2020 Free Lunch Portfolio by Mohnish Pabrai

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The Free Lunch Portfolio strategy

I continue looking into what others are doing to find good investment ideas. A good source is always the Free Lunch Portfolio by value investor Mohnish Pabrai. He publishes a portfolio that he creates by looking at what others do each year, therefore the name Free Lunch on his blog.

Using algorithms, the Free Lunch Portfolio looks for 3 types of stocks: **uber cannibals**, **spinoffs** and companies owned by good fund managers that fall into the **shameless cloning bucket**.

Uber cannibals are businesses that aggressively buyback their shares. In that way they lower the number of shares outstanding and increase the value for the remaining shareholders.

Spinoffs are businesses that the parent company decided to spin off into a separate entity and give separate shares to shareholders. This is usually done because the business model is different with the subsidiary than with the parent company and therefore, more often than not, shareholders don't know what to do with the new stock, not many analysts follow and one can really find under-priced bargains.

Shameless cloning is simply looking what others have in their portfolio and buying it.

Back testing showed that the Free Lunch Portfolio beats the S&P 500 by a large margin over the longer term.

	Performance				
Year	S&P 500	Spinoffs	Shameless Cloning	Uber Cannibals	Free Lunch
2000	-9.1%	22.8%	23.2%	30.0%	25.5%
2001	-11.9%	28.0%	43.2%	43.8%	38.2%
2002	-22.1%	-11.7%	3.3%	47.7%	14.3%
2003	28.7%	56.6%	71.1%	32.7%	48.3%
2004	10.9%	54.8%	18.2%	57.8%	46.3%
2005	4.9%	17.5%	15.0%	6.2%	11.1%
2006	15.8%	19.6%	11.1%	2.9%	10.4%
2007	5.5%	-26.7%	13.3%	27.4%	7.8%
2008	-37.0%	-45.1%	-54.4%	-24.9%	-39.5%
2009	26.5%	83.6%	30.3%	29.4%	39.2%
2010	15.1%	16.8%	17.8%	12.5%	15.5%
2011	2.1%	-11.2%	8.7%	1.1%	-0.2%
2012	16.0%	12.7%	31.4%	50.4%	38.0%
2013	32.4%	67.1%	44.2%	43.8%	48.4%
2014	13.7%	-5.4%	15.5%	1.6%	2.9%
2015	1.4%	-8.7%	14.6%	-1.5%	0.4%
2016	12.0%	43.5%	10.4%	-2.3%	11.1%
2017 YTD (11/30/2017)	20.5%	12.9%	29.6%	39.4%	29.7%
Cumulative	155.0%	857.8%	1354.7%	2521.9%	1582.7%
Annualized	5.4%	13.4%	16.1%	20.0%	17.1%

Source: [Free Lunch Portfolio Forbes Article]

I figured, given the current situation in the market it would be interesting to research the individual components of the 2020 Free Lunch Portfolio and see whether there are some interesting individual opportunities even if the above performance has a lot to envy. This is the Free Lunch Portfolio for 2020:

Uber Cannibals

- Allison Transmission Holdings (ALSN)
- Asbury Automotive Group (ABG)
- Corning (GLW)
- Quanta Services (PWR)
- Sleep Number (SNBR)

Shameless Cloning

- Alphabet (GOOGL), from Sequoia Fund
- Berkshire Hathaway (BRK.B), from Markel Insurance
- Chipotle Mexican Grill (CMG), from Pershing Square
- Citigroup (C), from ValueAct Capital
- Fiat Chrysler Automobiles (FCAU), from Pabrai Funds

Spinoffs

- Athene Holding (ATH)
- FirstService (FSV)
- Hilton Grand Vacations (HGV)
- RMR Group (RMR)
- Vectrus (VEC)

Free Lunch Portfolio individual holding analysis

Let's start with the analysis one by one. I will first categorize the stock using the Peter Lynch Stock Categorization tool - 6 Categories of Stocks by Peter Lynch. (the categorization is part of my summary of Lynch's book One Up On Wall Street withing my free investing course – check it out). When the stock is categorized, I'll take a look at fundamentals, the long-term sustainability of the business model and make a quick valuation. On those businesses that intrigue me from an investing perspective, I'll make a full in-depth analysis.

Allison Transmission Holdings (ALSN)

Summary:

- Free cash flow yield is 12.9%. Likely to change short term but attractive longer term.
- Apart from the coming recession, the other cloud over the business is the EV threat.
- The buybacks are likely to be cut, the debt is relatively high but the business will not go away that fast.

Allison Transmission is the world's largest manufacturer of fully automatic transmissions for medium- and heavy-duty commercial vehicles and is a leader in hybrid-propulsion systems for city buses. The company was owned by GM for a long time and The Carlyle acquired it in 2007 for $5.6 billion. It went public in 2012.

2012

Allison Transmission Holdings Inc. becomes a public company on March 15 and its shares begin trading on the New York Stock Exchange under the symbol ALSN. At the time of the public offering, the Allison Transmission IPO is the largest U.S. industrial IPO since the third quarter of 2010.

Chairman, President and CEO Lawrence E. Dewey informs investors that the company will demonstrate its "constancy of purpose" by continuing to pursue several strategic priorities: Expanding global market leadership, increasing emerging market penetration, focusing on new technologies and product development, and delivering strong financial results.

Source : [ALST history]

The Free Lunch Portfolio defines it as an uber cannibal stock. A look at ALSN's cash flow shows it spent $2.71 billion on buybacks over the last 6 years. It spent on average about $90 million for dividends per year. The number of shares outstanding has declined from 188 million in 2013 to the last reported, 123 million.

Financials Income Statement | Balance Sheet | Cash Flow | Annual | Quarterly | As Originally Reported | Restated

Export to Excel

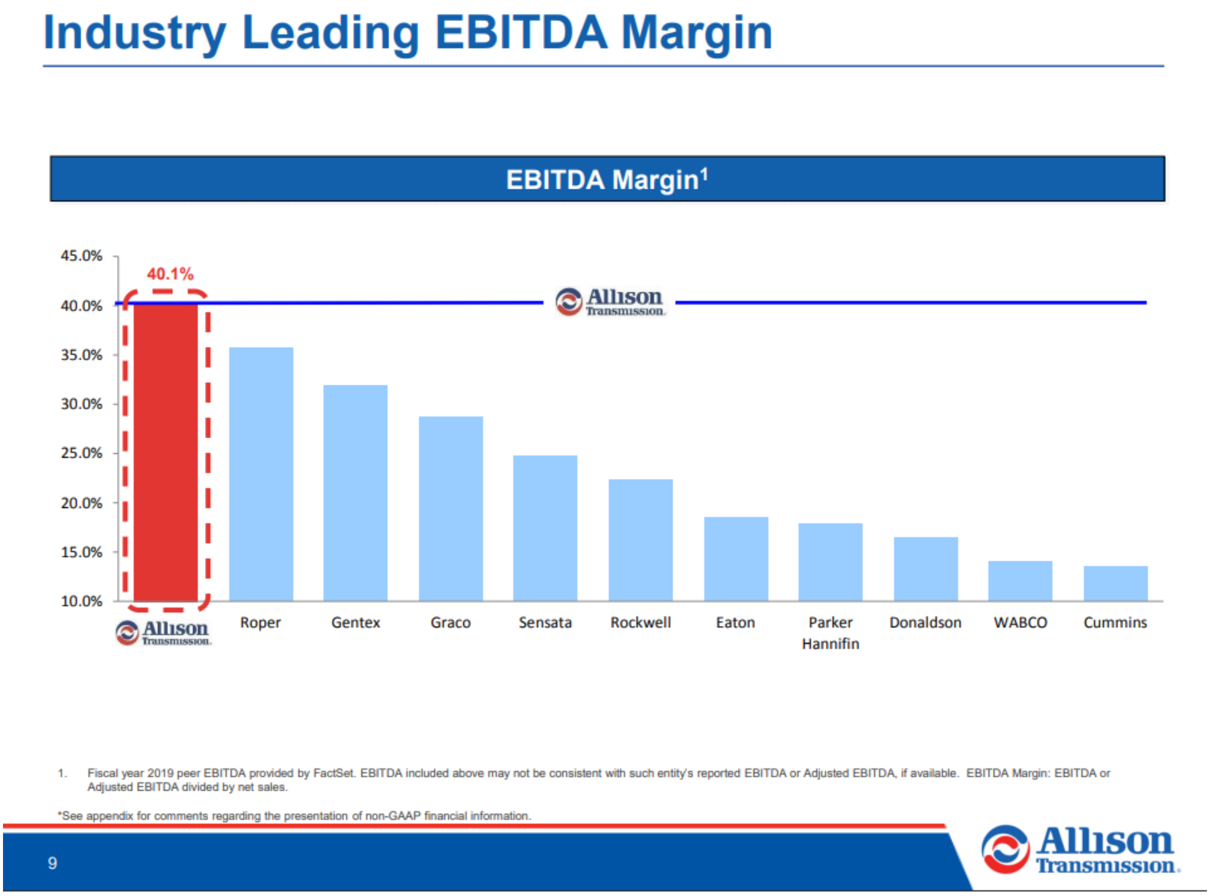
Back to Summary View

Search for Names

▼ **Name** USD in Billion except per share data	2014	2015	2016	2017	2018	2019
▼ Cash Flow from Financing Activities						
▼ Cash Flow from Continuing Financ...						
▼ Issuance of/Payments for Com...						
Payments for Common Stock	-0.25	-0.31	-0.26	-0.89	-0.61	-0.39
Proceeds from Issuance of ...	—	—	—	—	—	—
Total Issuance of/Payments for...	-0.25	-0.31	-0.26	-0.89	-0.61	-0.39
▼ Issuance of/Repayments for D...						
▼ Issuance of/Repayments for...						
Proceeds from Issuance ...	—	0.47	1.00	0.82	0.00	1.24
Repayments for Long Te...	-0.16	-0.61	-1.22	-0.43	-0.03	-1.24
Total Issuance of/Repayme...	-0.16	-0.14	-0.22	0.39	-0.03	0.00
Total Issuance of/Repayments ...	-0.16	-0.14	-0.22	0.39	-0.03	0.00
▼ Issue and Financing Costs						
Debt Issuance Costs	0.00	-0.01	-0.02	-0.01	0.00	-0.01
Total Issue and Financing Costs	0.00	-0.01	-0.02	-0.01	0.00	-0.01
▼ Cash Dividends and Interest Paid						
▼ Cash Dividends Paid						
Common Stock Dividen...	-0.09	-0.11	-0.10	-0.09	-0.08	-0.07
Total Cash Dividends Paid	-0.09	-0.11	-0.10	-0.09	-0.08	-0.07
Total Cash Dividends and Inter...	-0.09	-0.11	-0.10	-0.09	-0.08	-0.07

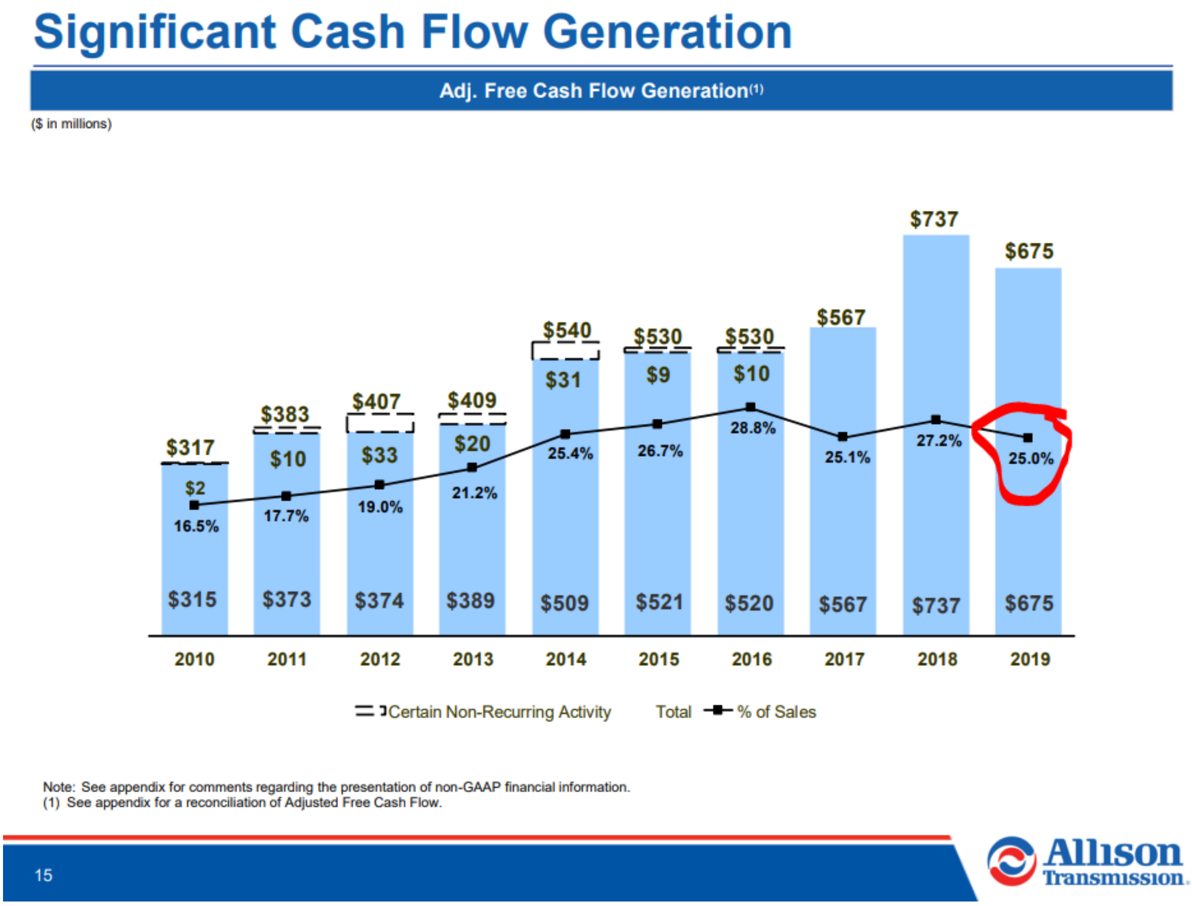
ALSN Stock Analysis – Cash Flow – Source: [Morningstar]

Such heavy spending is possible because the company has pretty good margins on its products.



ALSN Stock Analysis – EBITDA Margin – Source: [Allison Transmission IR]

Having good margins also means you have an advantage over other producers which indicates business quality – always a good thing to invest in. Good margins lead to high free cash flows and a high return on capital.



Allison Stock Analysis – Free cash flow – Source: [Allison Transmission IR]

On the current market capitalization of $3.94 billion, average free cash flows of $509 million per year over the last 10 years indicate to a free cash return of 12.9%.

I always like to look at the debt structure of a company and they have a significant amount of it, $2.5 billion. In case of deteriorating cash flows, the debt will become a bigger and bigger issue.

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Allison Transmission Holdings, Inc.
Consolidated Balance Sheets
(dollars in millions, except share data)

		December 31, 2019		December 31, 2018
ASSETS				
Current Assets				
Cash and cash equivalents	$	192	$	231
Accounts receivable - net of allowance for doubtful accounts of $1 and $1, respectively		253		279
Inventories		199		170
Other current assets		42		45
Total Current Assets		686		725
Property, plant and equipment, net		616		466
Intangible assets, net		1,042		1,066
Goodwill		2,041		1,941
Other non-current assets		65		39
TOTAL ASSETS	$	4,450	$	4,237
LIABILITIES				
Current Liabilities				
Accounts payable	$	150	$	169
Product warranty liability		24		26
Current portion of long-term debt		6		—
Deferred revenue		35		34
Other current liabilities		202		197
Total Current Liabilities		417		426
Product warranty liability		28		40
Deferred revenue		104		88
Long-term debt		2,512		2,523
Deferred income taxes		387		329
Other non-current liabilities		221		172
TOTAL LIABILITIES		3,669		3,578
Commitments and Contingencies (see NOTE 18)				
STOCKHOLDERS' EQUITY				
Common stock, $0.01 par value, 1,880,000,000 shares authorized, 118,199,782 shares issued and outstanding and 126,251,266 shares issued and outstanding, respectively		1		1
Non-voting common stock, $0.01 par value, 20,000,000 shares authorized, none issued and outstanding		—		—
Preferred stock, $0.01 par value, 100,000,000 shares authorized, none issued and outstanding		—		—
Paid in capital		1,802		1,788
Accumulated deficit		(970)		(1,100)
Accumulated other comprehensive loss, net of tax		(52)		(30)
TOTAL STOCKHOLDERS' EQUITY		781		659
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$	4,450	$	4,237

The accompanying notes are an integral part of the consolidated financial statements.

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Allison Transmission Stock Analysis – Balance Sheet – Source:10K

NOTE 8. DEBT

Long-term debt and maturities are as follows (dollars in millions):

		December 31, 2019		December 31, 2018
Long-term debt:				
Senior Secured Credit Facility Term B-3 Loan, variable, due 2022	$	—	$	1,148
Senior Notes, fixed 5.0%, due 2024		1,000		1,000
Senior Secured Credit Facility Term Loan, variable, due 2026		644		—
Senior Notes, fixed 4.75%, due 2027		400		400
Senior Notes, fixed 5.875%, due 2029		500		—
Total long-term debt	$	2,544	$	2,548
Less: current maturities of long-term debt		6		—
deferred financing costs, net (see NOTE 2)		26		25
Total long-term debt, net	$	2,512	$	2,523

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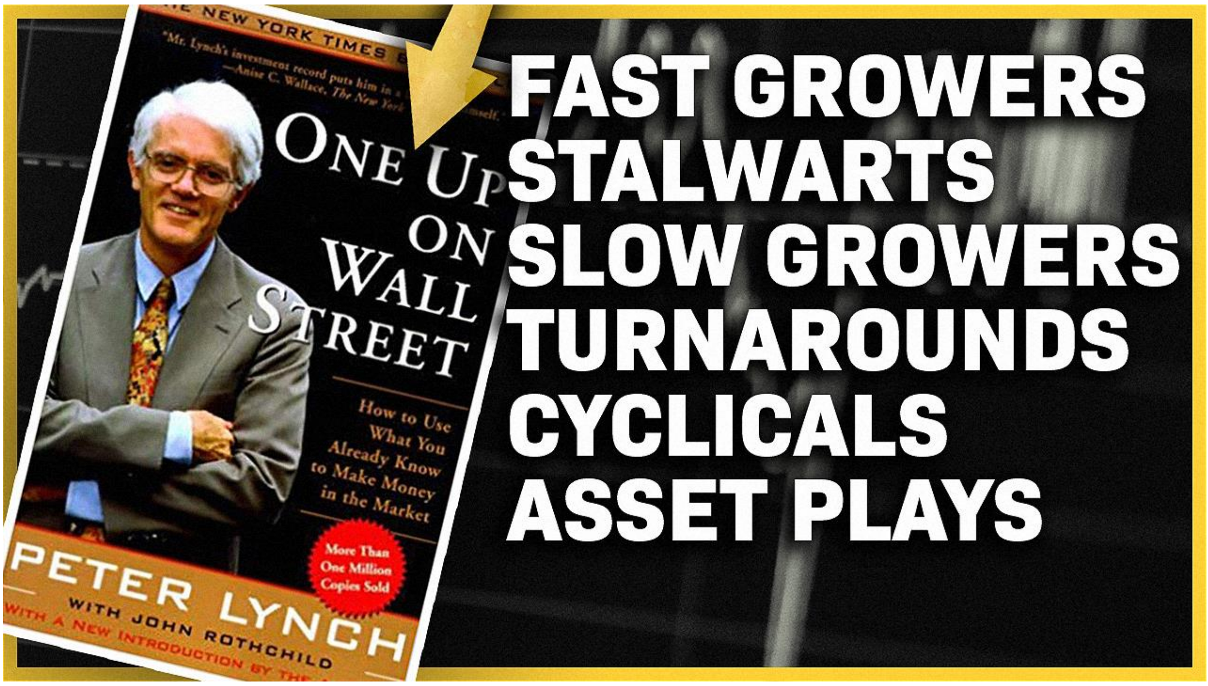
They still have two years to refinance the $1 billion loan, but the cost of it will depend on the business environment for the company.

We have now discussed the past for ALSN, and it looks really good. However, it is time to discuss the future because investing is about the future, unfortunately not about the past – that would make things easy.

