1.5% could be lift to 3.5%. While this will not materialise immediately, South Africa is in better shape today than it was a year ago and certainly in much better shape at the beginning of the last decade. In Adrian’s view, and in this setting, Stor-Age, Sabvest and Altron make for three compelling investment ideas for 2020.

Sam Sheldon, Research Analyst, Punch & Associates Investment Management

**Pzena Investment Management** (US: PZN) is a focused deep value manager led by an aligned team with a strong investment track record. Shares of Pzena recently traded near their lowest historic valuations after a trying decade for both value investors and active management left Pzena’s underlying opportunity largely ignored.

Despite these headwinds, the firm has launched new strategies, invested into sales and marketing, and maintained net client flows better than a group of their public peers. Sam attributes the superior performance in part to maintaining a strong and unwavering commitment to value investing. Shareholders of Pzena are paid an attractive 6.5% dividend yield, rewarding those who wait for the “growth versus value” cycle to eventually shift.

Josh Shores, Principal, Southeastern Asset Management

**Domino’s Pizza Group** (UK: DOM) (£1.4 billion market cap; ~£613 million 2019E revenue) owns, operates, and franchises pizza stores in six European markets. The company has 1,261 stores, of which 90% are franchised and 10% are corporate-managed. DOM is a simple business -- makes dough and sells it to franchisees along with other ingredients and essentials. The underlying franchise is strong, with mid-single digit like-for-like sales growth and significant growth potential in core markets in the UK and Ireland.

A failure to hire the right people and manage key franchisee relationships created mistrust and the inability to extract the full potential of the underlying business. Poor understanding and handling of the concerns of franchisees led to a breakdown in trust. New management and board members can address this breakdown. Three change agents joined the board in 2019,
while longstanding chairman Stephen Hemsley departed the company. According to Josh, immediate steps can be taken to solve the franchisee impasse, return the company to strong long-term growth, and drive a rerating by the market.

Josh believes DOM could be worth 2x its recent market cap based on potential growth, ROIC, cash generation ability, and trading multiples of comparable peers (EV/EBIT of 13.4x vs. comp group average of 20.8x; P/E of 14.3x vs. 25.7x; EV/EBITDA of 11.6x vs. 17.2x; and EV/sales of 2.2x vs. 5.7x). Domino’s entities that are publicly listed in the US (DPZ) and Australia (DMP) trade at multiples that are in line with the peer group (which includes Sonic deal multiples, McDonald’s, Wendy’s, and Yum Brands).

Keith Smith, Fund Manager, Bonhoeffer Fund

A common characteristic amongst these firms are recurring revenues with large addressable growing markets and modest valuations. Two of these firms also have disciplined and repeatable underwriting processes to weed out the best opportunities in each of their opportunity sets and have historically generated above average returns on capital. The third firm has a “core” customer and is investing in infrastructure to support new customers in growing basins such as the Permian and also generates above average returns on capital.

Broadstone Net Lease (“BNL”) (Privately available – IPO in 2020) is an internally managed triple net-lease real estate investment trust, or REIT. Broadstone is one of the mid-sized net-lease REITs and owns a large, well-diversified portfolio that consists of investments in 662 property locations, substantially all of which are profit centers, in 42 states. The addressable market for BNL is very large as BNL only has a 0.2% market share and is one of the larger triple-net lessors in the business. In my opinion, NNN firms have a better model than traditional REITs in that the tenant is responsible for maintenance of the property. This leads to higher profit margins that similar non NNN firms. BNL has increased NAV and dividends per share by 13.3% per year and dividends per share by 3.8% per year over the past 5 years. The management team has great underwriting with few credit losses since inception (2007). BNL has an low expense ratio of about 1.7% of equity or 13.5% of revenue. The focus is also on growing segments of the real estate market including services, experiential retail and mission critical manufacturing in growing regions of the country. The average remaining lease term is 12 years. The common shares recently traded at an adjusted funds from operations (adjusted to include internalization savings and shares issued for internalization) multiple of 14.2 and dividend yield of 6.2%. The TTM gross cap rate interest margin is 4.9%. BNL is modestly
levered with a debt/equity ratio of 0.65 and has an investment grade credit rating. The AFFO multiple is cheap compared to other NNN real estate firms with similar expense ratios and growth prospects.

