



# Matthew Peterson

Managing Partner, Peterson Capital Management



# Peterson Investment Fund I, LP

# Peterson Capital Management, LLC

Best Ideas 2021, Hosted by MOI Global

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# AGENDA

- 1. Daily Journal Overview (Management, Business, Value)**
2. Portfolio Analysis
3. Missing Revenue
4. Risks
5. Scuttlebutt Summary



# The Daily Journal Corporation (NYSE: DJCO)

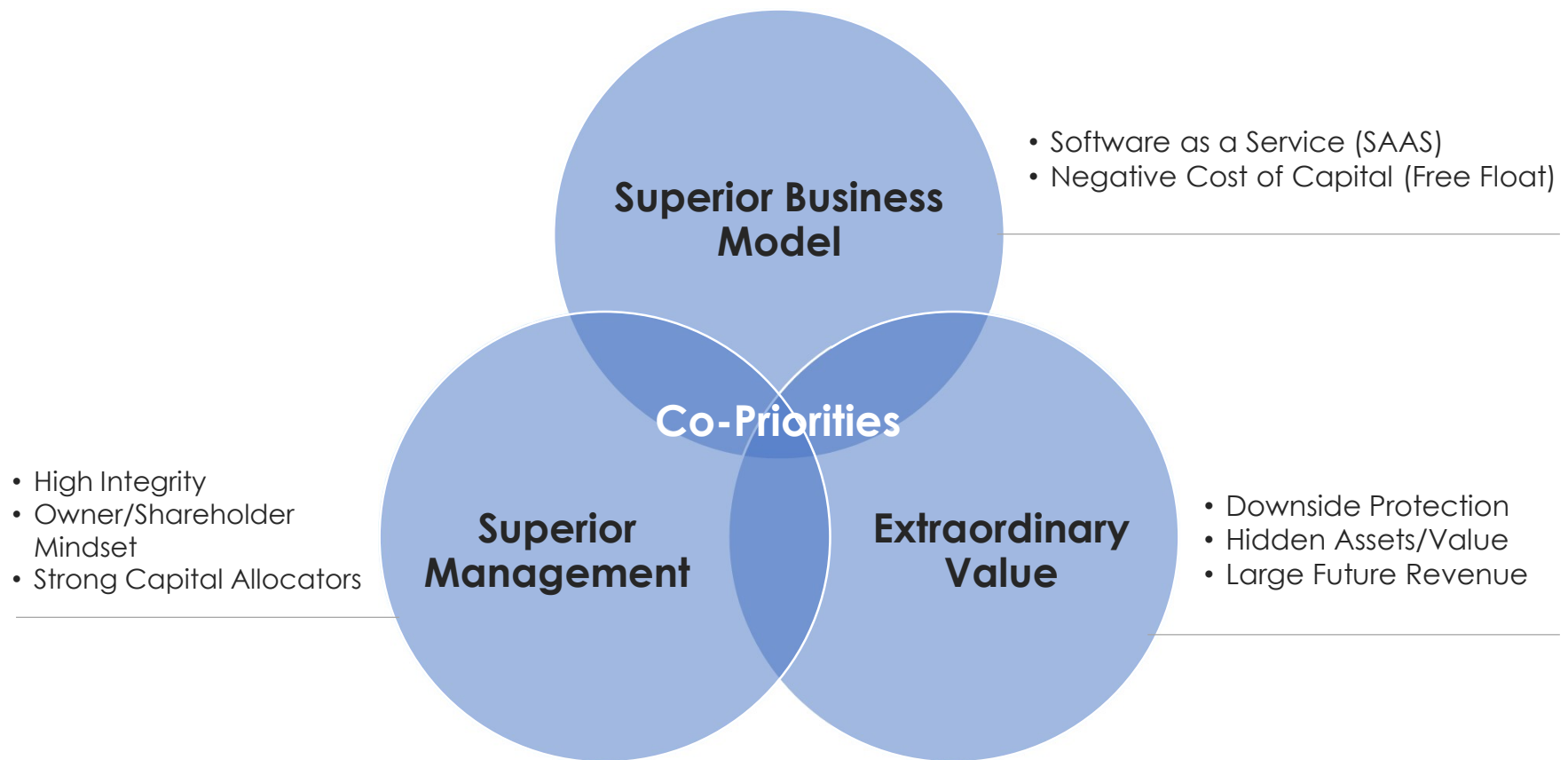
An American Publishing and Technology Company