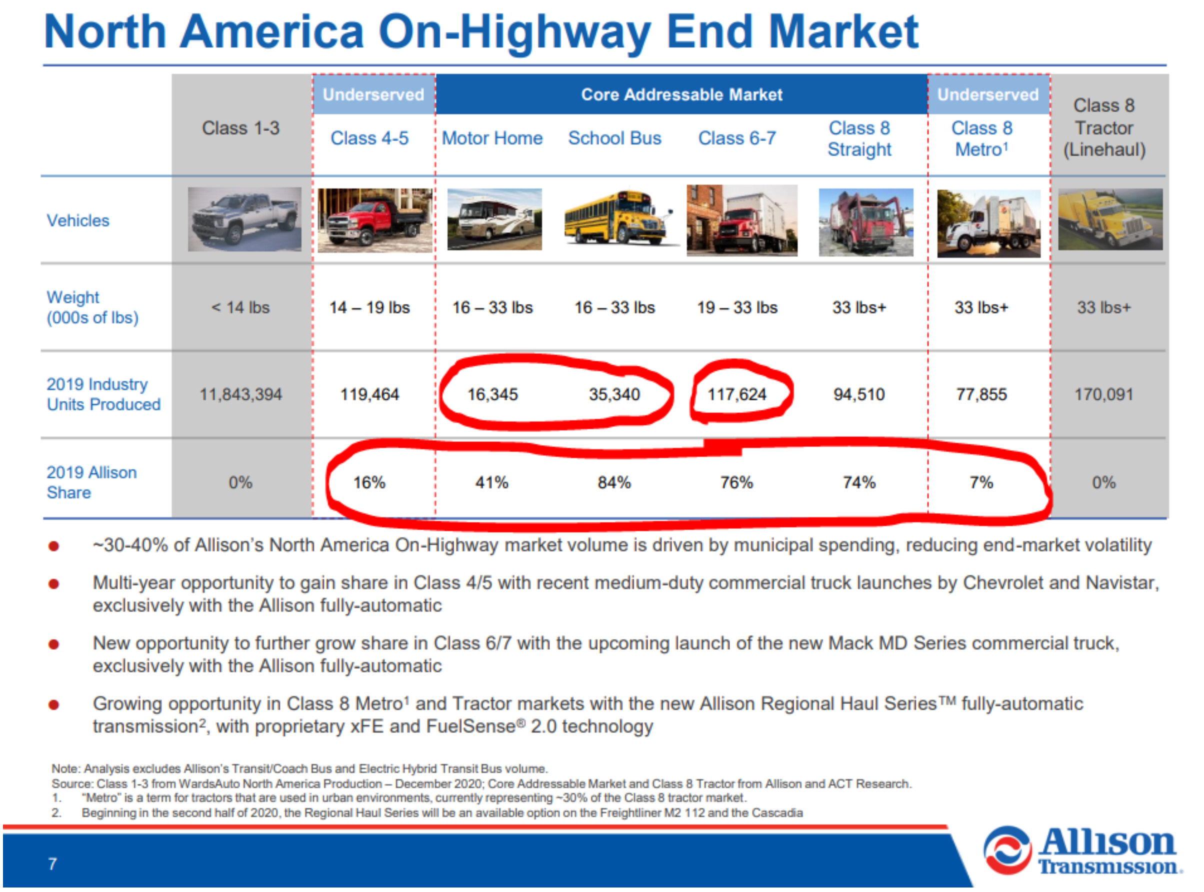
Allison Transmission stock analysis – outlook

For me, categorizing a stock into the 6 categories discussed in Peter Lynch's book One Up On Wall Street makes it much easier to know what to expect from a potential investment.



I would categorize ALSN's business as cyclical. Demand for its products depends on economic activity, interest rates and the general sentiment.

ALSN's market might be less cyclical than the Linehaul Class 8 market but it is still cyclical.



North America On-Highway End Market

		Underserved	Core Addressable Market				Underserved	
	Class 1-3	Class 4-5	Motor Home	School Bus	Class 6-7	Class 8 Straight	Class 8 Metro[1]	Class 8 Tractor (Linehaul)
Vehicles								
Weight (000s of lbs)	< 14 lbs	14 – 19 lbs	16 – 33 lbs	16 – 33 lbs	19 – 33 lbs	33 lbs+	33 lbs+	33 lbs+
2019 Industry Units Produced	11,843,394	119,464	16,345	35,340	117,624	94,510	77,855	170,091
2019 Allison Share	0%	16%	41%	84%	76%	74%	7%	0%

- ~30-40% of Allison's North America On-Highway market volume is driven by municipal spending, reducing end-market volatility
- Multi-year opportunity to gain share in Class 4/5 with recent medium-duty commercial truck launches by Chevrolet and Navistar, exclusively with the Allison fully-automatic
- New opportunity to further grow share in Class 6/7 with the upcoming launch of the new Mack MD Series commercial truck, exclusively with the Allison fully-automatic
- Growing opportunity in Class 8 Metro[1] and Tractor markets with the new Allison Regional Haul Series™ fully-automatic transmission[2], with proprietary xFE and FuelSense® 2.0 technology

Note: Analysis excludes Allison's Transit/Coach Bus and Electric Hybrid Transit Bus volume.
Source: Class 1-3 from WardsAuto North America Production – December 2020; Core Addressable Market and Class 8 Tractor from Allison and ACT Research.
1. "Metro" is a term for tractors that are used in urban environments, currently representing ~30% of the Class 8 tractor market.
2. Beginning in the second half of 2020, the Regional Haul Series will be an available option on the Freightliner M2 112 and the Cascadia

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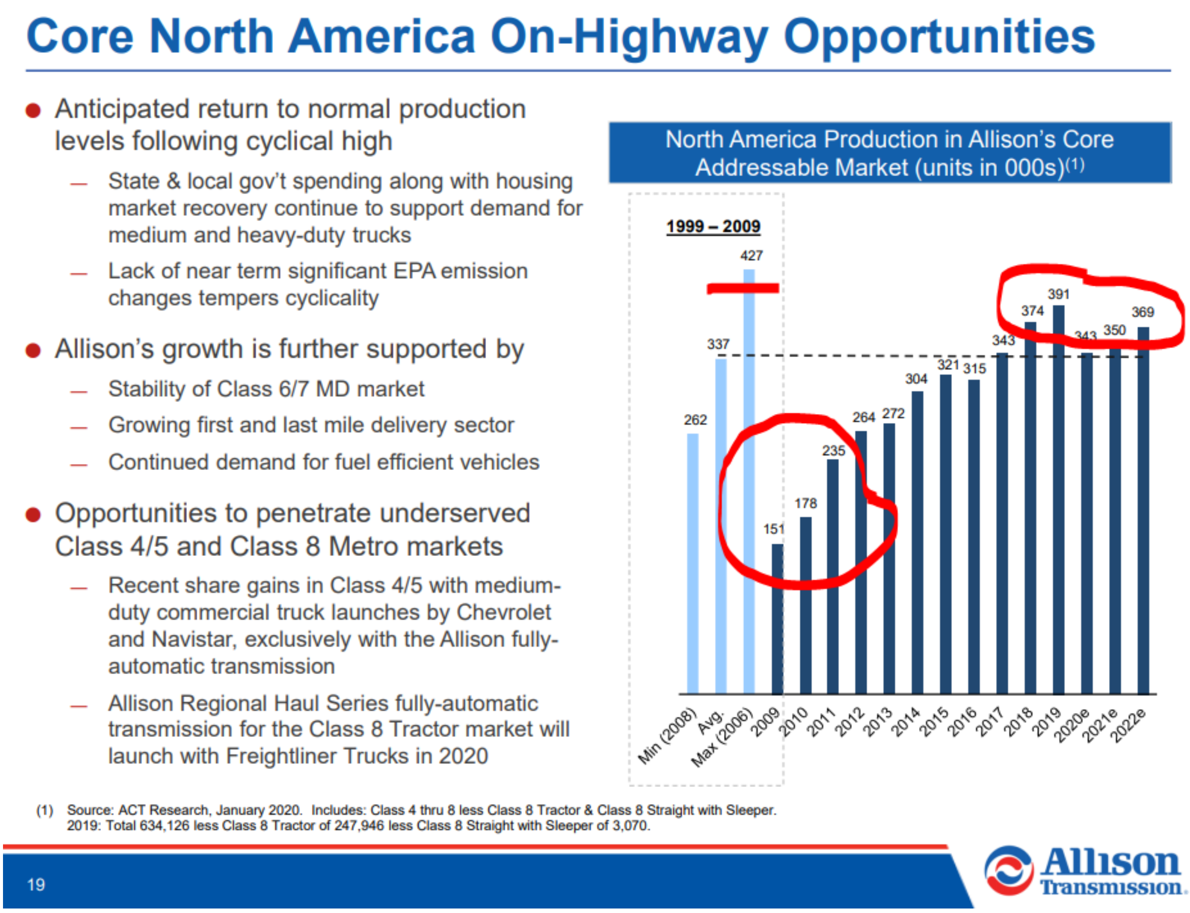
Allison Transmission

In 2009, the market fell 65% compared to the average of the previous 3 years and it took 6 years to recover to the previous long-term average as it never reached the previous cyclical highs.

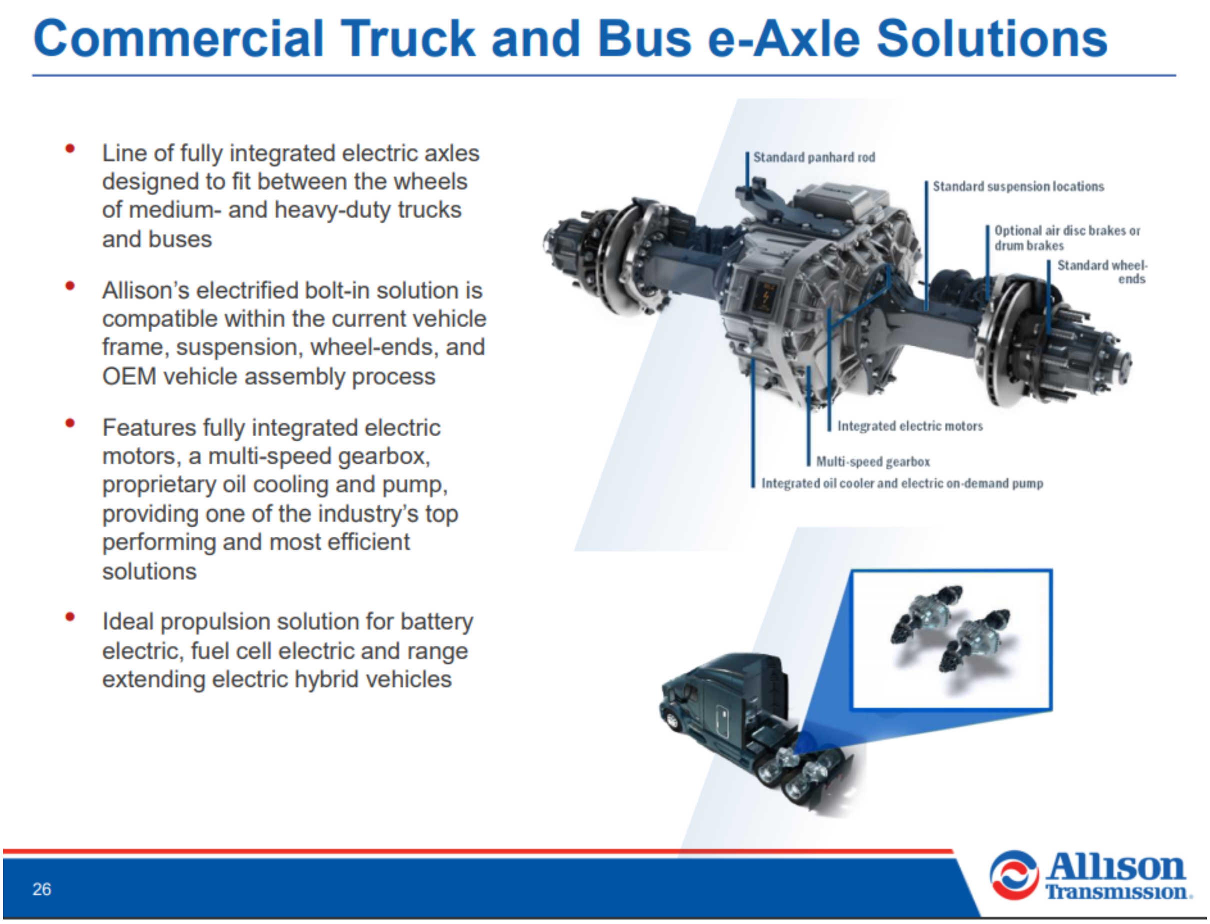


The question is, will there be more market growth or is it a market destined for a slow, but long structural decline due to the EV danger.

ALSN's market threat – Source: CNBC

However, they have two growth opportunities out there. One is to expand globally as they are doing by opening factories in Hungary and India.

The second growth opportunity comes from the hybrid business and new potential EV business. However, that is an area with high competition and they will likely not have the advantages they have in the traditional business thanks to their GM heritage.



Conclusion

The conclusion is simple. ALSN is a cyclical stock and the best time, the lower risk and higher reward investment opportunity with such businesses, is when the fundamentals start to improve, not heading into a recession.

Secondly, one must carefully watch the EV threat as it is fancy to buy an EV garbage truck. Maybe it is not feasible now, but going into the second part of this decade, there will be much more supply at lower prices where we don't know how will ALSN fare in that environment.

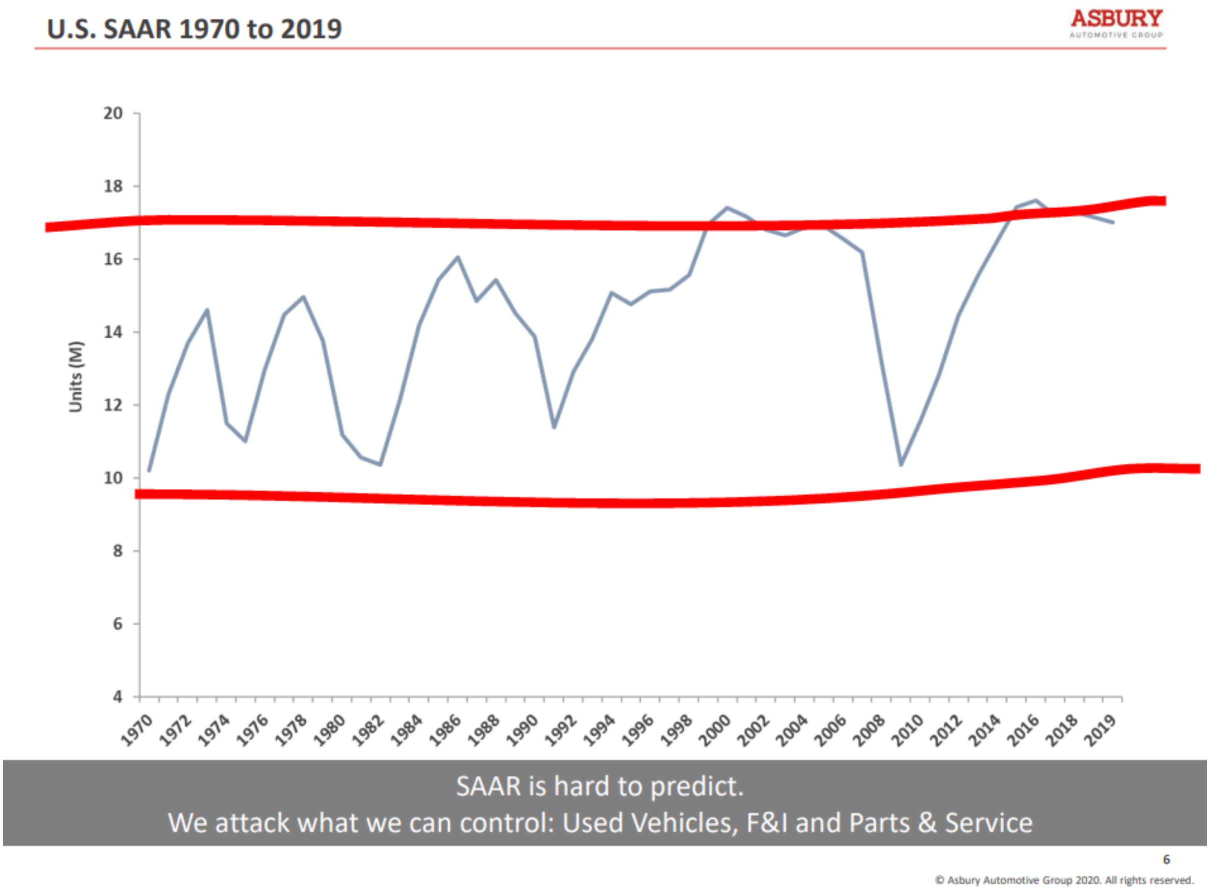
On a cash flow basis, the company is also still a bit expensive because we can expect it to see slow or even negative growth over the coming decade. On top of that the company has $2.5 billion in debt that will become a burden at some point in time (it always does in a cyclical industry).

Despite my cloudy outlook, I would say that if someone follows the company over the next decade, carefully assesses the technology, he or she might buy just before ALSN gets to a breakthrough. The positive situation might never materialize, but it might be worth to follow.

Asbury Automotive Group (ABG)

Asbury Automotive Group, Inc. (NYSE: ABG), is one of the largest automotive retailers in the U.S., with 2018 revenues of approx. $6.9 billion. Built through a combination of organic growth and strategic acquisitions, Asbury now operates 88 dealerships, encompassing 107 franchises for the sale and servicing of 31 different brands of American, European and Asian automobiles. Approximately 80% of sales are from import brands.

The company is definitely cyclical, as selling cars is. The below chart shows the extreme cyclicality of the US automotive market.



US Automotive sales - Source: [Investor presentation]

The company is also an uber cannibal as it lowered then number of shares outstanding from 33 million ten years ago to the current 19 million.

Asbury Automotive Group Inc ABG | ★★★★

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	3,936	4,276	4,640	5,334	5,867	6,588	6,528	6,457	6,874	7,210	7,210
Gross Margin %	16.5	16.9	16.5	16.4	16.5	16.1	16.2	16.4	16.0	16.2	16.2
Operating Income USD Mil	127	134	186	226	268	302	298	293	315	332	332
Operating Margin %	3.2	3.1	4.0	4.2	4.6	4.6	4.6	4.5	4.6	4.6	4.6
Net Income USD Mil	38	68	82	109	111	169	167	139	168	184	184
Earnings Per Share USD	1.14	2.08	2.61	3.51	3.71	6.41	7.40	6.62	8.28	9.55	9.55
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Payout Ratio % *	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	33	33	32	31	30	26	23	21	20	19	19
Book Value Per Share * USD	8.75	10.01	12.86	15.31	18.37	12.68	12.03	16.69	24.86	31.12	33.52
Operating Cash Flow USD Mil	10	-181	-20	51	84	155	142	266	10	350	350
Cap Spending USD Mil	-30	-71	-74	-87	-63	-102	-111	-54	-62	-72	-72
Free Cash Flow USD Mil	-20	-252	-96	-36	20	53	30	213	-52	278	278
Free Cash Flow Per Share * USD	-0.61	1.39	-3.03	-1.85	1.99	0.41	1.67	8.43	2.63	9.78	—
Working Capital USD Mil	242	156	206	274	235	335	228	244	249	356	—

* Indicates calendar year-end data information

Asbury Stock Analysis – Fundamentals – Source: Morningstar

Thanks to the heavy buyback activity the stock really exploded over the last 10 years.

Asbury Automotive Group, Inc.
NYSE: ABG

+ Follow

54,34 USD +5,30 (10,81%) ↑
Closed: 8 Apr, 16:07 GMT-4 · Disclaimer
After hours 54,34 0,00 (0,00%)

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max

Open	49,92	Div yield	-
High	55,38	Prev close	49,04
Low	49,86	52-wk high	123,44
Mkt cap	1,05B	52-wk low	39,36
P/E ratio	5,69		

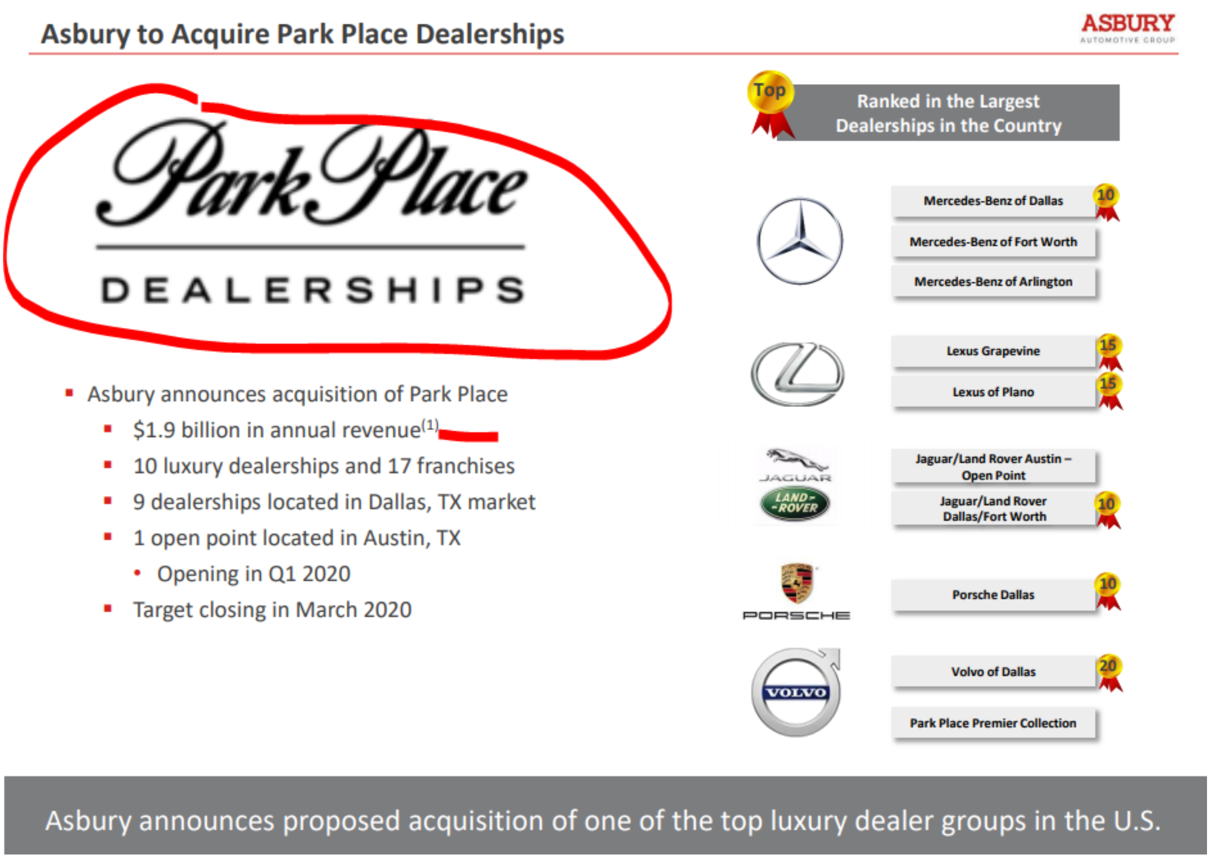
But, what is important and something I like, the buybacks weren't made all the time, only when the stock was relatively cheap. A rare situation in today's environment. Practically no buybacks have been done in 2019 as the stock was even above $100.