**Brookfield Infrastructure Partners** (US: BIP) is an infrastructure investment firms. BIP’s owns and operates utilities (32% of cash flow), transport (30%), energy (25%), and data infrastructure (13%) businesses located in North America (30% of cash flow), South America (25%), Europe (20%) and Asia (25%). BIP includes a cross section of infrastructure firms that Brookfield owns and operates for its third-party institutional investors. BIP has increased BV and dividend per share by 11.1% per year and had an average AFFO return on equity of 14% over the past five years. The return on equity has been increasing as more mature properties are being sold and reinvested into newer higher return projects. BIP has a scale advantage with low expenses (2.2% of equity and 27% of DCF) and has obtain operational synergies by purchasing assets in the same industry. The shares recently traded at an AFFO multiple of 16.9x, and dividend yield of 4.0%. BIP is modestly levered with a debt/equity ratio of 0.82 and has an investment grade credit rating. BIP’s returns on equity should continue increase as sale proceeds are being re-invested in data infrastructure assets and in places like Asia.

**MPLX, LP** (US: MPLX) owns and operates midstream energy infrastructure and logistics assets primarily in the United States. The company also provides fuels distribution services. MPLX provides the core mission critical infrastructure asset to Marathon Petroleum’s refinery and gas stations. Assets that support downstream operations are about 60% of MPLX’s assets. The remaining 40% of assets provide upstream connectivity to production assets in the Marcellus, Rockies and Permian basins. MPLX has a DCF return on equity of 21%. MPLX has internally financed growth projects outside the maintenance of Marathon’s core assets and expects DCF to grow by 3 to 5% per year over the next few years. MPLX is levered with a debt/equity ratio of 0.81, a Debt/EBITDA ratio of 4.0x and has an investment grade credit rating. The shares recently traded at an DCF multiple of 6.8x and a dividend yield of 10.7%.

**Jeffrey Stacey, Chairman and CEO, Stacey Muirhead Capital Management**

**CPL Resources** (UK: CPS) is a global provider of talent and workforce solutions with over 13,000 employees across 47 offices worldwide. It operates through distinct specialist brands in a wide range of sectors including technology, finance and legal, healthcare, pharmaceutical, life sciences, sales, engineering, HR, light industrial and office administration. It has a diverse range of clients from market leading multinationals to small and medium sized enterprises and it...
operates across the full talent spectrum from permanent, contract and temporary recruitment to the provision of managed solutions. The key business strategy in building the company is to avoid overdependence on any one service, sector or geography.

CPL has steadily grown revenue and earnings since an IPO in 1999. In the fiscal year ended June 2019, CPL grew revenues by 8%, earnings by 32%, and EPS by 37%. It also increased the dividend per share by 41%. The business is well managed relying primarily on organic growth although it has allocated capital to small acquisitions on occasion. The company has repurchased almost 30% of its shares outstanding shares since 2011 and the dividend per share has increased from €0.085 per share to €0.19 per share over the last six years.

The CEO, Anne Heraty, founded the business in 1989 and she and her husband own about 35% of the total shares outstanding.

Sean Stannard-Stockton, Chief Investment Officer, Ensemble Capital Management

Booking Holdings (US: BKNG) is one of the top performing stocks of recent times, having generated annualized returns over the past 10-15 years of between 25%-35%. However, over the last two years the stock has been flat even as earnings per share have risen 30+%, bringing the stock’s valuation down to levels rarely seen outside of the depths of the financial crisis.