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- Misunderstood/Hidden Business Model (zero analysts/no investor relations)
- Off Financial Statement Value (deferred revenue, accelerated costs)
- Undervalued (Graham and Fisher) Microcap Compounder in Huge Space
- Extraordinarily High-Quality Board and Management Team



## Hard to Go Wrong, When You Get This Right



***Identifying a great business model is easy.  
But in a pari-mutual market, the best businesses usually have the highest prices.***

## Daily Journal Corporation Board of Directors



**Kaufman (65)**



**Salzman (81)**



**Munger (96)**



**Conlin (55)**

## Recent Departures



**Wilcox**



**Guerin**



## Firm Leaders:



**David Smith**  
Australia  
Sales Director, and Co-  
Director, International eCourt  
Implementations



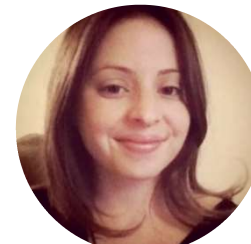
**Kaushik Mehta**  
Co-Director of  
International  
Implementations



**Brian Schmidt**  
Director of Cloud  
Services



**Joe Gervonic**  
Developer



**Maryjoe Rodriguez**  
Vice-President



**Danny Hemnani**  
Director of Implementation

## Key Managers:



**Jon Peek**  
Product Director for  
the Litigation  
Software Group



**Michael Saldivar**  
Cybersecurity



**Dave Gerard**  
Installations Architect



**Derek Harris**  
Sales and Marketing  
Manager



**Ray Stocks**  
Senior Project Manager



**Ben Stocks**  
Account Management  
Manager



**Jeremy Gledhill**



**Kyle Kennington**  
Director of Implementation



**Mandy Olsen**  
Sales and Marketing, Event  
Coordinator



**Robyn Craig**  
Business  
Development



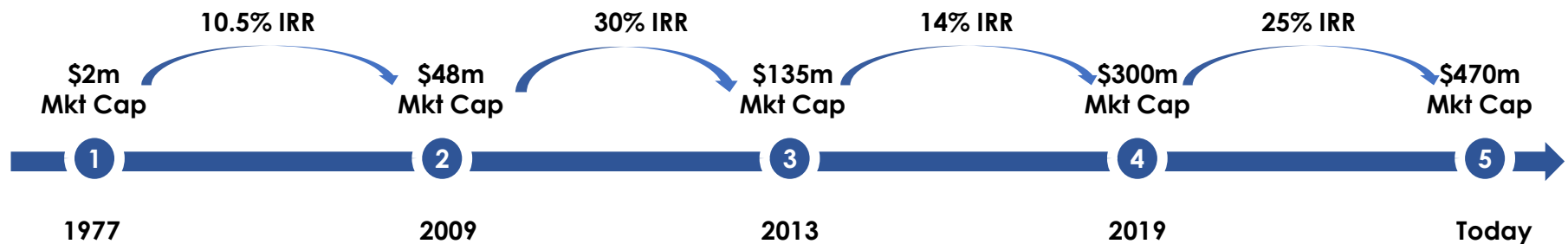
**Carlos Lopez**  
Program Manager



**Curtis Curtis**  
Customer Solutions  
Manager

## TIMELINE OF PROMINENT EVENTS

- 1 **1977:** Munger and Guerin buy Daily Journal for \$2 million USD
- 2 **2009:** Munger and Guerin invest cash flow from foreclosure notices into an equity portfolio
- 3 **2012/13:** Purchase New Dawn and ISD with a \$30m margin loan from equity portfolio
- 4 **2019:** Becoming an important Software as a Service (SAAS) provider in a large niche space





## The Daily Journal Corporation (\$470 million Mkt Cap)

1



### Newspaper Business Value \$0

- Legal newspapers (10 publications)
- Public notification services subsidiary

2



### Investment Portfolio Net of LT Debt Value \$264m

- Cash: \$27m
- Equity holdings (55% BYD): \$311m
- Real estate (corporate offices): \$17m
- LT Debt: Margin, Def Gains Tax, Mortgage (\$91)

3



### Journal Technologies Value: TBD

- Case management system for courts and government agencies (SAAS)
  - Sustain (1999)
  - New Dawn (2012)
  - ISD (2013)