Name USD in Billion except per share data	2014	2015	2016	2017	2018	2019
Sales of Other Non-Current...	0.00	0.00	0.00	0.01	0.00	0.02
Total Purchase/Sale of Other ...	0.00	0.00	0.00	0.01	0.00	0.02
▼ Purchase/Sale of Investment P...						
Purchase of Investment Pro...	-0.02	—	—	—	—	—
Total Purchase/Sale of Invest...	-0.02	—	—	—	—	—
Other Investing Cash Flow	—	—	—	—	—	—
▼ Purchase/Sale of Investments, ...						
Sale of Investments	—	—	—	—	—	—
Total Purchase/Sale of Invest...	—	—	—	—	—	—
Total Cash Flow from Continuing I...	-0.23	-0.06	0.00	-0.13	-0.15	-0.23
Total Cash Flow from Investing Activi...	-0.23	-0.06	0.00	-0.13	-0.15	-0.23
▼ Cash Flow from Financing Activities						
▼ Cash Flow from Continuing Financ...						
▼ Issuance of/Payments for Com...						
Payments for Common Stock	-0.17	-0.31	-0.22	-0.04	-0.11	-0.02
Total Issuance of/Payments for...	-0.17	-0.31	-0.22	-0.04	-0.11	-0.02
▼ Issuance of/Repayments for D...						
▼ Issuance of/Repayments for...						
Proceeds from Issuance ...	3.77	4.15	3.87	3.88	4.61	4.37
Repayments for Short T...	-3.61	-4.17	-3.75	-3.92	-4.39	-4.51

Cash flow from 2015 to 2019 – Source: Morningstar

Asbury Automotive Stock Analysis – The business

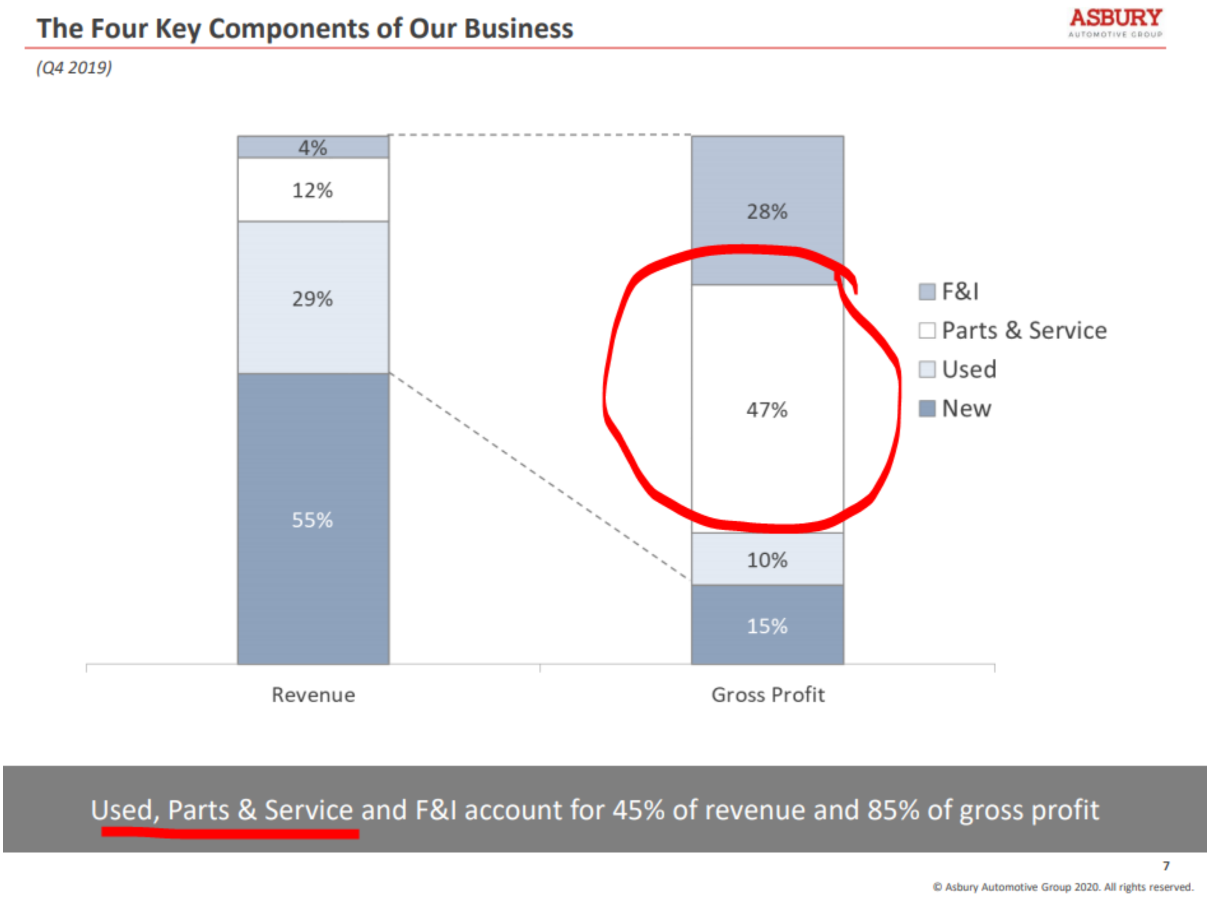
They have recently made an acquisition. It is in the luxury segment so sales will likely get hardly hit in 2020 even if they say luxury dramatically outperformed in 2009 and that is why they increased their brand mix to 50% luxury. I guess the rich get richer.



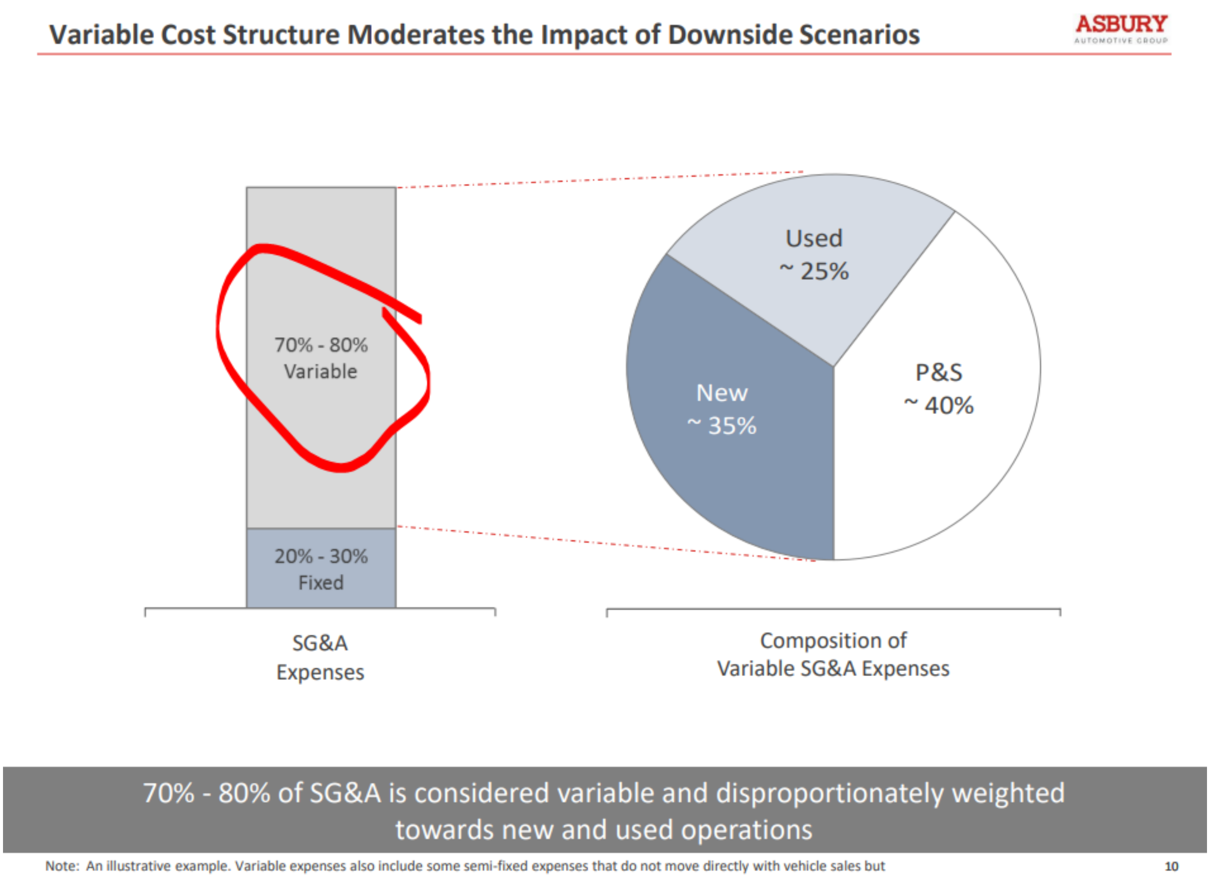
Source: Investor presentation

They paid a billion in cash on a 10x EBITDA multiple. However, they terminated the transaction due to the current environment.

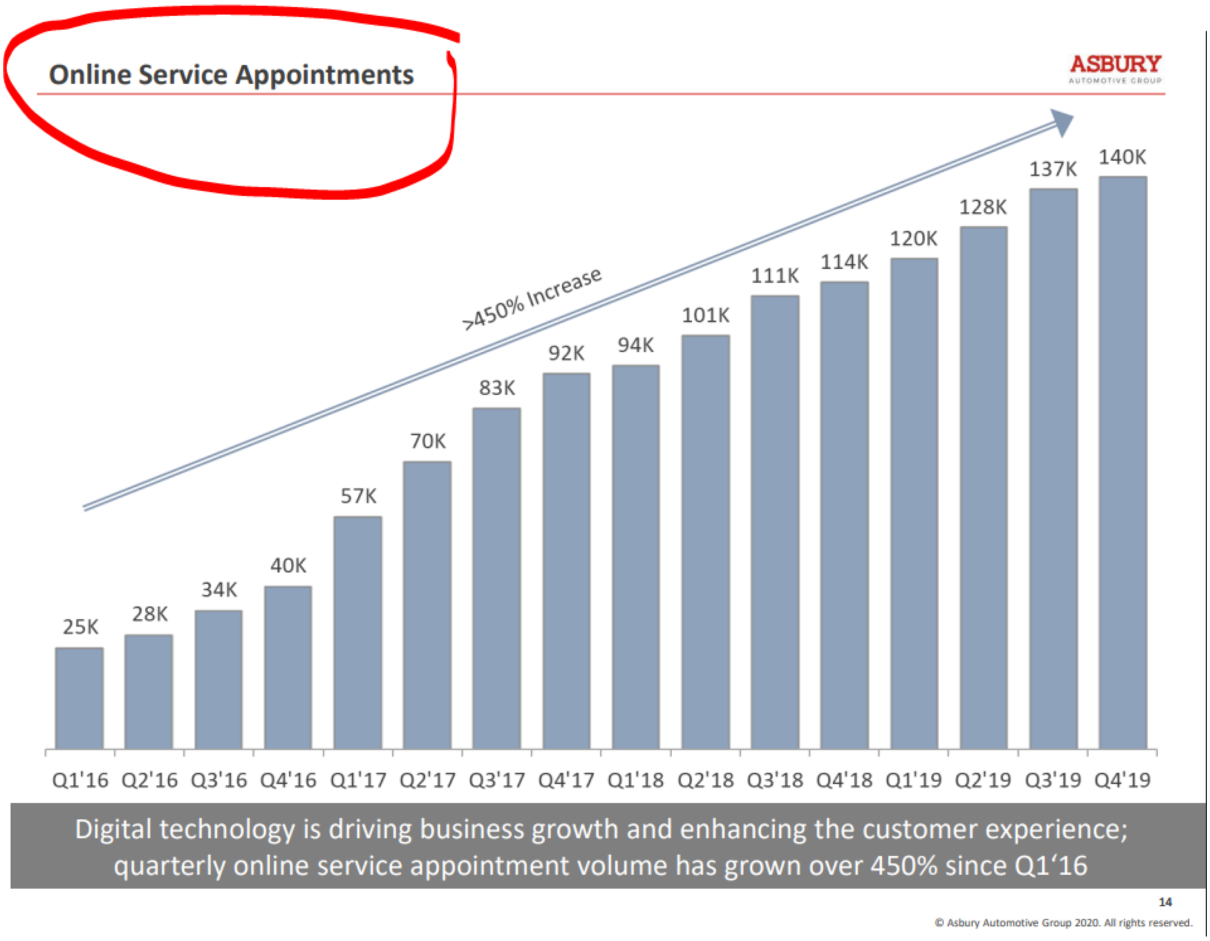
However, parts and services account for most of the profits.



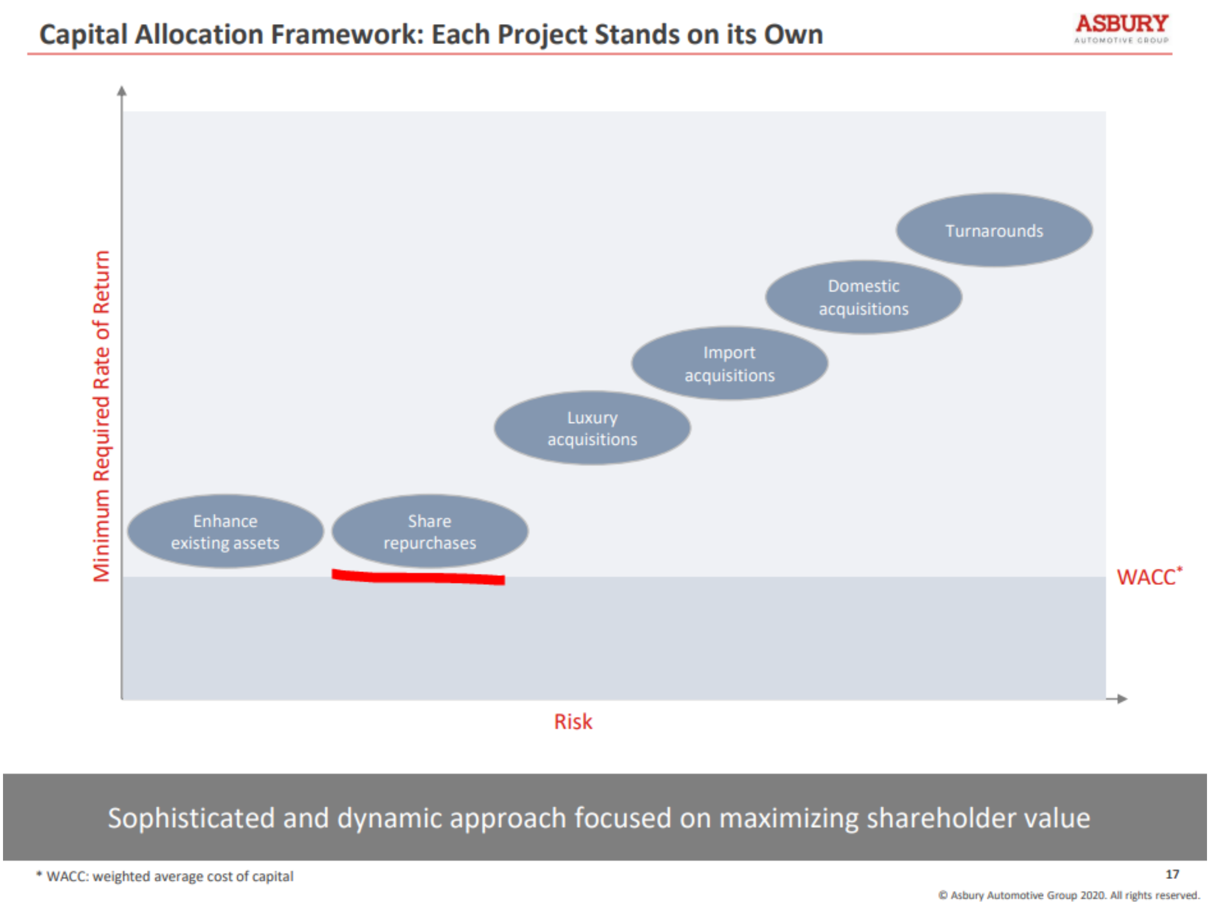
Another cyclical buffer is the variable cost structure of 70%.



It is a user of technology.



The have a good capital allocation structure.


Capital Allocation Framework: Each Project Stands on its Own
ASBURY
AUTOMOTIVE GROUP
Minimum Required Rate of Return
Turnarounds
Domestic acquisitions
Import acquisitions
Luxury acquisitions
Enhance existing assets
Share repurchases
WACC*
Risk
Sophisticated and dynamic approach focused on maximizing shareholder value
* WACC: weighted average cost of capital
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Transaction Summary

ASBURY AUTOMOTIVE GROUP

Transaction Scope	❑ Acquisition of Park Place Dealerships, including ▪ 10 luxury dealerships and 17 franchises in Dallas/Fort Worth/Austin ▪ Premier locations with first class facilities; 6 stores are in the top 20 in the U.S. ▪ Strategic growth opportunity with in-house auto auction
Consideration	❑ Transaction valued at approximately $1B in an all-cash transaction, excluding vehicles ▪ Approximately $30 mm of parts and fixed assets ▪ Approximately $215mm real estate portfolio, and ▪ $785mm Blue Sky value ❑ Reflects 10x multiple on approximately $100mm of EBITDA, including run-rate synergies ❑ $11mm annual goodwill cash tax savings - adds approximately $90 million in present value(1) ❑ Three year return on invested capital expected to be well above our cost of capital ❑ Expect to incur expenses of approximately $0.05-0.10 earnings per share in Q4 2019(2) ❑ Expected to be accretive to 2020 EPS by approximately $1.00 to $1.25, excluding transaction costs(3)
Synergy Potential & Integration Plan	❑ Synergies of at least $20 million identified with upside related to further operational improvements ❑ One-time transaction and integration costs of approximately $25 million
Financial	❑ Expected to be financed through a combination of existing credit facilities, cash flow from operations, and committed financing arrangements ❑ Maintain strong credit profile; deleverage from 4x to below 3x over 3 years ❑ Shifts brand mix to 50% luxury stores, which historically are more resilient in downturns
Anticipated Closing	❑ Transaction is expected to close in March 2020, subject to: ▪ OEM approvals ▪ Customary regulatory approvals

(1) Discounted at 9% (2) one-time transaction related (3) Assumes March 31, 2020 close

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The key here will be the balance sheet.

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ASBURY AUTOMOTIVE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except par value and share data)

	As of December 31, 2019	As of December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3.5	$ 8.3
Contracts-in-transit, net	194.7	198.3
Accounts receivable, net	136.2	130.3
Inventories, net	985.0	1,067.6
Assets held for sale	154.2	26.3
Other current assets	129.0	122.2
Total current assets	1,602.6	1,553.0
PROPERTY AND EQUIPMENT, net	909.7	886.1
OPERATING LEASE RIGHT-OF-USE ASSETS	65.6	—
GOODWILL	201.7	181.2
INTANGIBLE FRANCHISE RIGHTS	121.7	65.8
OTHER LONG-TERM ASSETS	10.0	9.3
Total assets	$ 2,911.3	$ 2,695.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Floor plan notes payable—trade, net	$ 130.3	$ 114.0
Floor plan notes payable—non-trade, net	657.7	852.1
Current maturities of long-term debt	32.4	38.8
Current maturities of operating leases	17.0	—
Accounts payable and accrued liabilities	308.7	298.4
Liabilities associated with assets held for sale	100.9	—
Total current liabilities	1,247.0	1,303.3
LONG-TERM DEBT	907.0	866.5
LONG-TERM LEASE LIABILITY	52.6	—
DEFERRED INCOME TAXES	26.0	21.7
OTHER LONG-TERM LIABILITIES	32.4	30.7
COMMITMENTS AND CONTINGENCIES (Note 20)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $.01 par value, 90,000,000 shares authorized; 41,072,080 and 41,065,069 shares issued, including shares held in treasury, respectively	0.4	0.4
Additional paid-in capital	582.9	572.9
Retained earnings	1,094.5	922.7
Treasury stock, at cost; 21,791,707 and 21,719,339 shares, respectively	(1,028.6)	(1,023.4)
Accumulated other comprehensive loss	(2.9)	0.6
Total shareholders' equity	646.3	473.2
Total liabilities and shareholders' equity	$ 2,911.3	$ 2,695.4

They have $900 million on debt and $787 million of floor plan notes that are notes received against inventory. Given the operating cash flows of $349 million in 2019, there shouldn't be such a big problem there.