In this presentation Sean Stannard-Stockton dug into why Booking is a fundamentally different and far more competitively advantaged business than other online travel companies. He also illustrated why Google and Booking have evolved into a mutually beneficial relationship in which Google is not the threat to Booking that many investors perceive.

Saurabh Sud, Portfolio Manager, T. Rowe Price

Liberty Oilfield Services (US: LBRT) is an oilfield service company that specializes in hydraulic fracturing, stimulation, and engineering services. The company has grown from one active hydraulic fracturing fleet in December 2011 to 23 fleets at the end of September 2019. This is a commoditized business with high cyclicality and significant capital intensity. However, LBRT is the best player in the space, with leading operational execution (EBITDA to Hydraulic Horse Power), strong emphasis on technology, good customer relationships, and an impressive
management team. Saurabh sees low downside for the shares, as they recently traded close to replacement cost.

Matthew Sweeney, Founder and Managing Partner, Laughing Water Capital

Clear Media (Hong Kong: 100) is the dominant player in Chinese bus shelter advertising, with ~70% share in the most important markets. While this is not a sexy business, out of home (OOH) advertising is of increasing importance, as unlike television or mobile advertising, consumers cannot opt out of the experience, and the data shows that an OOH presence significantly improves the efficacy of mobile advertising. The company's scale gives it important competitive advantages, and combined with the ten-year contracts that are typical in this space, the company's competitive position is strong.

As China is still in the early innings of a growing middle class and increased consumer spending, Clear Media should benefit from secular tailwinds for decades to come. However, over the last year Clear Media has suffered from temporary problems as the Chinese economy has dealt with the effects of the U.S. trade war and other problems. Simply assuming a return to "normal" at some point in the next 3-5 years suggests more than 100% upside for shares, but given that Chinese ad spending will benefit from the 2022 Beijing Winter Olympics, significant additional upside is possible. ~50% owner Clear Channel Outdoors (CCO) has announced it is considering a sale of the business, which could pull forward returns to the near term.

William Thomson, Managing Partner, Massif Capital

Africa Oil Corp. (Canada: AOI) is a pre-production, African-focused oil and natural gas firm that recently traded at a discount to the liquid assets on the balance sheet, with no value attributed to either a significant Kenyan oil and gas development or a soon-to-close acquisition the firm is making of a working interest in producing offshore oil and natural gas assets in Nigeria. Africa Oil has asymmetric return potential, significant leverage to the price of oil, and limited downside at recent prices. The management team has a long history of success in Africa and has, over the last decade, built Africa Oil into a strong partner for any oil major developing projects in African frontier markets.
Omri Velvart, Managing Partner, Legacy Value Partners

**Formula Systems** (US: FORTY) is an enterprise software-focused holding company based in Israel. Formula controls three public Israeli software companies: Sapiens NV (US: SPNS), Matrix ltd (Israel: MTRX) and Magic ltd. (US: MGIC).

The three public businesses are growing at double-digit rates, are profitable, and hold strong positions in their respective markets. Their shares are reasonably priced. Sapiens and Matrix have developed wide moats in attractive markets -- Sapiens through its mission-critical core software platforms for the insurance sector ($40+ billion global TAM), and Matrix through an oligopoly position in the attractive Israeli IT services market and through building profitable US operations. Magic is a well-managed legacy software solutions company with a proprietary set of offerings and a strong international footprint.

Formula’s share price represents a ~25% discount to the public NAV, while the company additionally controls three private software companies (50-90% stakes), all of them are profitable and growing.

Formula's management team comprises capable capital allocators at the group level, while Sapiens, Matrix, and Magic have also achieved demonstrated success in intensive M&A activity over the past twenty years (more than 110 deals at the group as a whole). The group’s unique structure and focus are creating data, financial, and strategic advantages that are rare to be seen in the software landscape. Several catalysts are on the horizon over the next 24 months.

