MOI Global *presents*

Takeaways from Best Ideas Omaha 2018

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We thank Brian Weber for the following highlights.

At the annual Berkshire Hathaway weekend, members of The Membership Community of MOI Global and Robotti & Co. got together for a best ideas conference. At the conference, a collection of 11 investment ideas were presented, all stemming from longer-term value oriented strategies consistently implemented by the present investors. Bob Robotti, president of Robotti & Co., founded the company almost 35 years ago. Since then, Robotti has been engaged in long-term value investing, specifically in cyclical industries like energy, industrials, and housing. Robotti believes buying depressed cyclical businesses at the right time can offer immense future value for shareholders. Robotti presented the first idea of the conference: Subsea 7. The company is a European offshore engineering, construction, and services business that executes deep sea infrastructure projects. Please refer to Robotti's opening remarks for his Subsea 7 presentation.

The second presenter was Emília Vieira representing Casa de Investimentos. Vieira's idea was Portuguese company Sonae SGPS. Sonae is a multinational retail, real estate, technology, media, and telecommunications company. The Azevedo family owns 53% of Sonae through majority holding company Efanor. Management has shown consistent conscience for capital allocation, shareholder value, revenue growth, and long-term rationale. In addition to strong management, the company is trading at a modest 1.2x book value while it has stakes in a majority of market leaders in Portugal. The company has a 23.5% stake in the largest Telecom company in Portugal and 100% of leading supermarket chain Modelo Continente. As the Portuguese economy may regress back towards pre Eurozone crisis levels, Sonae's cheap valuation and multiple business units with opportunity for reinvestment make it a convincing case for Vieira.

David Marcus of Evermore Global Advisors presented his value case for the maritime shipping industry. Evermore Global is a mutual fund which invests in special situations including spin-offs, unjustified selloffs, and family controlled businesses. A few of the names Marvus mentioned were Scorpio Bulkers, Navios Maritime Partners, & Navios Maritime Containers. These companies have multiple verticals (potential products to ship: oil, LNG, containers, etc), strong management, solid cost structure, and are near a cyclical low. Marcus believes good investments are made in industries with very long term prospects and protection against technological replacement. The maritime shipping industry should offer such protection as goods will continue to be moved around the globe via water and should benefit from the tailwind of increasing global shipping patterns.

Shreekkanth Viswanathan of SVN Capital presented Airlease Corp, an aircraft leasing company. Worldwide airline passenger traffic has been doubling every 15 years since 1980. To capture this growth, Airlease maintains and leases a fleet of airplanes to airline companies around the globe. Viswanathan thinks this business model is extremely attractive in the long term,-especially for low-cost carriers in developing countries with strong economic prospects including Thailand, India, and Vietnam. Currently Boeing and Airbus are backlogged up to 6,000 units, creating large demand for a quick, low-cost alternative for obtaining aircraft. Despite being relatively levered with a debt-to-equity ratio of 2.5x, Airlease has maintained a Moody's debt rating of BBB as a result of its strong cash flow generation. This has helped the company maintain a low 3.2% cost of interest which has helped finance the company's fleet (43% owned). As a result, Airlease has been able to build a very modern fleet with the average plane age at 3.8 years. Airlease buys planes from Original Equipment Manufacturers. The OEM's often provide a 20-30% upfront discount for purchasing planes and exemption from paying US cash taxes. As populations and economies grow larger in these emerging economies, the demand for planes will follow. Viswanathan believes it is much more efficient for airlines to lease aircraft than to purchase them outright.

Chris Rossbach at J. Stern & Co., proposed long-term value play Essilor, the world's leading global supplier of eyeglass lenses. Essilor has a 40% global market share, is 3x larger than its next biggest competitor, and has strong consolidation opportunities down the road. In addition, the pending merger with Luxottica should create $420-$600 million in revenue synergies by 2020. Luxottica specializes in eyewear frames and has a strong retail distribution network. Essilor is positioning itself to eventually capture the 80% of people with eye protection problems that are currently not being treated. Rossbach believes Essilor has a huge competitive advantage in size, distribution, and partnerships. He sees significant growth prospects around the world, specifically China. As populations in developing countries become wealthier, the global demand for eye lenses should increase significantly. Essilor is in the perfect position to capture and integrate this growing market into its vertical supply chain.

Brian Weber of Robotti Securities, presented on Entercom Communications, the second largest radio broadcaster and number one creator of both live and local audio content. Entercom stock price has dropped due to concerns about the industry and the integration of their acquisition of CBS Radio. Weber believes Entercom is significantly undervalued given the strong FCF profile, synergies and new scale that the addition of CBS Radio will bring to Entercom. He also noted that CBS Radio under CBS corporation leadership was a poorly run unit that didn't get the proper attention or focus that it will now get as part of a standalone radio only company. Weber believes management will make several changes including upgrading their local leadership teams, cutting costs and continuing to build out their sports platform which will help drive future performance. The Entercom management team continues to be fully engaged. Founder and Chairman Emeritus Joseph Fields has personally bought over 2.6 million shares in the open market since March 9th totaling an investment of over 26 million dollars. Weber noted several Nielson studies that show radio today still reaches over 90% of the population and has some of the best unit economics for advertisers like the highest ROI, lowest CPM while getting just 7% of the total advertising spend. Management has also talked about growing FCF per share from $1.23 to over $2 by 2020 and realizing about $110 mm of potential synergies from the CBS Radio deal.