Valuation

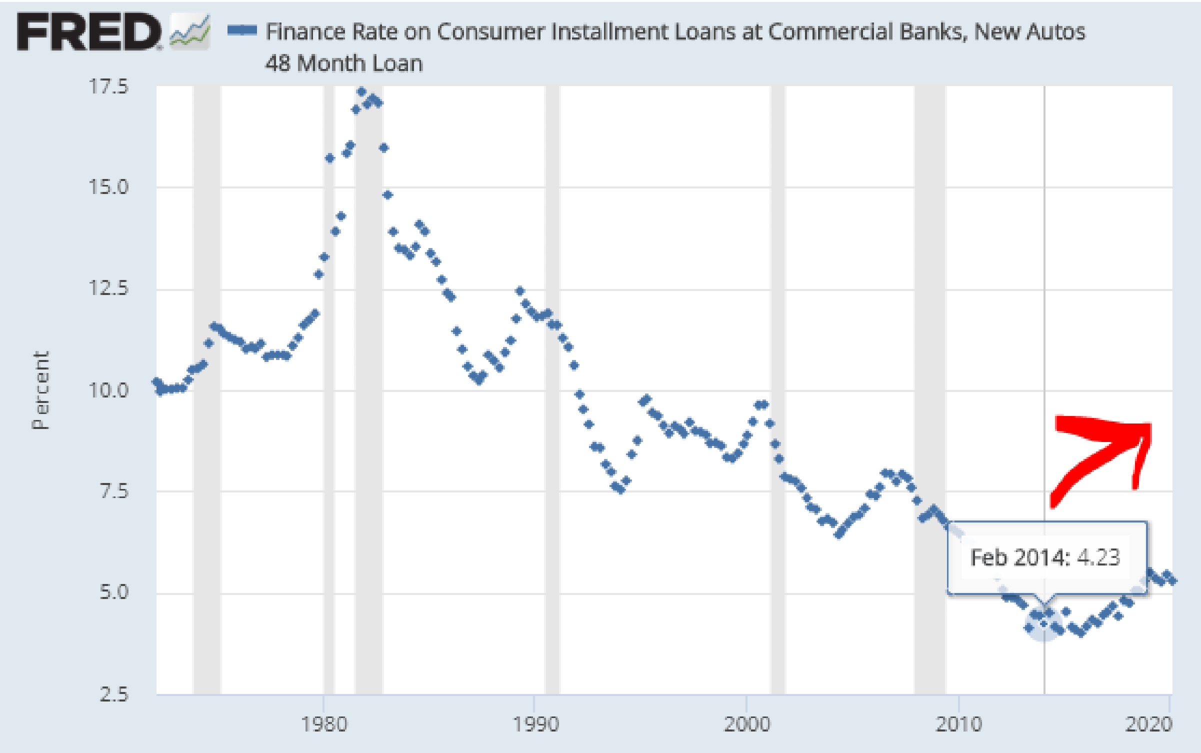
All in all, this company will likely make about $100 million per year from a conservative standpoint. They will also make acquisitions so they might grow.

I don't know about the dealership trends in the US which is definitely something to watch and follow before investing.

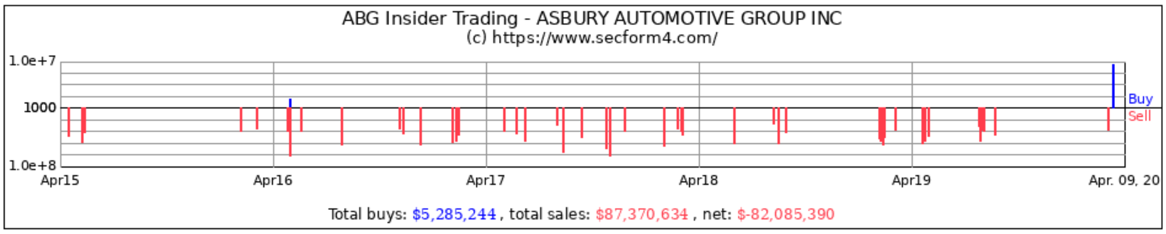
I don't think there will be buybacks in this environment so it isn't really an uber cannibal at the moment. However, when the situation starts improving, it might be interesting to follow earnings.

$100 million on the current market cap of around $1 billion is a 10% long-term return. Add a few percentages for growth and you get to a nice double-digit return.

A note here, the key for luxury car purchases is cheap money. Interest rates on automotive loans have been going up, predicting a recession as always.



Source: [FRED]



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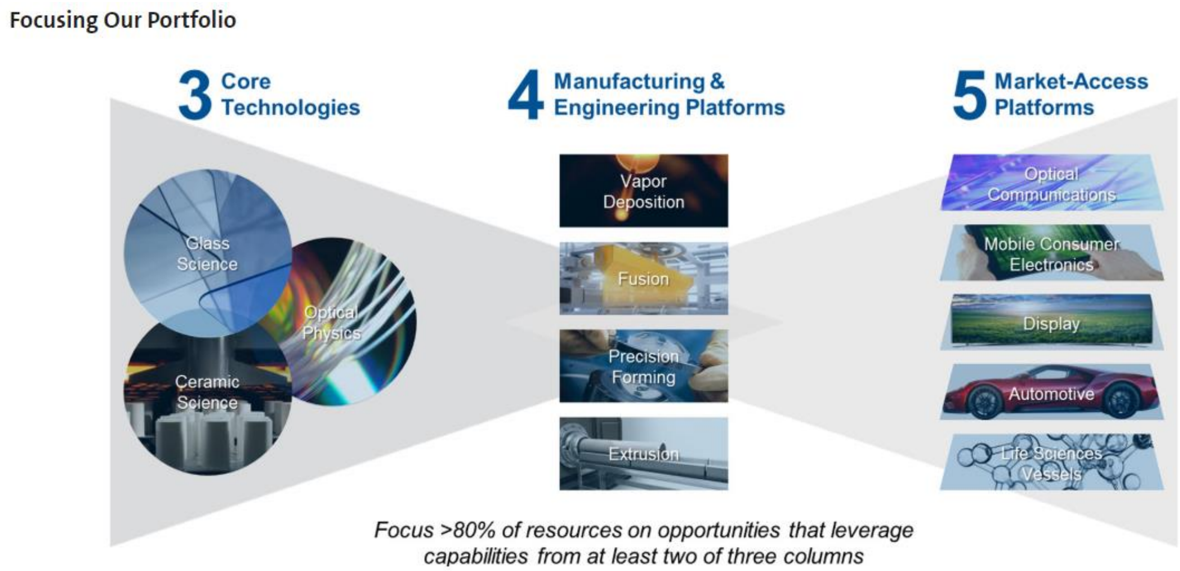
Common stock purchase or sale:

Transaction Date	Reported DateTime	Company	Symbol	Insider Relationship	Shares Traded	Average Price	Total Amount	Shares Owned	Filing
2020-03-18 Purchase	2020-03-20 4:30 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	ABRAMS CAPITAL MANAGEMENT L.P. ABRAMS CAPITAL MANAGEMENT LLC ABRAMS CAPITAL LLC Abrams David C Abrams Capital Partners II L.P. 10% Owner	121,876	$43.27	$5,273,620	2,118,216 (Indirect)	View
2020-03-10 Sale	2020-03-12 5:11 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Katz Eugene S Director	1,000	$78.43	$78,430	20,039 (Direct)	View
2019-08-27 Sale	2019-08-28 4:03 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	DELOACH THOMAS C JR Director	2,000	$91	$182,000	15,703 (Direct)	View
2019-08-07 Sale	2019-08-09 4:14 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	JAMES JUANITA T Director	1,000	$92.21	$92,210	7,299 (Direct)	View
2019-08-06 Sale	2019-08-06 4:02 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Milstein Jed VP	900	$92.52	$83,268	10,374 (Direct)	View
2019-08-02 Sale	2019-08-02 4:06 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	DELOACH THOMAS C JR Director	8,000	$91.71	$733,680	17,703 (Direct)	View
2019-08-01 Sale	2019-08-01 4:20 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Stax William Frederick CAO	424	$90.35	$38,308	3,464 (Direct)	View
2019-05-06 Sale	2019-05-08 4:31 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Katz Eugene S Director	3,000	$80.7	$242,100	20,122 (Direct)	View
2019-04-30 Sale	2019-05-01 4:17 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Goodman Sean D. CFO	3,299	$79.77	$263,161	26,183 (Direct)	View
2019-04-29 Sale	2019-05-01 4:15 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Villasana George A VP	9,000	$79.39	$714,510	7,115 (Direct)	View
2019-04-24 Sale	2019-04-26 4:48 pm	ASBURY AUTOMOTIVE GROUP INC	ABG	Hult David W CEO	15,000	$79.25	$1,188,754	59,579 (Direct)	View

A big owner increased the position a bit lately.

Corning (GLW)

Corning Incorporated (GLW) is an American multinational technology company that operates in five segments: display technologies, optical communications, environmental technologies, specialty materials, and life sciences. Now, GLW is not just a glass company, it is about the touch screens you use, the optical cables, specialty materials and laboratory equipment (new FDA approved glass for pills – Valor glass) which makes it a very interesting play over time as it is exposed to many structural trends out there. (smartphones, TV, automotive screens, 5G etc.)



Corning business – Source: IR

Interesting facts; Sold 50% of Dow Corning in 2016 for $4.8 billion in cash and 50% stake in Hemlock Semiconductor.

Issued a 60-year bond in 2019 with a coupon of 5.5%.

Sources for future reference: 2019 Investor Day – 2020 day will be worth watching.

Corning Stock Analysis

The stock had some crazy movement in 2000 when it was connected to fiber sales as the internet was supposed to explode and does usually really bad in a recession. That is logical as construction and industry depends on the economy.

The stock is where it was 20 years ago but the fundamentals (revenue, returns to shareholders, share count) have all improved severely over the last few years. Could this be a gem that the market is overlooking due to its complexity and cyclicality? That is what we are going to find out.

Let's take a look at fundamentals.

Corning Inc GLW | ★★★★

Financials

Export Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12
Revenue USD Mil	6,632	7,890	8,012	7,819	9,715	9,111	9,390	10,116	11,290	11,503
Gross Margin %	46.0	45.2	42.4	42.5	41.7	40.1	39.9	39.9	39.5	35.1
Operating Income USD Mil	1,423	1,847	1,551	1,513	1,993	1,307	1,468	1,630	1,575	1,306
Operating Margin %	21.5	23.4	19.4	19.4	20.5	14.3	15.6	16.1	14.0	11.4
Net Income USD Mil	3,558	2,805	1,728	1,961	2,472	1,339	3,695	-497	1,066	960
Earnings Per Share USD	2.25	1.78	1.09	1.34	1.73	1.00	3.23	-0.66	1.13	1.07
Dividends USD	0.20	0.23	0.32	0.39	0.40	0.48	0.54	0.62	0.72	0.80
Payout Ratio % *	8.9	9.4	27.4	31.4	30.1	30.3	26.3	25.9	—	58.2
Shares Mil	1,581	1,583	1,506	1,462	1,427	1,343	1,144	895	941	899
Book Value Per Share * USD	12.41	14.28	14.62	15.55	15.29	15.66	16.65	19.19	14.71	14.09
Operating Cash Flow USD Mil	3,835	3,189	3,206	2,787	4,709	2,809	2,521	2,004	2,919	2,031
Cap Spending USD Mil	-1,007	-2,432	-1,801	-1,019	-1,076	-1,250	-1,130	-1,804	-2,310	-1,987
Free Cash Flow USD Mil	2,828	757	1,405	1,768	3,633	1,559	1,391	200	609	44
Free Cash Flow Per Share * USD	1.79	1.25	0.93	1.04	2.65	1.22	0.78	0.93	0.74	-0.30
Working Capital USD Mil	6,873	6,580	7,739	7,145	7,914	5,455	6,297	5,618	3,723	3,942

* Indicates calendar year-end data information

Revenues have been growing steadily – we are looking at 10% growth. Margins are high, 35% gross margins give room for flexibility and indicate the product is strong. Earnings have been volatile but operating cash flows are always positive, going from $2 to $4 billion. The capital expenses are really high and take away most of the cash flows, but we have to see where is that money going and what will be the return on capital on the high capex investments.

The company has managed to half the number of shares outstanding over the last 10 years, remarkable. They have $7 billion of long-term debt and $7 billion of lease capital obligations.

Payments for common stocks (buybacks) have been high while the stock was high. A good opportunistic perspective.

▼ **Name** USD in Billion except per share data	2014	2015	2016	2017	2018	2019	TTM
▼ Cash Flow from Continuing Financ…							
▼ Issuance of/Payments for Com…							
Payments for Common Stock	2.48	-3.23	-4.23	-2.45	-2.23	-0.94	-0.94
Total Issuance of/Payments for…	2.48	-3.23	-4.23	-2.45	-2.23	-0.94	-0.94
▼ Issuance of/Repayments for D…							
▼ Issuance of/Repayments for…							

Corning Incorporated
NYSE: GLW

+ Follow

21,18 USD +0,61 (2,97%) ↑
Closed: 9 Apr, 18:50 GMT-4 · Disclaimer
After hours 21,25 +0,070 (0,33%)

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max

Open	20,64	Div yield	4,15%
High	21,63	Prev close	20,57
Low	20,62	52-wk high	35,34
Mkt cap	16,15B	52-wk low	17,44
P/E ratio	19,83		

They practically spend approximately $10 billion on buybacks over the last 10 years. That is a billion a year, add the dividend of 4% and you are at a return of 10% without calculating the possible growth in the future.

Conference call reading notes (red is my comment, black is quote):

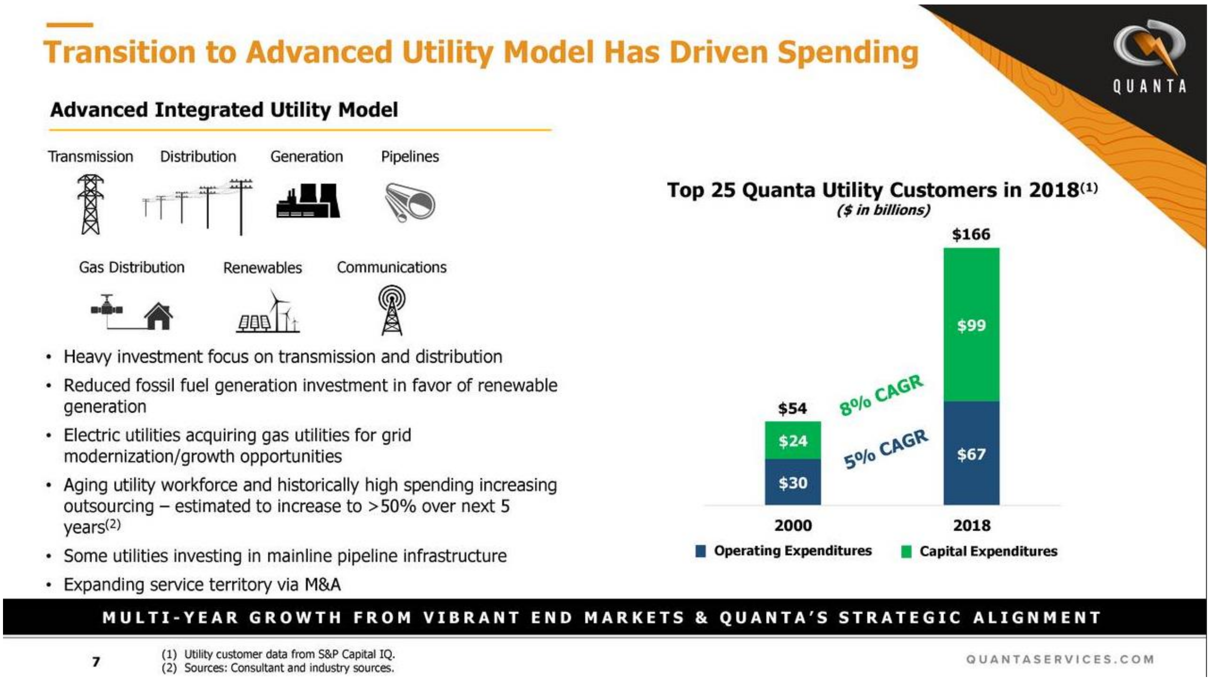
- After two years of strong growth, slower markets
- "We met or exceeded all of the goals of our 2016 to 2019 Strategy and Capital Allocation Framework, including returning more than $12.5 billion to shareholders over four years through share repurchases and a 67% dividend per share increase, all while creating a better, stronger, more resilient company." That is 75% of the market cap in 4 years – a return of almost 20%.
- "From 2020 to 2023, we expect to deliver 6% to 8% compound annual sales growth and 12% to 15% compound annual EPS growth; expand operating margin and return on invested capital, invest between $10 billion and $12 billion with a focus on organic growth. And return $8 billion to $10 billion to shareholders through a combination of dividend increases and opportunistic share repurchases." $8 billion return over 4 years, that is $2 billion per year – thus a 12.5% return in a normal environment at current market capitalization of $16 billion.
- It is a picks and shovels company – customers are Apple, Intel, Verizon etc.
- SO GLASS – screens, double screen smart phone
- FIBER – 5G exposure
- Mobile Consumer Electronics – doubling sales
- "Apple announced that it is awarding $250 million from its advanced manufacturing fund to Corning, building on the $200 million we received from Apple's fund in 2017. Both investments support Corning's state-of-the-art glass processes, equipment and materials integral to the delivery of next-generation consumer devices." Customers make investments too, this creates high switching costs and a moat
- "Automotive market, our goal is to double sales by 2023" This is possible, even if sales in 2020 and 2021 will likely be slow – even if double by 2025 is good, when the EV data trend in automotive really takes hold.
- Life sciences "We exceeded $1 billion in sales in our Life Sciences segment as adoption of our industry-leading bioprocess and advanced cell culture products continues, driving our organic growth rate 7%."

All in all, this looks like a very interesting company, 8% of sales go for R&D, which is the highest lever amongst competitors. Something good should come out of that long-term.

This is a business that will go on my watch list. This means that I'll learn it in depth, understand it and maybe buy it when the time is right.

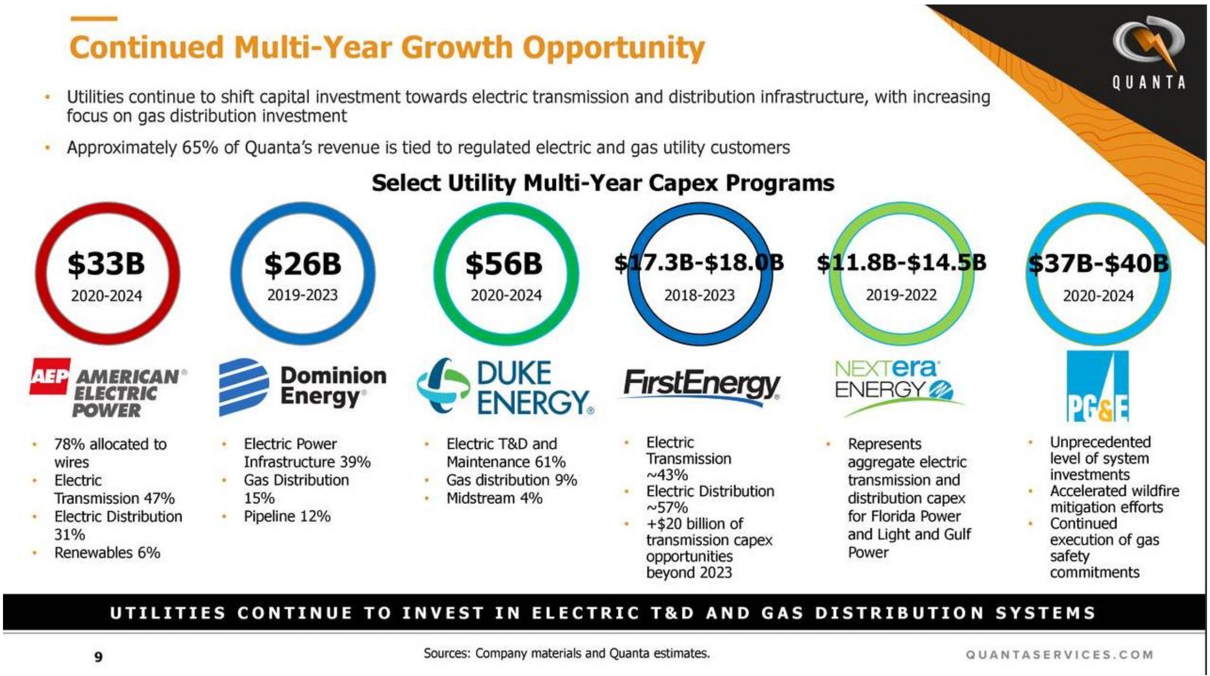
Quanta Services (NYSE: PWR)

Quanta Services (PWR) is an American corporation that provides infrastructure services for electric power, pipeline, industrial and communications industries. Capabilities include the planning, design, installation, program management, maintenance and repair of most types of network infrastructure. In short, PWR builds utility infrastructure. They are mostly in the electric distribution and transmission business with significant exposure to gas.



Quanta Services Business – Source: Investor Relations

The utilities have high capital investment programs forecasts and thus there should be a lot of work ahead for PWR.