Jean Pierre Verster, CEO, Protea Capital Management

**Alimentation Couche-Tard** (Canada: ATD.A/B) is the leading convenience store operator and fuel retailer in North America, Scandinavia, the Baltic countries, and Ireland. Couche-Tard’s network comprises almost ten thousand convenience stores throughout North America, just under three thousand stores in Europe and also includes ~2,300 licensed stores under the Circle K brand in 16 other countries and territories. The total worldwide network is more than 16,000 stores.

The company has a market cap of US$35 billion and is headquartered in Laval, Quebec, Canada. Founder and executive chairman Alain Bouchard opened his first convenience store in 1980 and aggressively bought up competitors to grow the store network. Discipline and focus have assisted Couche-Tard in maintaining ROCE of ~20% for many years. The stock has been
a ten-bagger over the past decade and the growth outlook continues to be favourable, leading Jean Pierre to find value at the recent price (~18x P/E).

_Amit Wadhwaney, Portfolio Manager and Co-Founding Partner, Moerus Capital Management_

**Hammerson** (UK: HMSO) is a real estate investment trust that owns a portfolio of market-dominant shopping malls, regional retail parks, and premium outlets throughout the United Kingdom and Continental Europe. The stock price has been affected by a number of factors, including secular ones (e.g., a shift from bricks and mortar to online shopping), and cyclical ones, overlaid by economic uncertainties relating to Brexit. Further exacerbating the decline were the company’s two rejections of buyout bids from a large European property company at levels almost twice recent stock price levels. The attraction of Hammerson shares at recent levels is that they at a ~60% discount to NAV using EPRA (European Public Real Estate Association Net Asset Value) methodology, or a discount of almost one-third using Amit’s much more conservative methodology to assess the NAV of this geographically disparate collection of attractive and divisible assets.

_Mathias Wagner, Partner, LIS Capital_

**Grupo Jereissati** (Brazil: JPSA3) is a holding company that trades at an excessive discount to its subsidiary, Iguatemi (IGTA3), even after taking into account holding costs, lower liquidity, and governance and asset allocation risks. This persistent but diminishing discount is due mainly to past governance issues that have been resolved.

Iguatemi is a leader in the shopping mall industry in Brazil, owning and operating several high-quality malls in prime consumer markets, with stable, highly profitable results. Mathias sees upside potential in Iguatemi, as improved economic conditions in Brazil trigger a recovery in credit and consumption, while a historically drastic interest rate cut has not yet been fully priced into the value of the company’s real estate assets, creating short-term opportunity and an additional margin of safety for the investment.
Jim Zimmerman, Founder & Portfolio Manager, Lowell Capital Management

PFB Corporation (Canada: PFB) is a manufacturer of insulating building products made from Expanded Polystyrene Material for the residential, industrial, and commercial construction markets in North America. PFB is an industry leader and the only vertically integrated Expanded Polystyrene Material company in North America.

PFB has a market cap of ~$80 million and a “Ft. Knox” balance sheet with net cash of ~$15 million, implying an enterprise value of ~$65 million. LTM cash from operations is $17 million and FCF is almost $12 million. PFB is trading at about 4.5x adjusted EBITDA and a 15+% unlevered FCF yield.

Absent a severe recession, PFB’s strong FCF can be sustained due to its highly cash-generative business model, which has limited working capital and capex needs, and PFB’s unique competitive position in localized markets. Maintenance capex is ~$2.5 million per year as compared to almost $16 million in LTM adjusted EBITDA. PFB is a fairly stable and sticky business with entrenched competitive positions in attractive local markets in North America.

Jim sees the shares as undervalued at a recent price near $12 per share, trading at ~4.5x adjusted EBITDA and a 15% unlevered FCF yield, which seems attractive for a custom manufacturing business that growing in the mid-single digits organically, with modest capital investment needs and strong free cash flow. Based on 8x Jim’s estimate of adjusted EBITDA of $18 million by fiscal 2021, plus $25 million in estimated net cash, PFB would have a market cap of about $170 million or ~$24 per share, as compared to a recent price of $12 per share.

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