*The Future of This Business is the SaaS Justice System Technology.*

## The Daily Journal Portfolio: \$470m Mkt Cap, \$355m Portfolio, \$91m Debt, \$206m EV



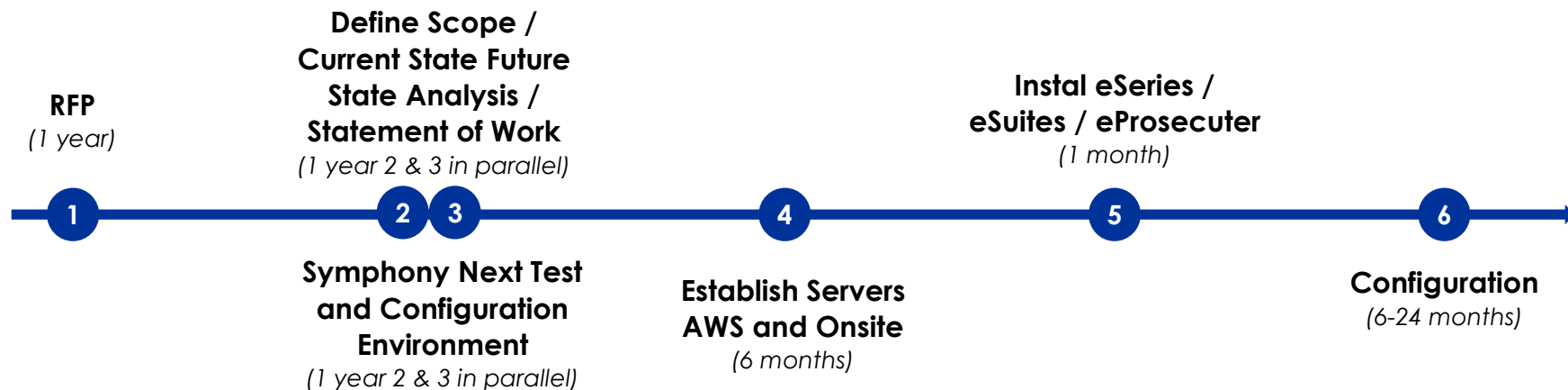
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Equity	Quantity	Update Price	Percent of Portfolio	Holding Value 2021
BYD: Foreign Holding Hong Kong	5,330,000	\$32	56%	\$171m
Bank of America	2,300,000	\$34	24%	\$78m
Wells Fargo	1,591,800	\$34	17%	\$54m
US Bank	140,000	\$49	2%	7m
Posco	9,745	\$67	0%	0.655m
Hyundai Preferred - SOLD	SOLD	\$92	0%	\$0
<b>Total Equity Portfolio</b>				<b>\$311m</b>
Cash				27m
RE Value				\$17m
<b>Total Assets</b>				<b>\$355m</b>
DEBT (Interest Rate)			Holding Value	
Deferred Capital Gains Tax (0%)			\$60m	
Margin Loan (3%)			\$29.5m	
RE Mortgage (4%)			1.5m	
<b>Total Debt</b>			<b>\$91m</b>	

## Contract Timeline

*Journal Technologies has a deferred gratification ethos (and moat). Over 100 contracts have been uncovered, many with incomplete implementation deferring revenue for four years or more.*



*A standard contract takes 4-7 years before go-live.  
Only then can billing commence and revenue be recognized.*

## Expectations are for over \$100 million in recurring annual revenue from JTI by 2030

3



### Journal Technologies

- Case management system for courts and government agencies (SAAS)
  - Sustain (1999)
  - New Dawn (2012)
  - ISD (2013)

## Court Services Victoria picks partner for \$89M case management system

Journal Technologies will collocate a team with CSV, with roll out commencing in 2021

### Other Implementation Contracts

Lake County Illinois / Spokane Municipal Court / Beaverton, Oregon / Austin, TX / Australia / Canada / Tasmania

“ You can't look at our financial statements and make very good judgments about what's going to happen. - **Munger 2017** ”

## Future Revenue Drivers



### Journal Technologies Court Portal

## Make a Reservation

1. **New client implementations**
2. **Additional licenses from existing clients**
3. **Existing license annual price increases**
4. **Consulting fees received for maintenance and support post go-live**
5. **ePay-it: Fees received for fines paid online (e.g. traffic citations)**
6. **eFile-it: Digital case documentation filing fee revenue**
7. **JTI Cloud Hosting Services (Sensitive data hosting via AWS)**