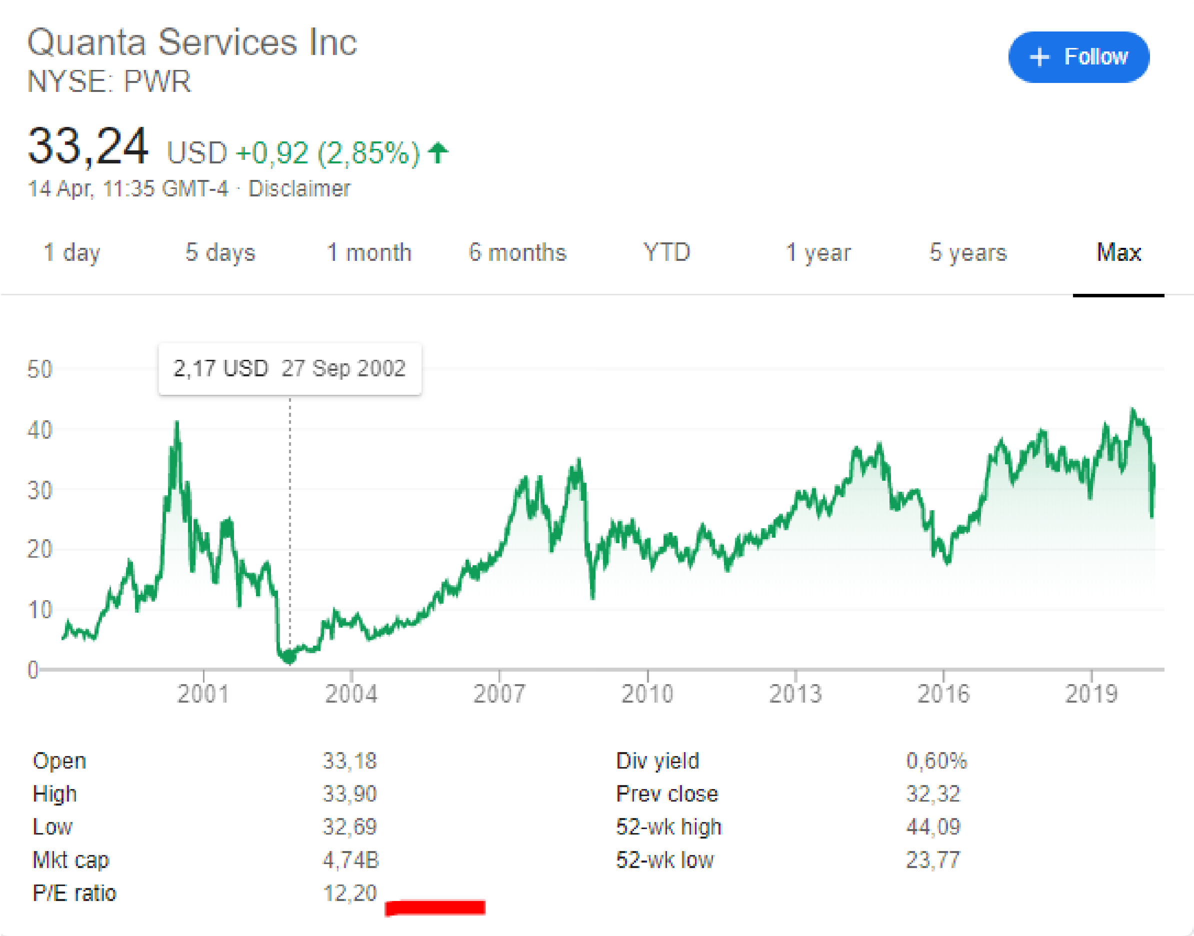


Quanta Services Business – Source: Investor Relations

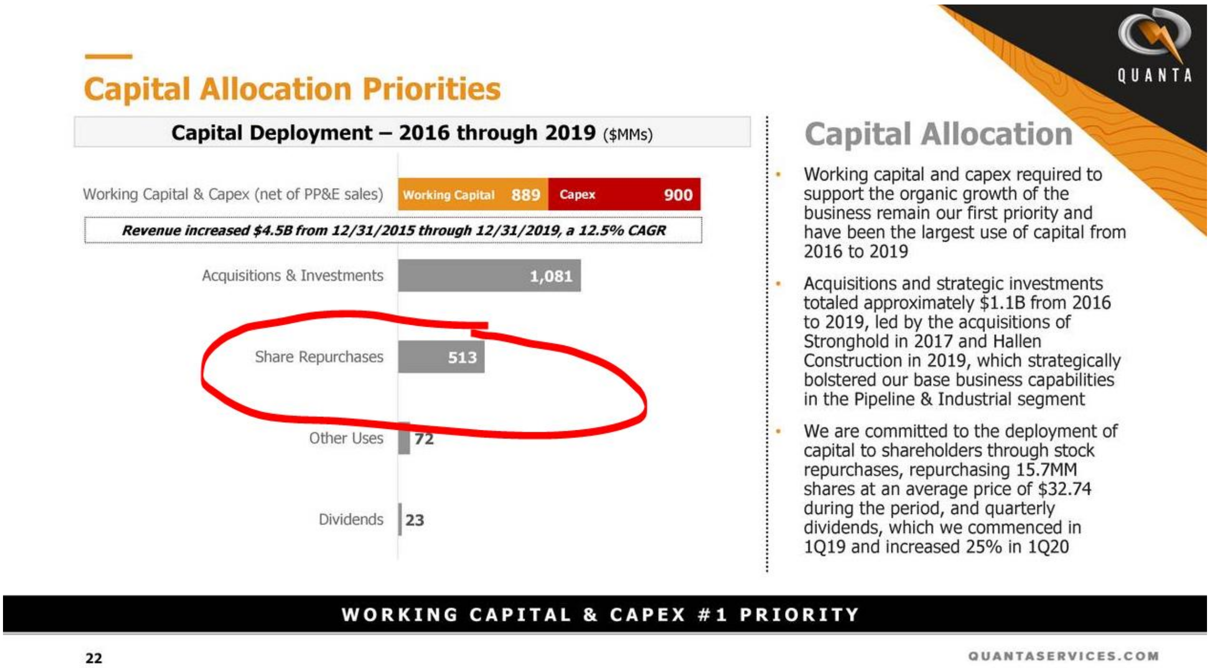
They are guiding for free cash flows of above $400 million, that would lead to a double digit free cash flow yield at current prices.

Quanta services stock analysis

The stock price has been volatile over the years.



They are committed to reward shareholders through buybacks and dividends.



Quanta Services Business – Source: [Investor Relations]

Quanta Services stocks analysis – fundamental analysis

Despite the stock being volatile, revenues have been growing, margins look relatively stable, earnings have almost quadrupled over the last 10 years, the number of shares is down 33%, book value is up and cash flows are positive. Thus, all looks good.

Quanta Services Inc PWR

Financials

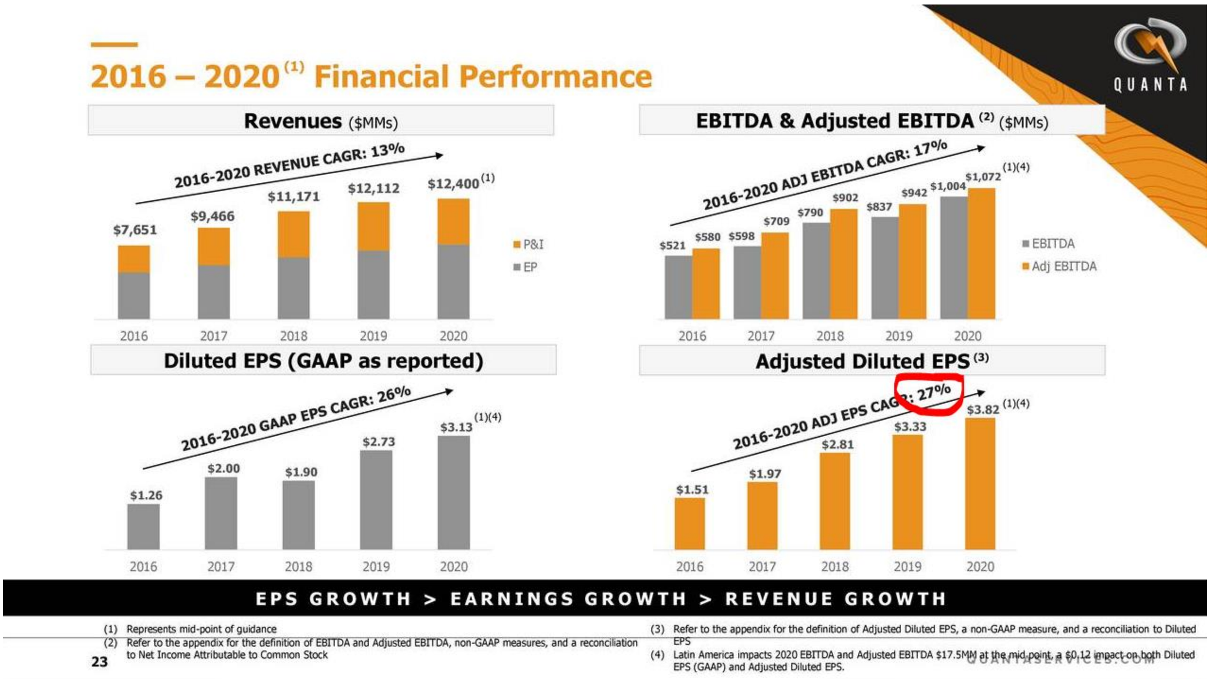
Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	3,931	4,624	5,920	6,523	7,851	7,572	7,651	9,466	11,171	12,112	12,112
Gross Margin %	16.1	13.4	15.8	16.2	15.7	12.2	13.3	13.1	13.2	13.2	13.2
Operating Income USD Mil	256	218	465	527	476	296	329	432	578	582	582
Operating Margin %	6.5	4.7	7.9	8.1	6.1	3.9	4.3	4.6	5.2	4.8	4.8
Net Income USD Mil	153	133	307	402	297	311	198	315	293	402	402
Earnings Per Share USD	0.72	0.62	1.44	1.87	1.35	1.59	1.26	2.00	1.90	2.73	2.73
Dividends USD	—	—	—	—	—	—	—	—	0.04	0.17	0.17
Payout Ratio % *	—	—	—	—	—	—	—	—	—	6.9	6.2
Shares Mil	212	213	213	215	220	195	157	157	154	148	148
Book Value Per Share * USD	15.91	15.98	17.67	18.86	21.21	20.86	22.62	24.31	27.09	27.45	28.41
Operating Cash Flow USD Mil	240	218	106	447	311	641	380	372	359	527	527
Cap Spending USD Mil	-150	-172	-211	-264	-302	-210	-213	-245	-308	-262	-262
Free Cash Flow USD Mil	91	46	-105	183	9	430	168	128	51	264	264
Free Cash Flow Per Share * USD	0.43	0.86	-0.49	0.50	-0.17	1.94	1.48	0.73	0.75	-1.71	—
Working Capital USD Mil	1,096	984	1,321	1,270	1,417	1,074	1,084	1,378	1,520	1,568	—

* Indicates calendar year-end data information

Quanta Services Stock Fundamentals – Source: [Morningstar]

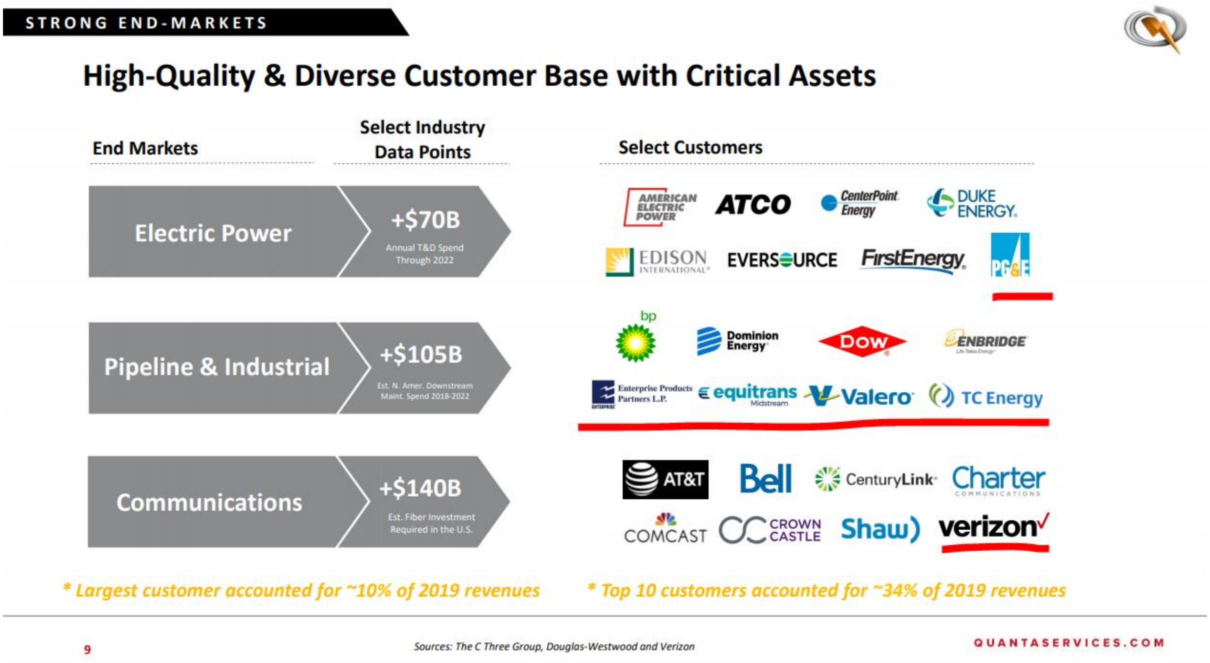
Furhter, the company has increased earnigns by 27% CAGR over the past years.



Quanta Services Business – Source: [Investor Relations]

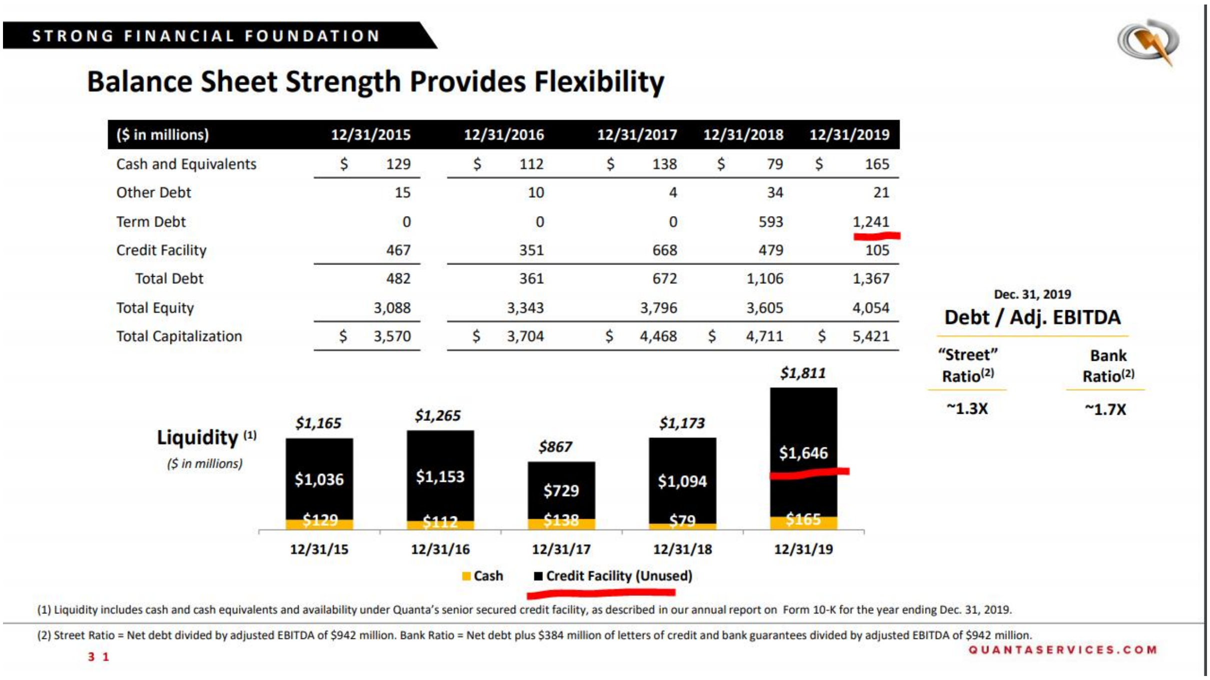
Despite the remarkable performance, the stock didn't move much over the past decade. But, the stock was down almost 50% during the bear market of 2020 (if we can already call it that way).

The fact that the stock moved that fast, at a higher beta than the market, could mean it is riskier. The reason behind the increased risk are the customers. If there is less economic activity, all the infrastructure builders will lower their capital expenditures and PWR might see lower activity. So, it is a typical cycle stock.



Quanta Services Customers – Source: Investor Relations

Despite the fact that they have taken on some debt to do acquisitions, it is unlikely they will be at any kind of risk for shareholders as the total debt is $1.2 billion on equity of $4 billion.



($ in millions)	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Cash and Equivalents	$ 129	$ 112	$ 138	$ 79	$ 165
Other Debt	15	10	4	34	21
Term Debt	0	0	0	593	1,241
Credit Facility	467	351	668	479	105
Total Debt	482	361	672	1,106	1,367
Total Equity	3,088	3,343	3,796	3,605	4,054
Total Capitalization	$ 3,570	$ 3,704	$ 4,468	$ 4,711	$ 5,421

PWR stock equity and debt - Source: [Investor Relations]

From 2015 to 2019 they have bought back half of the current market capitalization. On a smaller number of shares outstanding, if they do it again, the results should continue to be staggering.

Another one to go to the watch list.

Sleep Number (SNBR)

This stock has been a 263 bagger from December 2008 to a few months ago, very interesting.

The company has achieved a nice growth over the last 10 years, margins are pretty stable, earnings have grown and they have managed to almost half the number of shares outstanding. They are doing that buy using all the available cash possible and also by increasing debt.

Sleep Number Corp SNBR

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	606	743	935	960	1,157	1,214	1,311	1,444	1,532	1,698	1,698
Gross Margin %	62.5	63.3	63.8	62.7	61.1	61.0	61.8	62.1	60.6	61.9	61.9
Operating Income USD Mil	53	91	126	90	102	75	77	92	92	112	112
Operating Margin %	8.7	12.2	13.4	9.4	8.8	6.2	5.8	6.4	6.0	6.6	6.6
Net Income USD Mil	32	60	78	60	68	51	51	65	70	82	82
Earnings Per Share USD	0.57	1.07	1.37	1.08	1.25	0.97	1.10	1.55	1.92	2.70	2.70
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Payout Ratio % *	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	55	56	57	56	54	52	47	42	36	30	30
Book Value Per Share * USD	1.05	1.95	3.46	4.12	4.67	5.37	4.05	2.69	-1.76	-5.88	-5.64
Operating Cash Flow USD Mil	71	91	101	88	144	108	152	173	132	189	189
Cap Spending USD Mil	-7	-24	-52	-77	-77	-86	-58	-60	-46	-59	-59
Free Cash Flow USD Mil	64	68	49	11	68	22	94	113	86	130	130
Free Cash Flow Per Share * USD	1.16	1.01	0.86	0.36	1.03	1.15	1.22	2.91	1.97	4.10	—
Working Capital USD Mil	20	72	78	52	46	-27	-87	-154	-338	-434	—

* Indicates calendar year-end data information

Source: [Morningstar]

So, when you have negative book value, any kind of economic issue creates a lot of trouble, like it has been the case in 2002 and 2009. The equity is negative $159 million but they keep lowering the number of shares outstanding that is now at 27 million.

So, with them buybacks are good at any price and they are using all the available cash to do buybacks.

▼ Cash Flow from Continuing Financ...							
▼ Issuance of/Payments for Com...							
Proceeds from Issuance of ...	2.87	2.98	2.30	3.24	2.79	7.19	7.19
Payments for Common Stock	6.49	-100.20	-126.69	-155.25	-272.45	-165.08	-165.08
Total Issuance of/Payments for...	3.62	-97.23	-124.40	-152.00	-269.66	-157.89	-157.89
▼ Issuance of/Repayments for D...							

This is too risky for me to look deeper into..!!!...!!!...!!!...!!!

Alphabet (GOOG)

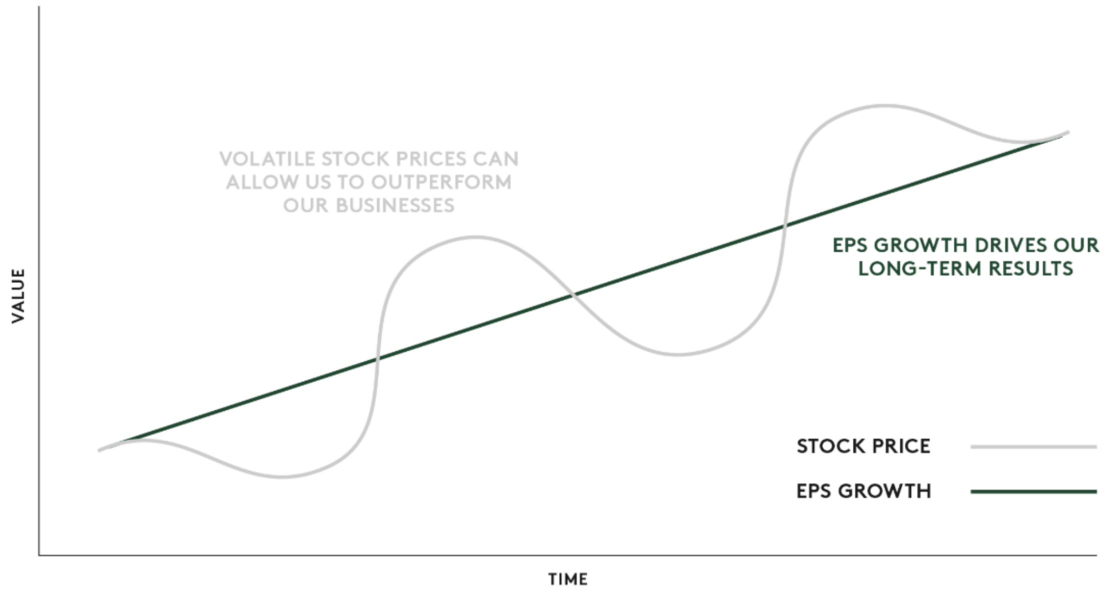
Google is the top position of the Sequoia Fund, a legendary fund set up by Bill Ruane, a student of Benjamin Graham. The strategy is pretty simple. First, you have to focus on the long-term.