James Lim began by identifying the large valuation disparity between the KOSPI or South Korean stock index and other global markets. Lim claimed bad corporate governance, poor capital allocation, and the North Korea overhang are the main reasons for this difference. For example, corporate cash holding as a percentage of GDP is 32% in Korea yet only 10% in the United States. Lim sees opportunity, specifically with Korean company Meritz Fire & Marine Insurance, which has a price-to-earnings multiple of 6x and is the 5th largest non-life insurer in South Korea. Despite its modest valuation, Meritz has the cheapest capital raising costs and highest return on investment of the five largest non-life Korean insurance companies. Lim also stressed his belief in CEO Young-Moo Choi, a former executive at Samsung. When Choi took over, the company's return on equity was near 1%. Since inception, Choi's smart capital allocation has helped the company achieve a return on equity of nearly 14% by implementing cost cutting programs and reinvesting in the business.. The company has healthy combined ratio of 96%, although Lim thinks it will be closer to 100% due to a large amount of non-deferrable costs specifically expensed this calendar year. Using a 100% combined ratio, Lim believes the company has an implied price multiple of 4x earnings and return on equity of 35%, making the market price significantly compelling.

Matthew Haynes, of 1949 Value Advisory, presented his value investment for Smart Sand, a US provider of white raw frac sand for US shale drillers. White raw frac sand, historically the number 1 sand product used for fracking, has been increasingly displaced by newer and much weaker regionally sourced strains like Permian sand. Small companies based in the Permian are selling this sand with much lower transportation costs and high volume. Subsequently, the stock price of Smart Sand and other white frac producers has been hit hard, with Smart Sand down nearly 44% from the 52 week high. However, with required frac sand per well jumping from 5.8 million lbs/well in 2014 to 14.2 million lbs/well in 2018, sand needed per well is increasing near 20% a year. Haynes sees value as drillers begin to realize the disparity in the most important characteristic, crush strength. Black Mountain sand in the Permian Basin has a crush value of 7,000 while Unifrac's white sand is at 11,000. In addition, frac sand companies in the Permian will be subject to constant project delays, production struggles, and unanticipated events. Northern white frac producers have a large distribution network whose product volume is much less dependent on the schedule of the drillers. Haynes predicts companies will start switching back to white frac as the sand required per well keeps growing and regional sands become insufficient for most drilling operations.

Christopher Mayer of Bonner & Partners believes Fairfax Financial offers convincing value at the current price, trading at 1.56x book value and 8.5x earnings. Fairfax's maintains a very strong insurance business which had $800 million in debt-warrant deals last year at a 5.5% yield (derivative instruments for certain types of debt). However, Mayer believes the company's strategic value lies in its investment business which follows a long-term approach to complement its return from the insurance business. Many analysts have reacted negatively to some of the company's recent investments. One of these investments was Fairfax's zero-debt acquisition of Toys "R" Us's Canadian assets for over $230mm. Fairfax also has made big bets in emerging markets like India, with positions like IFL Holdings, with IFL posting an average annual return of 30% for the past 10 years. Mayer thinks recent disappointments in performance make for the opportunity today and stressed the introduction of a share repurchase program at today's valuation.

Value investor veteran Tom Russo gave a slightly different presentation, detailing themes for his investments and outlining his thesis for two of his long-term portfolio companies. Russo likes family run businesses with good management and shareholder friendly capital allocation. Russo's first idea was Philip Morris International (PM). Phillip Morris stock has recently declined due to overblown concerns about competitors such as Juul and increased cigarette and tobacco regulation. Russo expects Juul's progress to be hindered by harsh FDA regulations. PM's main electronic smoking product is still not available in the US but has already caused 6 million Japanese citizens to quit smoking. Russo also highlighted Nestle Inc. and its "capacity to reinvest". Nestle has over 32 major brand names in its portfolio. Russo believes companies like Nestle and PM, with a strong capacity to suffer in the short-term to build value over the long-term, can make for very attractive and tax efficient returns.

Scott Miller ended the conference with his value pitch for Fiat Chrysler. Miller detailed the company's high insider ownership with CEO Sergio Marchionne owning nearly $50 million in stock. Miller argues the company is still cheap today despite its recent success with Ferrari and Porsche. He detailed Fiat's Auto Parts Business, which the company recently spun generating close to $1 billion in annual EBITDA. Miller believes this spinoff is underutilized in many analysts' models and will add around $7 billion in value to shareholders. In addition, Miller noted how the company ended the year with $5 billion in cash and improved its capital structure over the last few years. Miller believes the market is undervaluing the earnings power of the business. Miller also sees Fiat Chrysler doubling profits by 2020, completing 5 million deliveries per year, and initiating a share repurchase program.