## Competition

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- Odyssey (Court Case Management)
- Odyssey Attorney Manager (Prosecution & Attorneys)
- Incode Court (Court Case Management – Municipal)
- Modria (Dispute Resolution)
- Odyssey File & Serve (Electronic Filing)
- SoftCode (Civil Process)
- Jury Management
- Tyler Supervision (Supervision)
- Tyler Virtual Court (Virtual Court)



- CourtView Justice Solutions
- Constellation Justice Systems, Inc.
- Equivant)
- JWorks CMS
- CourtView
- ShowCase



Public Safety Record Management System

- Records Enterprise
- Records Pro
- DEMS

***Much of the market is fragmented and serviced by local technology providers. Expectations are for a few key players to dominate the US and international markets.***

## Risks

### Risk 1: Go-live Delay and Scope Creep

Delays in go-live cause delays in revenue recognition.

Contracts like Dallas Ft. Worth have been canceled.



### Risk 2: Firm Culture

Workplace descriptions: Lacking transparency, culture of mistrust, high turnover, developers have one foot out the door, stock ownership uncommon.



### Risk 3: Technical Debt

New code is being built on outdated legacy code that has lapsed over 15 years.



### Risk 4: JustWare End of Life



JustWare support ends June 2021.



Although some clients will upgrade to eSuites the immediate impact is a \$5-\$8m reduction in revenues.



## Risk Reduction Opportunities

### Risk 1: Go-live Delay and Scope Creep

1. Hire Technical Director or Director of Engineering
2. Improve Transparency between Sales Teams and Developers
3. Better Defined SOW



### Risk 2: Firm Culture

1. Improved Transparency
2. Offer 401(k) Benefits
3. Enhance Collaboration



### Risk 3: Technical Debt

1. Consider Decoupled/Decentralized Software
2. Invest in Foundational Code Repair
3. Consider Serverless Architecture



### Risk 4: JustWare End of Life

1. Avoid RFP Process
2. Treat JustWare Users as Partners
3. Communicate Transparently





## Phil Fisher Scuttlebutt Analysis – The Qualitative Case

1	✓ Large Market for Sizable Sales Increase	• 3,000 largely untapped counties with underutilization of government focused software solutions.
2	✓ Determination for New Product Development	• Significant new product opportunities including district attorneys, adoption agencies, courts, and others.
3	✓ Effective R&D Effort	• Transparency and communication can be improved. Coordinating teams with diverse skills, incentivizing productivity and communication is essential. Each aid success of R&D efforts.
4	✓ Above Average Sales Organization	• Advertising, sales and distribution all valuable aspects. Sales teams are shrinking.
5	✓ Worthwhile Profit Margin	• SAAS business models exhibits strong profit margin. Long term contracts maintain margin throughout the business cycle. Scope creep, technical debt and product inconsistencies reduce margin.
6	✓ Actively Maintaining or Improving Margins	• Low cost focus while delivering high value to customers. Contracts include built in price increases.
7	✓ Excellent Labor and Personnel Relations	• Glassdoor.com shows complaints around micromanagement, flat organization, low pay, poor quality of facilities and no 401(k). These culture complaints are concerning.
8	✓ Outstanding Executive Relations	• Executives and board members are of top quality. However, some attrition is occurring due to disagreements with senior leadership.
9	✓ Depth of Management	• Executives and several board members lack technology experience. Strong future internal leaders are known to exist. Technical directors and director of engineering may add value. External hires needed.
10	✓ Cost and Accounting Controls	• Management focus on integrity and proper incentives including lack of earnings projections, no quarterly calls or an IR team all bode well for low costs and accuracy and honesty in accounting.
11	✓ Peculiar Advantages Relative to Competition	• Board of business titans. Incorporate sustainable moats and execute based on invariant strategies like integrity, differed gratification and win-win relationships.
12	✓ Long-term vs Short Term Profit Outlook	• Exceptionally long-term outlook
13	✓ Aversion to Shareholder Dilution	• Equity share count is fixed. Access to extraordinarily low cost dept through equity portfolio. Internal financing available through rapid growth in cash flows.
14	✓ Frankness Regarding Negative Developments	• Management speaks infrequently and risks should be addressed and corrected.
15	✓ Management of Unquestionable Integrity	• Ethos established over decades is built on a culture of integrity.

“ A company could well be an investment bonanza if it failed fully to qualify on a very few of them. – Phil Fisher 1996 ”

# Q & A



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