What Matters Over 1 Year	What Matters Over 10 Years
Over the course of a year, a stock's price will sway with the vicissitudes of the market. Factors like the political climate, investor sentiment and quarterly sales trends can move the stock price in unpredictable ways.	Over the long term, a stock's price reflects underlying fundamentals. These in turn are driven by the competitive position of the business, the quality of management and the long term trajectory of per share earnings power.
Inherently unpredictable (at least for us...)	**Understandable, more often than not (with a lot of hard work...)**

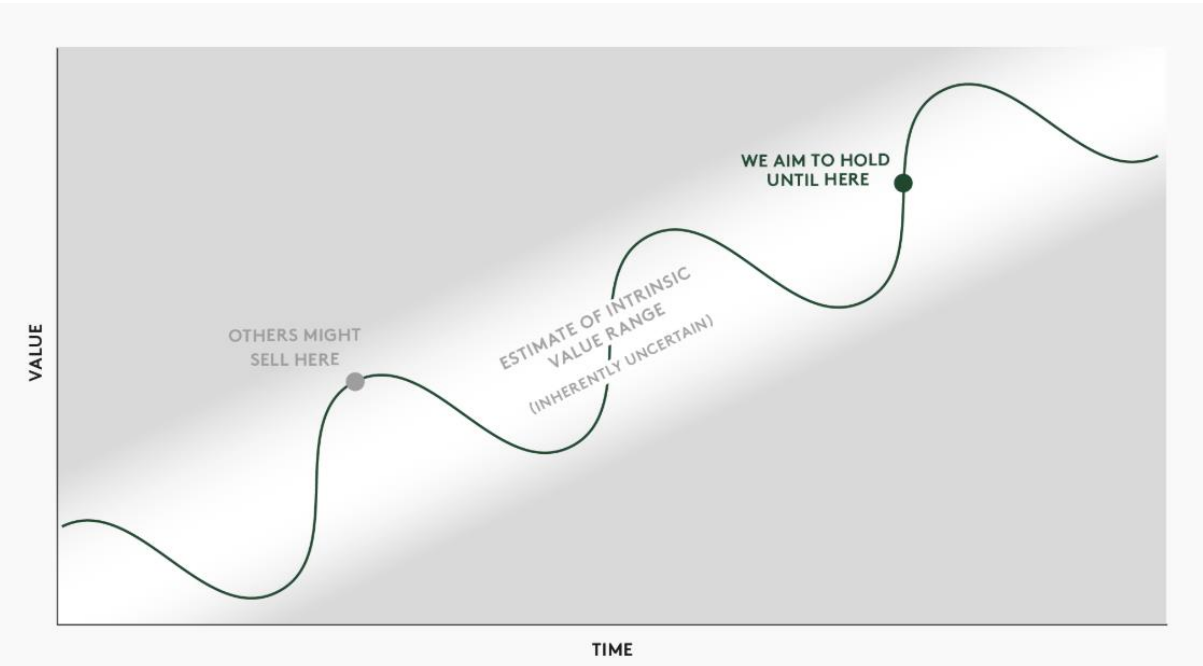
Source: [Sequoia]

It is impossible to predict what will happen in a year, but if you focus on the long-term, you can have an edge over the market that focuses on the short term. Having a long-term view allows you to have a business perspective and be rewarded by the power of compounding and earnings growth.

OVER THE LONG TERM, YOU OWN A BUSINESS, NOT A STOCK

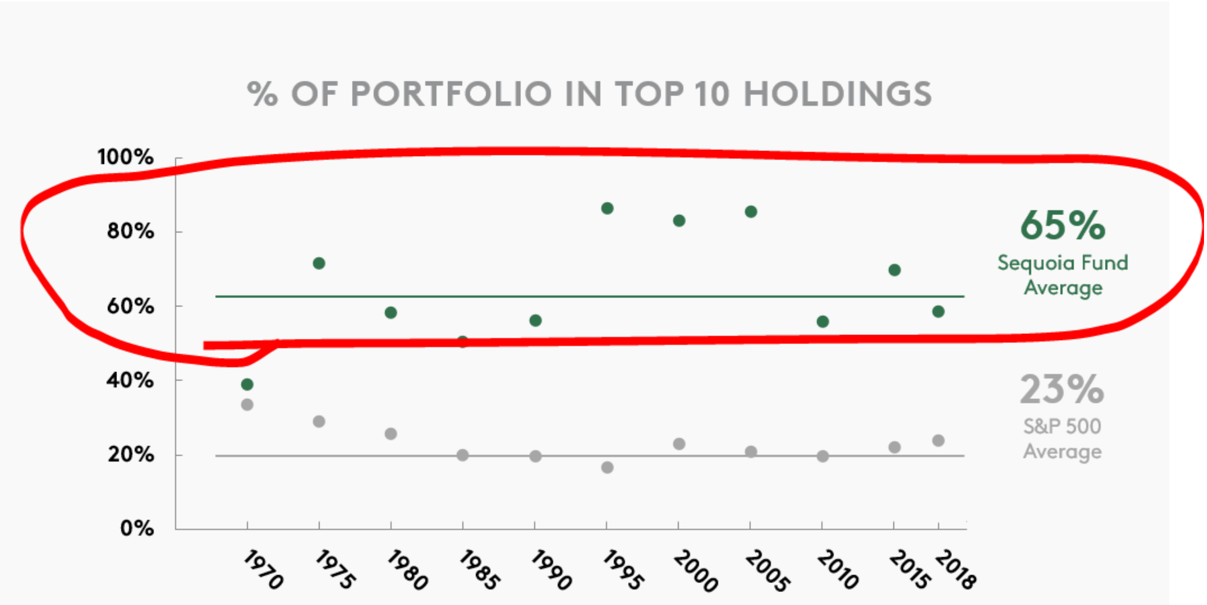


The short-term picture is always uncertain, when you find a good business, you stick to it.

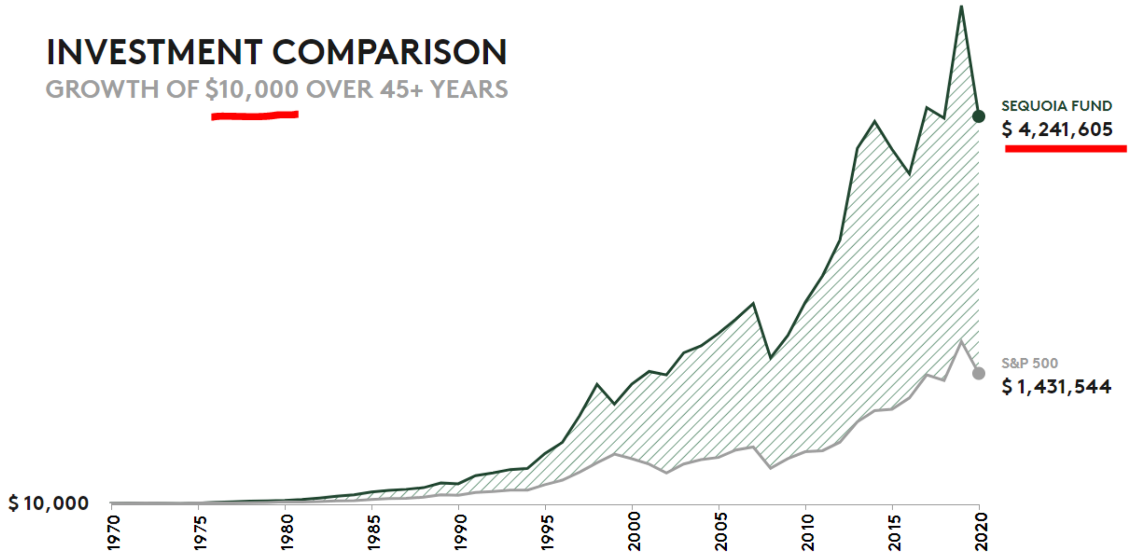


To know what are the best businesses to invest in, the only option is to do research, as much as possible and apply a long-term perspective.

That will give you a focus portfolio where there is no diworsification by adding positions that don't increase the value.



The attitude has led to the following performance over the last 5 decades. So, it is worth to take a look at their top position.



The top position of this long-term business owning fund is Google. So, as part of the Free Lunch portfolio analysis we'll take a look.

Sequoia Fund, Inc. – March 31, 2020	
Top Ten Holdings*	
Alphabet, Inc.	12.4%
CarMax, Inc.	5.8%
Constellation Software, Inc.	5.7%
Berkshire Hathaway, Inc.	5.5%
MasterCard, Inc.	4.8%
Arista Networks, Inc.	4.8%
Charles Schwab Corp.	4.7%
Facebook, Inc.	4.5%
Liberty Broadband Corp.	4.2%
UnitedHealth Group, Inc.	4.1%

Before going forward with the analysis of Google, it is important to note that the fund has beaten the S&P 500 benchmark by only 244 basis points per year, or 2.4% percentage points. The small yearly difference has resulted in a 296% difference over 50 years, or almost $3 million on an initial investment of $10,000. So, the 2% increase in yearly returns that can be maintained over the very long term is what matters, not the crises, recessions, earnings, news or tweets.

PERFORMANCE SUMMARY

As of March 31, 2020

	YEAR TO DATE	1 YEAR	3 YEARS*	5 YEARS*	10 YEARS*	SINCE INCEPTION*
Sequoia Fund	-22.17%	-12.35%	3.67%	-1.19%	7.84%	12.94%
Standard & Poor's 500	-19.60%	-6.98%	5.10%	6.73%	10.53%	10.50%

*Average Annual Total Return through March 31, 2020

Source: Sequoia Performance

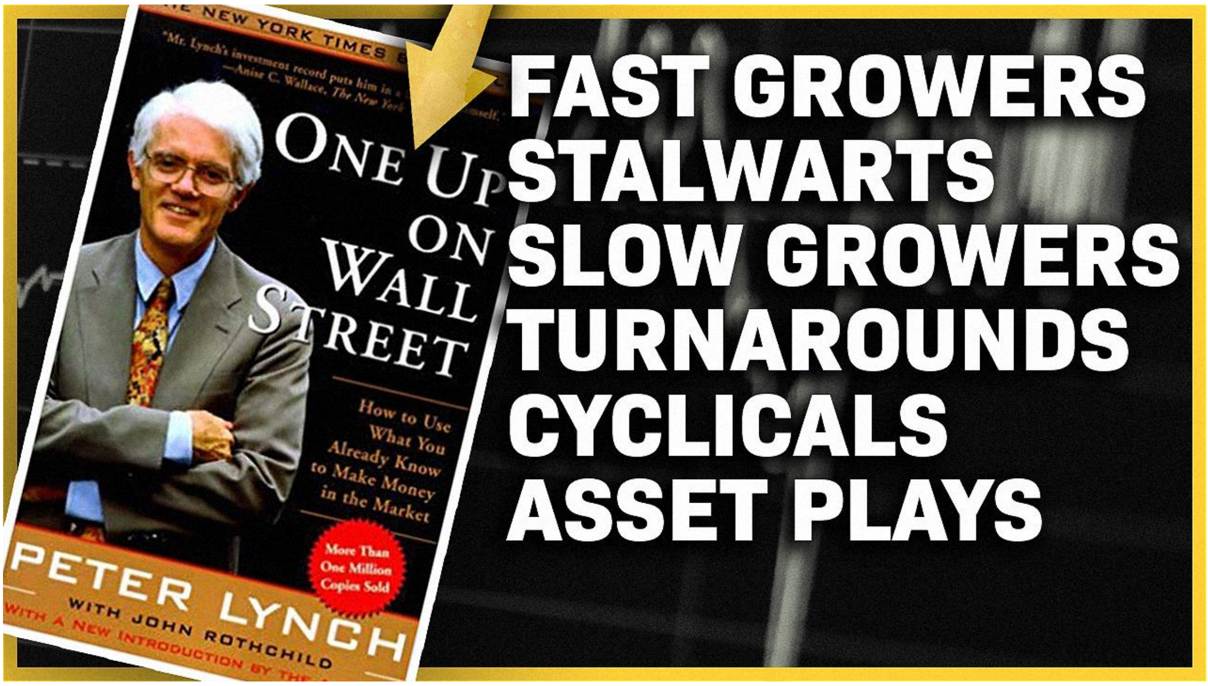
Now, back to Google.

Google stock from a Peter Lynch perspective

When looking at Google stock, an investor that just read Peter Lynch's book One Up On Wall Street would ask:

1. What is the safety of the investment, main risks?
2. What is the yield?
3. What is the growth rate?
4. What is the investing outcome I can expect over the long-term?

We are going to answer the above by looking at Google by categorizing the stock according to Peter Lynch's stock categorization. Google would definitely be a fast grower given its yearly revenue growth of 19.5% over the last 5 years.



Peter Lynch's 6 stock categories – Source: One Up On Wall Street

For each stock category, Peter Lynch has summarized his expectations and the following are for a fast growing company:

- **If growth slows down the market doesn't like it**
- **If finances become an issue Chapter 11 (bankruptcy is probable)**
- **Look for good balance sheets making substantial profits**
- **Figure out when they'll stop growing and how much to pay for growth.**
- **At some point they will stop growing and turn into something else – that is the only guarantee. Check how much more room for growth there is.**
- **20 to 25 percent is the best growth – 50 percent is for hot industries and you know what that means (hot industries attract many competitors)**
- **Proven, profitable expansion in more than one city or country**
- **PE ratio should be below the growth rate**
- **Check whether growth is expanding or slowing down.**
- **Look for those that few institutions own and that few have heard of.**

Let's see how do the above apply to Google and whether it is a positive or negative:

- **If growth slows down the market doesn't like it**

Probably the biggest risk for Google, on a price to earnings ratio of 27, any change in the growth rate would impact the valuation too. NEGATIVE

- **If finances become an issue Chapter 11 (bankruptcy is probable)**

With no long-term debt and $31 billion in free cash flows in 2019, this is not an issue for Google. POSITIVE

- **Look for good balance sheets making substantial profits**

Google ticks this one perfectly, the balance sheet is strong with just $4 billion in long-term debt, return on capital employed has constantly been around the mid teen level and the business has high gross margins of 55%. There are many growth stocks, but few have a great business powering the growth. POSITIVE

- **Figure out when they'll stop growing and how much to pay for growth.**

How much should we pay for Google when the growth slows down?

This is why I am not investing in Google. If the growth rate continues to be 15% per year over the next 10 years, earnings will hit $172, with a valuation of 30, what the market currently applies for the growth rate, the stock price would be $5,188. That would give you a return of 15% per year in line with the growth.

								GROWTH RATE		1.15
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EPS	$49.16	$56.53	$65.01	$74.77	$85.98	$98.88	$113.71	$130.77	$150.38	$172.94
VALUATION										30
							STOCK PRICE FUTURE			5188.164
BOOK VAL	297.76	$354.29	$419.31	$494.07	$580.06	$678.93	$792.64	$923.41	$1,073.79	$1,246.73

But, what if the growth slows down to 10% after year 5? And then to 4% after year 10?

GROWTH RATE		1.15	1.15	1.15	1.15	1.1	1.1	1.1	1.1	1.1
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
EPS	$49.16	$56.53	$65.01	$74.77	$85.98	$94.58	$104.04	$114.44	$125.88	$138.47
VALUATION										12
							STOCK PRICE FUTURE			1661.682
BOOK VAL	297.76	$354.29	$419.31	$494.07	$580.06	$674.63	$778.67	$893.11	$1,019.00	$1,157.47

The stock price in 2029 would be $1,661, for a return of 2.3% per year.

You could argue that the cumulative earnings over the next 10 years of $908 would add value and have to be accounted for, but for the sake of this exercise let's exclude that. If you wish to include them, you can account them as a dividend each year. This leads us to the next question:

- **At some point they will stop growing and turn into something else – that is the only guarantee. Check how much more room for growth there is.**

What if in 5 years somebody offers the same what Google or Facebook are offering but without ads at all. First 10 years free and then with a monthly subscription price of $5. Perhaps they can even integrate your FB or Google account with theirs – it is your data after all. I have no idea what will happen, so it is a growth stock risk reward situation, if the growth stops the situation turns ugly. And, the growth can stop at any time given the nature of the tech environment.

- **20 to 25 percent is the best growth – 50 percent is for hot industries and you know what that means (hot industries attract many competitors)**

  Google is definitely not a hot industry anymore, a mature search engine with a moat.

- **Proven, profitable expansion in more than one city or country**

It is already global.

- **PE ratio should be below the growth rate**

PE ratio is double the growth rate, thus a risky play even for Lynch who loved fast growers.

- **Check whether growth is expanding or slowing down.**

Growth is slowing down.

- **Look for those that few institutions own and that few have heard of.**

It is in the top of the S&P 500, too late for that!

Apart from the fact that it has a good balance sheet, a good growth rate, a moat, it doesn't meet many of Lynch's fast grower criteria. Thus, at current levels, after the market has been in love with tech stocks for a long-time now, I would look elsewhere for such companies.

Moonshots

Many companies get comfortable doing what they have always done, making only incremental changes. This incrementalism leads to irrelevance over time, especially in technology, where change tends to be revolutionary, not evolutionary. People thought we were crazy when we acquired YouTube and Android and when we launched Chrome, but those efforts have matured into major platforms for digital video and mobile devices and a safer, popular browser. We continue to look toward the future and continue to invest for the long-term. As we said in the original founders' letter, we will not shy away from high-risk, high-reward projects that we believe in because they are the key to our long-term success.

The power of machine learning

Across the company, machine learning and AI are increasingly driving many of our latest innovations. Within Google, our investments in machine learning over a decade have enabled us to build products that are smarter and more helpful. For example, our investments in AI are enabling doctors to detect cancer earlier. Machine learning powers the Google Assistant and many of our newer technologies.

Too late now for value, I couldn't figure out the issues in 2018.

Chipotle Mexican Grill (CMG), from Pershing Square

Citigroup (C), from ValueAct Capital

I remember looking at Citi in 2008, how it was at 50 and then it went down while paying a good dividend. I didn't buy, didn't understand and will stick to that. No banks for me, makes my life easier, no matter the possible lost gains.

Fiat Chrysler Automobiles (FCAU), from Pabrai Funds

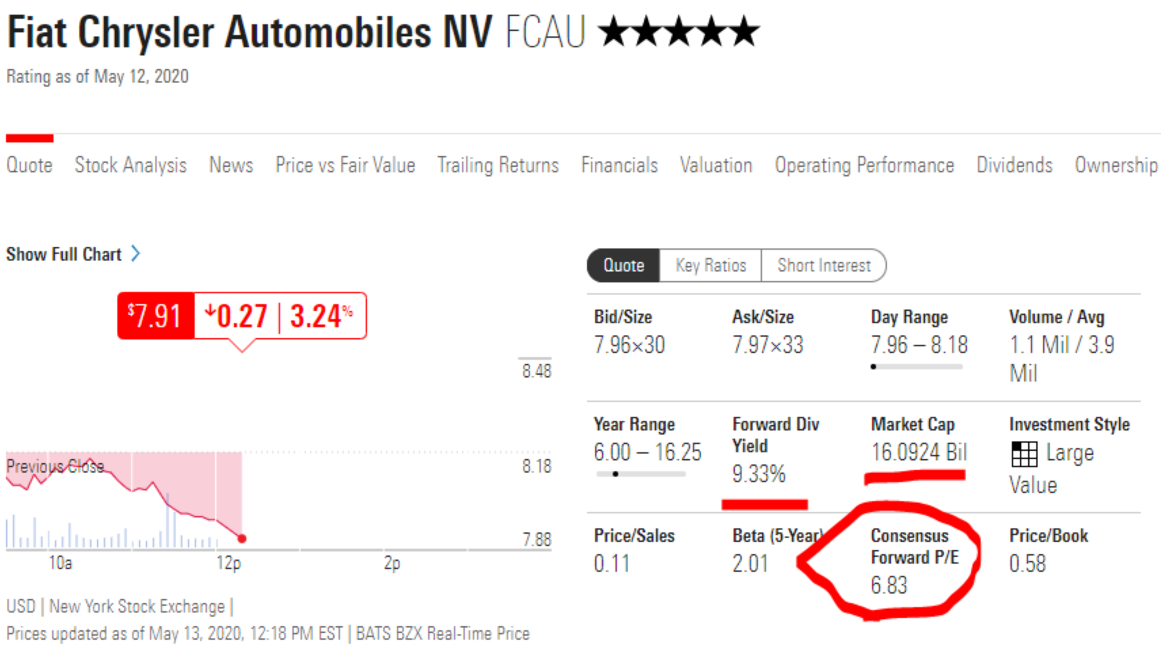
Ok, this one is interesting, FCAU and also the parent company from Italy! Let's go!

FCAU is a cyclical. This means the numbers will look great when it is the time to sell and very bad when it is the time to buy.

The stock price over the last 5 years perfectly explains the cycle.

Also, the peak was reached in 2018 and then there was a slowly decline anticipating bad new that eventually came. Now, the trick is to time the upturn in the best way possible.

As the bad numbers were just for the last quarter, the numbers still look good, but will look much less good by the end of this year. The dividend decision has also been postponed as the shareholder meeting.



Source: [Morningstar]

The thing with automotive cyclicals is that small changes in the top line, have huge impacts on the bottom line due to the tight margins.

Fiat Chrysler Automobiles NV FCAU | ★★★★★

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue EUR Mil	35,880	59,559	83,957	86,816	96,090	110,595	111,018	110,934	110,412	108,187	104,273
Gross Margin %	14.4	14.9	14.9	14.1	13.5	11.7	14.2	15.3	13.9	13.9	12.9
Operating Income EUR Mil	1,112	2,392	3,814	3,394	3,520	2,535	4,881	7,239	5,032	4,956	3,163
Operating Margin %	3.1	4.0	4.5	3.9	3.7	2.3	4.4	6.5	4.6	4.6	3.0
Net Income EUR Mil	520	1,334	348	904	568	334	1,803	3,491	3,608	6,622	4,311
Earnings Per Share EUR	0.40	1.06	0.03	0.73	0.46	0.22	1.18	2.24	2.30	4.22	2.75
Dividends EUR	—	—	—	—	—	—	—	—	—	0.65	0.65
Payout Ratio % *	—	—	—	—	—	—	—	—	—	44.8	209.7
Shares Mil	1,243	1,247	1,226	1,229	1,234	1,514	1,526	1,556	1,568	1,571	1,570
Book Value Per Share * USD	—	—	—	7.06	7.48	9.14	9.40	12.44	13.35	15.57	14.17
Operating Cash Flow EUR Mil	6,110	5,195	6,444	7,589	8,169	9,751	10,594	10,385	9,948	10,462	6,943
Cap Spending EUR Mil	-2,864	-5,528	-7,534	-7,440	-8,121	-8,819	-8,815	-8,666	-5,392	-8,385	-9,336
Free Cash Flow EUR Mil	3,246	-333	-1,090	149	48	932	1,779	1,719	4,556	2,077	-2,393
Free Cash Flow Per Share * USD	—	—	—	-1.66	0.51	0.12	0.90	1.75	2.50	2.13	—
Working Capital EUR Mil	10,328	5,866	6,261	5,512	6,169	3,470	-430	-1,986	2,301	556	—

* Indicates calendar year-end data information

The average operating margin over the last 10 years is about 3% - on 100 billion in revenues, that is 3 billion per year. If the revenues drop, profits quickly turn negative.

Now, if the average earnings can be 3 billion and the market capitalization is 16 billion, then we are talking about a PE ratio of 5. However, if they lose 5 billion a quarter in a situation like the current one, you know it might take ages to get the money back.

This is a buy when people still think things are bad while things are still improving. To be looked again in a few quarters.

Same with Exor, they say book value is higher, but that is just stock market value – not real earnings or better to say dividends.

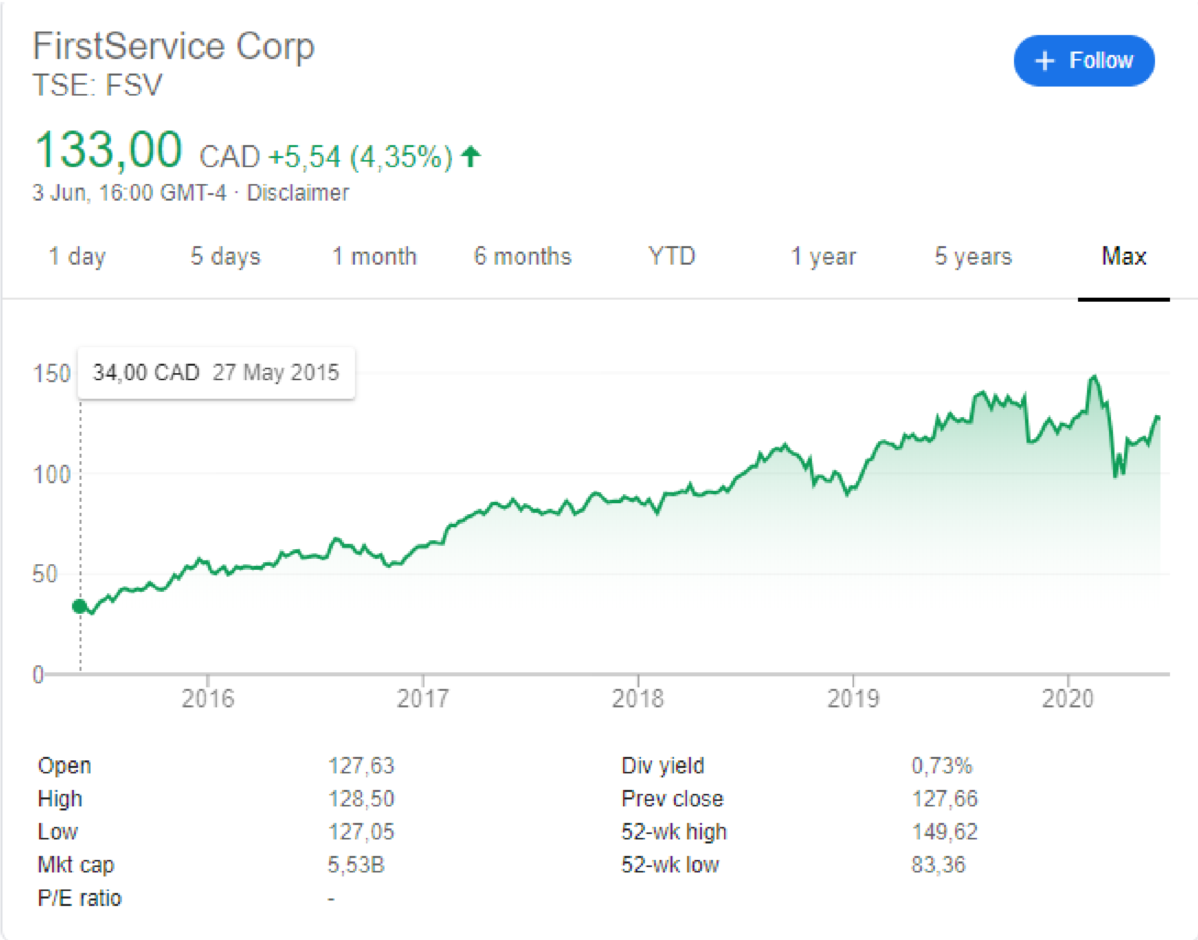
I don’t see this as an investment😊, especially not a long-term one. Merging with Peugeot on top of everything. Too risky for the reward at this moment in time, maybe later.

Athene Holding (ATH)

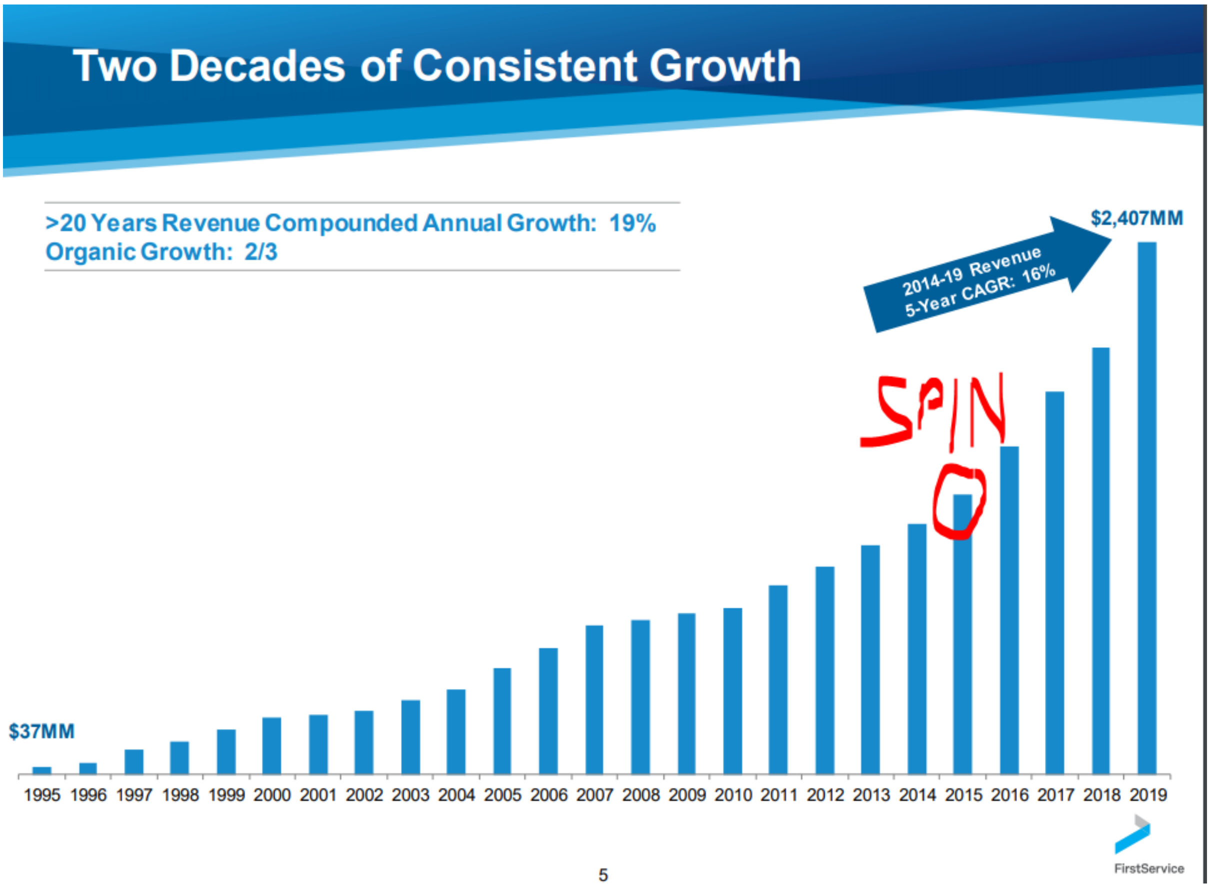
It is a life insurer playing on interest rates spreads – thus a gambling insurer, not for me. 95% of portfolio in fixed income! Even if it looks like they can be protected, but, not going into the insuring industry analysis. Sorry, one has to stick to his circle of competence and insurance and banking is not something I am willing to go into.

FirstService (Nasdaq – FSV, TSX - FSV)

FSV is a facility management company that spun off from Colliers International in 2015. Since then, the stock has been nothing but growing.



The reason why it has been going nothing but up is the growth the company is creating and the future possible growth because the company is the largest player currently consolidating a very segmented market.



Source: [FSV investor presentation]

What do they do? They are the picks an shovels of the real estate industry and all the REITs out there.

FirstService Residential – What We Do

Management Contracts – Property Types

- Condominiums / Co-operatives
- Homeowner Associations
- Master-planned
- Active adult / Life-style
- High-rise, mid-rise, townhouse, single family home

Broad Range of Services

Traditional

- Property Management
- Development Consulting
- Client Budget (collection & disbursements)
- Governance Oversight

On-Site Staff

- Facility Maintenance & Engineering
- Front Desk / Concierge
- Pool & Amenity Management

Transaction

- Transfers & Disclosures; Collections
- Financial Products (banking, insurance)
- Energy Management / Procurement

6

FirstService

FirstService Brands – What We Do

- Leading provider of seven branded essential property services to residential and commercial customers through company-owned operations and franchised systems

GLOBAL RESTORATION HOLDINGS

PAUL DAVIS RECOVER • RECONSTRUCT • RESTORE

CALIFORNIA CLOSETS®

Century Fire Protection

CertaPro Painters

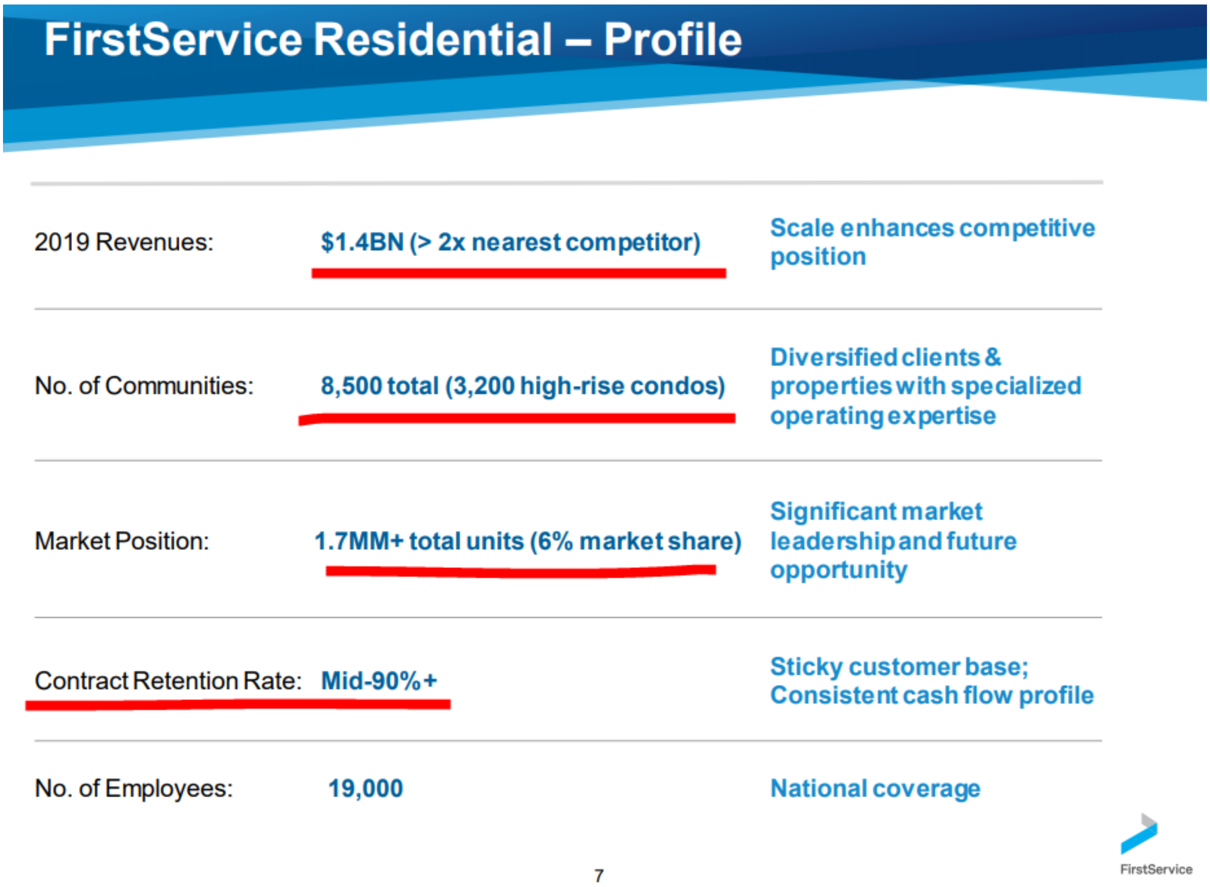
FLOOR COVERINGS international

PILLARTOPOST HOME INSPECTORS

10

FirstService

They are the leader in the market and consolidating fast through acquisitions.



In 2019, FSV acquired Global Restoration Holdings, LLC ("Global Restoration" or the "Company"), the second largest commercial and large loss property restoration firm in North America. They paid approximately $505 million for them which is one time revenue. Their current market cap is double their revenue so we could say expensive from a market perspective, or trading at a premium for the growth opportunities and scale.

Their idea is to grow and consolidate the industry.

FirstService Brands – Leaders in Huge Markets

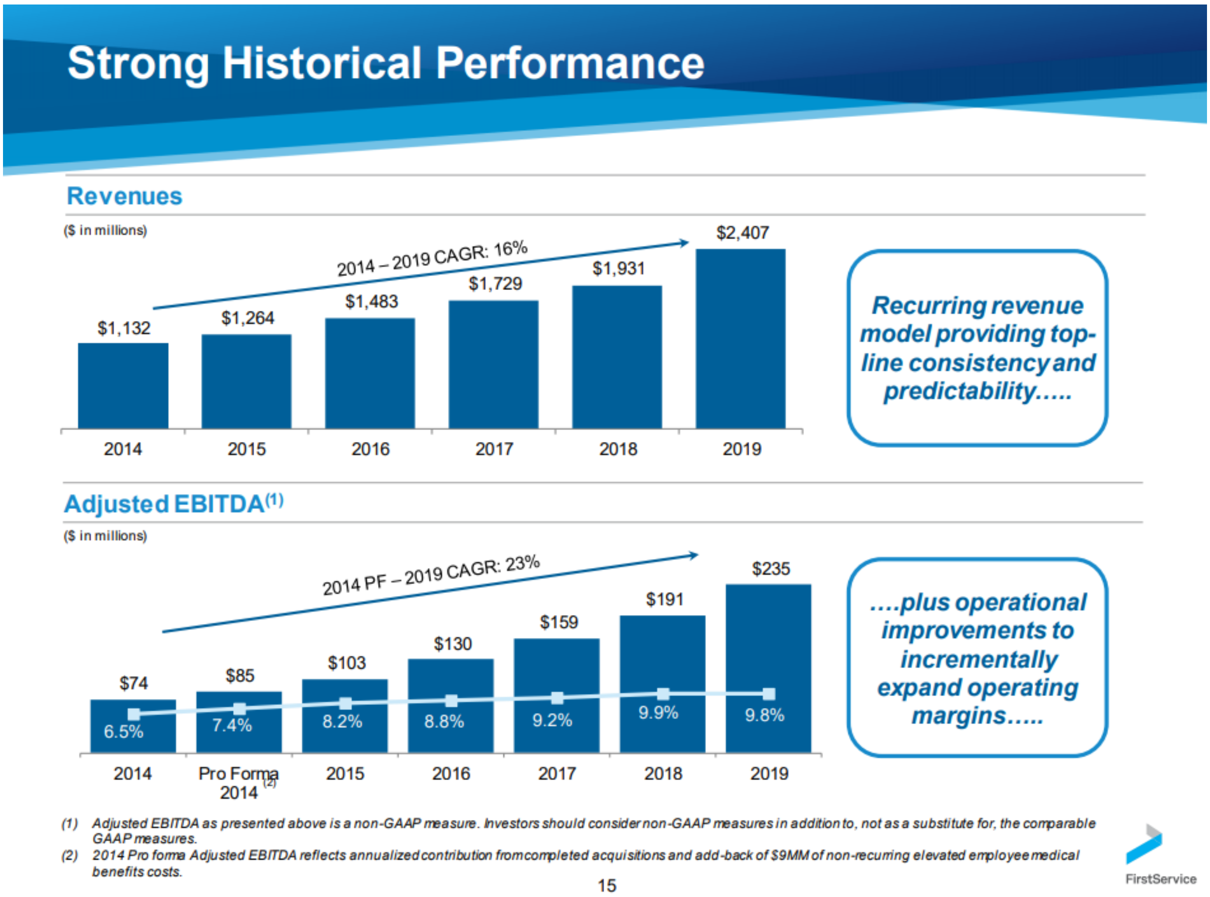
Brand	U.S. Market	Our Position	Market Share
GLOBAL RESTORATION HOLDINGS / PAUL DAVIS RECOVER · RECONSTRUCT · RESTORE	$60 Bn	#2	2.5%
CertaPro Painters	$50 Bn	#1	1%
CALIFORNIA CLOSETS	$6 Bn	#1	7.5%
PILLAR TO POST HOME INSPECTORS	$3 Bn	#1	3%
FLOOR COVERINGS International	$65 Bn	#1 (Franchised)	1%
Century Fire Protection	$8 Bn	#1 (Southeast U.S.)	3%

12

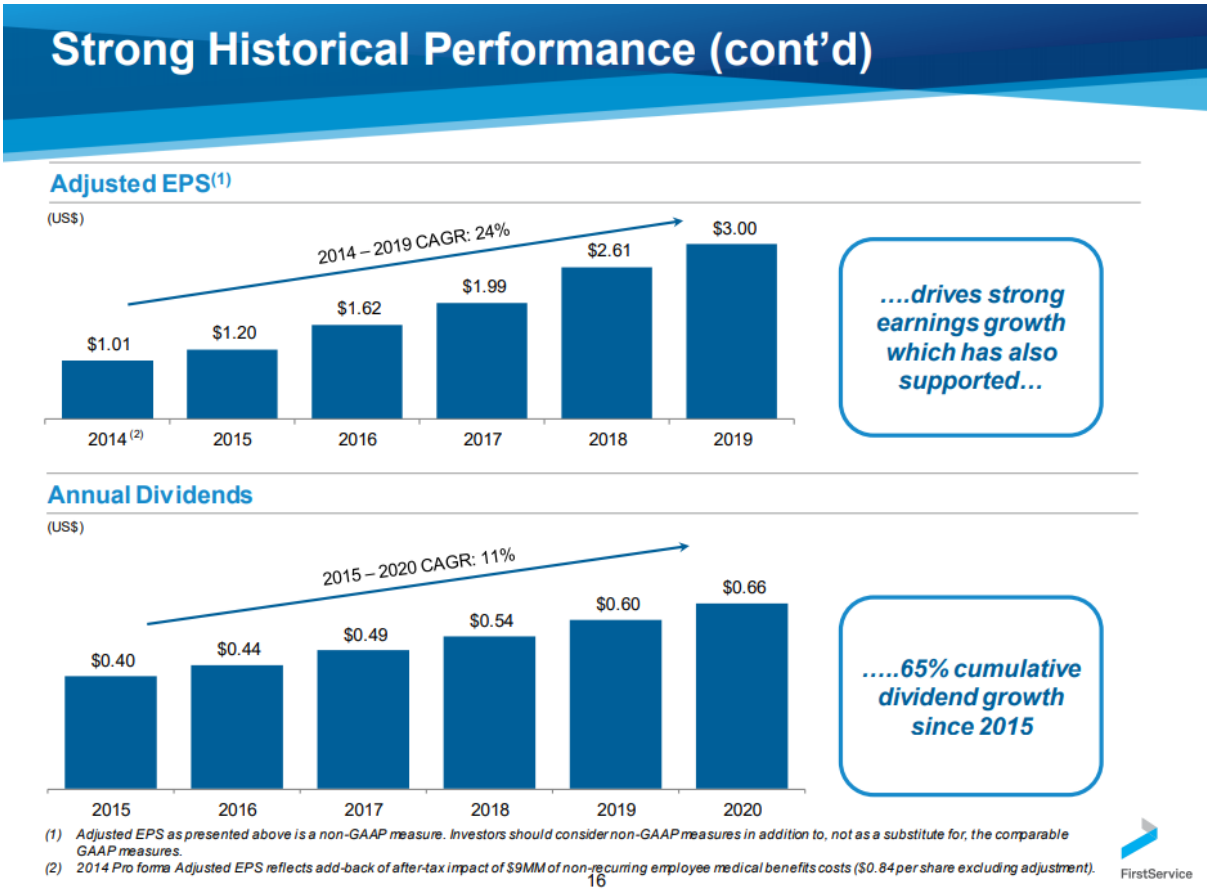
FirstService

Through acquisitions and organic growth.

For now, the growth strategy is working well:



And adjusted earnings and dividends are growing fast.



However, the expansion doesn't come for free. Their equity to assets has gone from 27% in 2015 to 21% in 2020.

Financial Highlights

(US$ thousands, except per share amounts)	2019	2018	Year Ended December 31 2017	2016	2015
Results From Operations					
Revenues	$ 2,407,410	$ 1,931,473	$ 1,729,031	$ 1,482,889	$ 1,264,077
Adjusted EBITDA[1]	235,182	190,611	159,312	130,324	103,038
Operating earnings (loss)	(174,419)[3]	127,568	104,962	90,550	70,747
Net earnings (loss)	(227,631)[3]	90,280	75,047	54,243	38,198
Financial Position					
Total assets	$ 1,955,469	$ 1,007,474	$ 848,266	$ 770,964	$ 600,483
Long-term debt	766,623	334,523	269,625	250,909	201,199
Shareholders' equity	425,887	236,226	192,286	181,028	167,026
Earnings Per Share Data					
Adjusted EPS[2]	$ 3.00	$ 2.61	$ 1.99	$ 1.62	$ 1.20
Diluted net earnings (loss) per common share	(6.58)[3]	1.80	1.41	0.92	0.59
Diluted weighted average common shares outstanding (thousands)	38,662	36,571	36,559	36,366	36,425
Cash dividends per common share	0.60	0.54	0.49	0.44	0.40

Source: Financial highlights

Just the goodwill expanded from $335 million in 2018 to $644 million in 2019. Intangible assets also doubled. They practically doubled the balance sheet from $1 billion to $2 billion and doubled the equity to keep a similar ratio.

Page **8** of **32**

FIRSTSERVICE CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of US dollars)

As at December 31	**2019**	2018
Assets		
Current assets		
Cash and cash equivalents	$ **121,198**	$ 66,340
Restricted cash	**13,093**	13,504
Accounts receivable, net of allowance of $13,136 (December 31, 2018 - $9,177)	**393,730**	239,925
Income tax recoverable	**4,147**	9,337
Inventories (note 7)	**94,511**	48,227
Prepaid expenses and other current assets	**41,457**	37,739
	668,136	415,072
Other receivables	**4,033**	4,212
Other assets	**4,955**	6,135
Deferred income tax (note 15)	**2,836**	-
Fixed assets (note 8)	**131,545**	98,102
Operating lease right-of-use assets (note 5)	**132,893**	-
Intangible assets (note 9)	**366,224**	148,798
Goodwill (note 10)	**644,847**	335,155
	1,287,333	592,402
	$ **1,955,469**	$ 1,007,474
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ **76,226**	$ 41,709
Accrued liabilities (note 7)	**165,444**	132,572
Unearned revenues	**74,100**	36,746
Operating lease liabilities - current (note 5)	**30,622**	-
Long-term debt - current (note 11)	**5,545**	3,915
Contingent acquisition consideration - current (note 18)	**6,269**	12,005
	358,206	226,947
Long-term debt - non-current (note 11)	**761,078**	330,608
Operating lease liabilities - non-current (note 5)	**111,247**	-
Contingent acquisition consideration (note 18)	**8,154**	1,281
Unearned revenues	**12,593**	13,453
Other liabilities	**45,403**	40,797
Deferred income tax (note 15)	**58,239**	6,577
	996,714	392,716
Redeemable non-controlling interests (note 12)	**174,662**	151,585
Shareholders' equity	**425,887**	236,226
	$ **1,955,469**	$ 1,007,474

Commitments and contingencies (note 19)

The accompanying notes are an integral part of these financial statements.

On behalf of the Board of Directors,

/s/Bernard I. Ghert — Director

/s/D. Scott Patterson — Director

The jump in equity comes from issuing shares $191 million and just partly, $45 million, from earnings.

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of US dollars, except share information)

	Common shares				Accumulated	
	Issued and outstanding shares	Amount	Contributed surplus	Retained Earnings (Deficit)	other comprehensive loss	Total
Balance, December 31, 2017	35,916,383	$ 143,770	$ 41,463	$ 7,545	$ (492)	$ 192,286
Net earnings	-	-	-	65,865	-	65,865
Other comprehensive loss	-	-	-	-	(2,623)	(2,623)
Subsidiaries' equity transactions	-	-	(336)	-	-	(336)
Common Shares:						
Stock option expense	-	-	5,767	-	-	5,767
Stock options exercised	194,100	5,479	(1,797)	-	-	3,682
Dividends	-	-	-	(19,417)	-	(19,417)
Purchased for cancellation	(130,436)	(542)	-	(8,456)	-	(8,998)
Balance, December 31, 2018	35,980,047	$ 148,707	$ 45,097	$ 45,537	$ (3,115)	$ 236,226
Net earnings (loss)	-	-	-	(251,610)	-	(251,610)
Other comprehensive earnings	-	-	-	-	2,659	2,659
Impact of ASC 842 - Leases (note 5)	-	-	-	(390)	-	(390)
Subsidiaries' equity transactions	-	-	(10)	-	-	(10)
Common Shares:						
Stock option expense	-	-	8,126	-	-	8,126
Stock options exercised	432,050	13,481	(2,424)	-	-	11,057
Dividends	-	-	-	(23,411)	-	(23,411)
Issued - settlement of LTIA (note 19)	2,918,860	251,503	-	-	-	251,503
Issued - share offering (note 13)	2,165,000	191,737	-	-	-	191,737
Balance, December 31, 2019	**41,495,957**	**$ 605,428**	**$ 50,789**	**$(229,874)**	**$ (456)**	**$ 425,887**

The accompanying notes are an integral part of these financial statements.

So, they are using their expensive stock price to fund acquisitions, pay bonuses to previous owners (Settlement of long-term incentive arrangement $251,503) and grow.

Nothing bad with that, it is a business model that works great when there is free money and you can leverage as much as you wish for. So, their cash flows from operations are around $100 million, $40 million is the necessary capex so they make $60 million in cash per year. The rest of their activity comes from issuing shares and an increase of long-term debt of $400 million that they used to acquire other businesses for $579 million in 2019.

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of US dollars)

Years ended December 31		2019		2018
Cash provided by (used in)				
Operating activities				
Net earnings	$	(227,631)	$	90,280
Items not affecting cash:				
Depreciation and amortization		79,557		52,772
Settlement of long-term incentive arrangement		251,503		-
Deferred income tax		(8,988)		1,989
Other		2,258		5,837
Changes in non-cash working capital:				
Accounts receivable		(17,396)		(37,100)
Inventories		(7,107)		(5,780)
Prepaid expenses and other current assets		(1,033)		(6,152)
Accounts payable		858		(3,249)
Accrued liabilities		7,228		12,462
Income tax payable		4,644		(5,142)
Unearned revenues		11,808		(6,330)
Other liabilities		13,069		1,257
Contingent acquisition consideration paid		(962)		(1,383)
Net cash provided by operating activities		107,808		99,461
Investing activities				
Acquisitions of businesses, net of cash acquired (note 4)		(579,863)		(59,444)
Disposal of businesses, net of cash disposed (note 6)		13,030		-
Purchases of fixed assets		(46,628)		(40,597)
Other investing activities		(1,504)		(6,158)
Net cash used in investing activities		(614,965)		(106,199)
Financing activities				
Increase in long-term debt		624,052		103,914
Repayment of long-term debt		(194,193)		(41,626)
Proceeds received on common share issuance (note 13)		191,737		-
Financing fees paid		(4,000)		(575)
Purchases of non-controlling interests		(34,319)		(3,600)
Sale of interests in subsidiaries to non-controlling interests		3,671		1,200
Contingent acquisition consideration paid		(9,094)		(7,862)
Proceeds received on exercise of stock options		11,057		3,682
Dividends paid to common shareholders		(22,044)		(18,780)
Distributions paid to non-controlling interests		(5,725)		(6,913)
Repurchases of Common Shares		-		(8,998)
Net cash provided by financing activities		561,142		20,442
Effect of exchange rate changes on cash		462		(754)
Increase in cash, cash equivalents and restricted cash		54,447		12,950
Cash, cash equivalents and restricted cash, beginning of year		79,844		66,894
Cash, cash equivalents and restricted cash, end of year	$	134,291	$	79,844

The rate they are paying on their long-term debt is 4.85%.

The following table summarizes our contractual obligations as at December 31, 2019:

Contractual obligations (in thousands of US$)	Payments due by period: Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 756,470	$ 12,874	$ 105,190	$ 608,406	$ 30,000
Interest on long term debt	130,801	32,976	59,410	36,687	1,728
Capital lease obligations	10,153	3,896	4,764	1,493	-
Contingent acquisition consideration	14,423	6,269	8,154	-	-
Operating leases	161,564	36,128	61,442	33,914	30,080
Total contractual obligations	$ 1,073,411	$ 92,143	$ 238,960	$ 680,500	$ 61,808

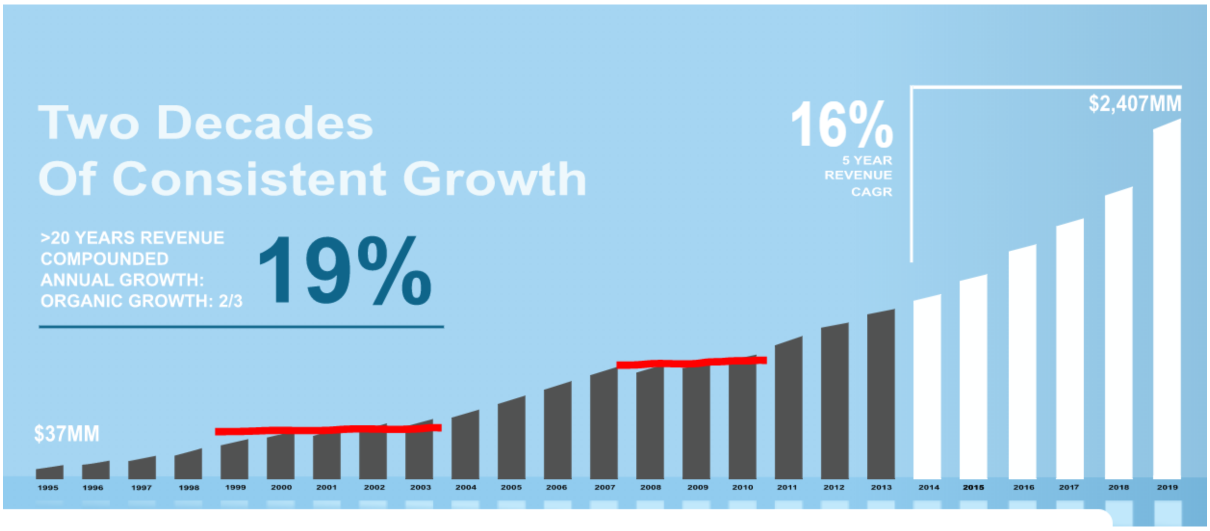
At December 31, 2019, we had commercial commitments totaling $6.3 million comprised of letters of credit outstanding due to expire within one year. We are required to make semi-annual payments of interest on our senior secured notes at an interest rate of 4.84%.

So, this is a spread game through consolidation. If it works, the growth will continue for as long as they can consolidate and scale.

It is a very interesting business model – if they can sustain it, the returns on investment will be in line with the growth rate.

The biggest risk I see is if the sector becomes too competitive and companies like First Service compete hardly for business. Is there a moat? Are there barriers to entry? Not really but…

I think this will be a good long-term investment if things remain as those are for longer. But, that is too big of a risk for me and not a game I would like to play. So, this is not something I'll follow, even if it looks like a great business in a very interesting and safe market with lots of scaling opportunity to grow. I simply know that some of such leveraged plays go bust here and there.



Morningstar has the data, and I see free cash flows are not going far despite the growth.

FirstService Corp FSV

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	1,986	2,224	2,306	2,344	1,132	1,264	1,483	1,705	1,931	2,407	2,556
Gross Margin %	38.5	35.4	34.2	35.6	29.3	30.1	29.2	30.3	31.6	32.1	32.4
Operating Income USD Mil	97	103	95	101	47	72	91	116	132	147	150
Operating Margin %	4.9	4.6	4.1	4.3	4.1	5.7	6.1	6.8	6.8	6.1	5.9
Net Income USD Mil	14	74	6	-18	13	21	34	53	66	-252	-249
Earnings Per Share USD	0.11	2.10	-0.12	0.09	0.36	0.59	0.92	1.41	1.80	-6.58	-6.51
Dividends USD	—	—	—	—	—	0.30	0.44	0.49	0.54	0.60	0.61
Payout Ratio % *	—	—	—	—	—	50.0	51.8	38.8	27.4	—	—
Shares Mil	30	31	30	36	36	36	36	37	37	39	40
Book Value Per Share * USD	—	—	—	—	—	4.50	5.17	5.43	6.50	5.54	9.81
Operating Cash Flow USD Mil	115	80	103	116	45	87	109	116	99	108	122
Cap Spending USD Mil	-32	-37	-44	-35	-22	-20	-29	-36	-41	-47	-51
Free Cash Flow USD Mil	83	43	59	81	23	67	80	79	59	61	71
Free Cash Flow Per Share * USD	—	—	—	—	—	1.53	2.06	1.68	2.21	[illegible]	[illegible]
Working Capital USD Mil	8	-144	43	45	125	100	121	117	188	310	—

* Indicates calendar year-end data information

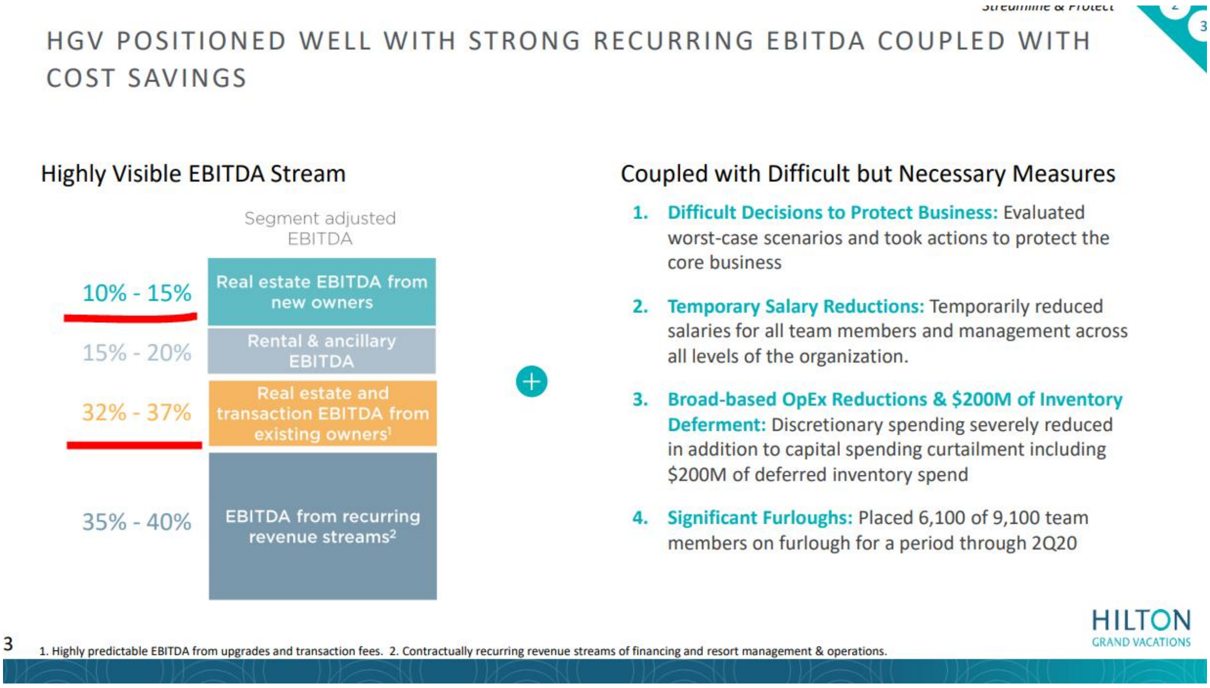
The dividend is growing, but there is a long-road to make it significant.

All in all a very interesting business, but a bit risky for me at current levels.

Hilton Grand Vacations (HGV) – Putting lipstick on a pig

Hilton Grand Vacations Inc. (NYSE:HGV) is recognized as a leading global timeshare company.

Hm, timeshare is something not usually liked and with a negative connotation. But, if you put the Hilton brand on it, it might become interesting. However, 35% of EBITDA comes from transactions of current customers and 15% of new.



This tells me 35% of customers are not that happy and the business model can survive only if it keep finding new customers.

Hilton Grand Vacations Inc HGV

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	—	—	—	1,224	1,317	1,475	1,583	1,711	1,999	1,838	1,739
Gross Margin %	—	—	—	27.4	28.2	27.1	27.7	27.5	29.4	26.0	23.2
Operating Income USD Mil	—	—	—	249	313	321	323	337	434	315	244
Operating Margin %	—	—	—	20.3	23.8	21.8	20.4	19.7	21.7	17.1	14.0
Net Income USD Mil	—	—	—	128	167	174	168	327	298	216	169
Earnings Per Share USD	—	—	—	1.29	1.69	1.76	1.70	3.28	3.05	2.42	1.93
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Payout Ratio % *	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	—	—	—	99	99	99	99	100	98	89	87
Book Value Per Share * USD	—	—	—	—	—	—	-0.49	3.35	5.94	5.78	6.62
Operating Cash Flow USD Mil	—	—	—	196	213	131	158	356	-159	145	184
Cap Spending USD Mil	—	—	—	-17	-17	-18	-34	-47	-63	-63	-61
Free Cash Flow USD Mil	—	—	—	179	196	113	124	309	-222	82	123
Free Cash Flow Per Share * USD	—	—	—	—	—	—	1.40	2.77	-2.02	1.39	—
Working Capital USD Mil	—	—	—	—	1,308	1,392	1,627	1,702	1,730	1,814	—

* Indicates calendar year-end data information

Growth is not stellar, they are doing buybacks, and they have the cash to survive for two years during this crisis.

In any case, the market cap is $2 billion, the cash flow $100 million at best, which is 5% on slow growth. Not something for me, plus, if there come lawsuits on timeshare etc. auch. Can get ugly.

RMR Group (RMR)

Let's start with the stock price here. It has been very volatile since the spinoff. This might be interesting if the fundamentals are stable, you never know what the market is focusing on.

It is a holding company, where the subsidiary manages other REITs where the business management revenues come from annual fees based on 50 bps multiplied by the lower of the historical cost of real estate or total market capitalization.

RMR'S CLIENT COMPANIES SPAN MULTIPLE REAL ESTATE SUBSECTORS

	COMPANY	TICKER	BUSINESS TYPE	DESCRIPTION(1)	GROSS AUM / REVENUES(2)
PUBLICLY TRADED EQUITY REITS	SERVICE PROPERTIES TRUST	Nasdaq: SVC	Equity REIT	Owns 329 hotels and 813 NNN service retail properties	$12.5 billion AUM
	DIVERSIFIED HEALTHCARE TRUST	Nasdaq: DHC	Equity REIT	Owns 416 medical office buildings, life science buildings and senior living residential communities	$8.5 billion AUM
	OFFICE PROPERTIES INCOME TRUST	Nasdaq: OPI	Equity REIT	Owns 184 multi-tenant and single tenant office properties	$5.7 billion AUM
	INDUSTRIAL LOGISTICS PROPERTIES TRUST	Nasdaq: ILPT	Equity REIT	Owns 301 industrial properties	$2.6 billion AUM
OPERATING COMPANIES	TA TravelCenters of America	Nasdaq: TA	C-corp.	Operates more than 260 travel centers located along the U.S. Interstate Highway System	$6.1 billion annual revenues
	FIVE STAR SENIOR LIVING	Nasdaq: FVE	C-corp.	Operates more than 260 senior living residential communities throughout the U.S.	$1.4 billion annual revenues
	SONESTA	Private	S-corp.	Operates more than 70 hotels	$49 million annual revenues
OTHER BUSINESSES	RMR REAL ESTATE INCOME FUND	NYSE American: RIF	SEC Registered closed-end fund	Invests in common and preferred securities issued by non-client publicly traded REITs(3)	$237 million AUM
	THE RMR GROUP OFFICE PROPERTY FUND	Private	Open-end core plus real estate investment fund	Invests in multi-tenant urban infill and suburban office properties in non-gateway cities	$233 million AUM
	TREMONT MORTGAGE TRUST	Nasdaq: TRMT	Mortgage REIT	Invests in first mortgage loans secured by middle market and transitional CRE	$86 million AUM

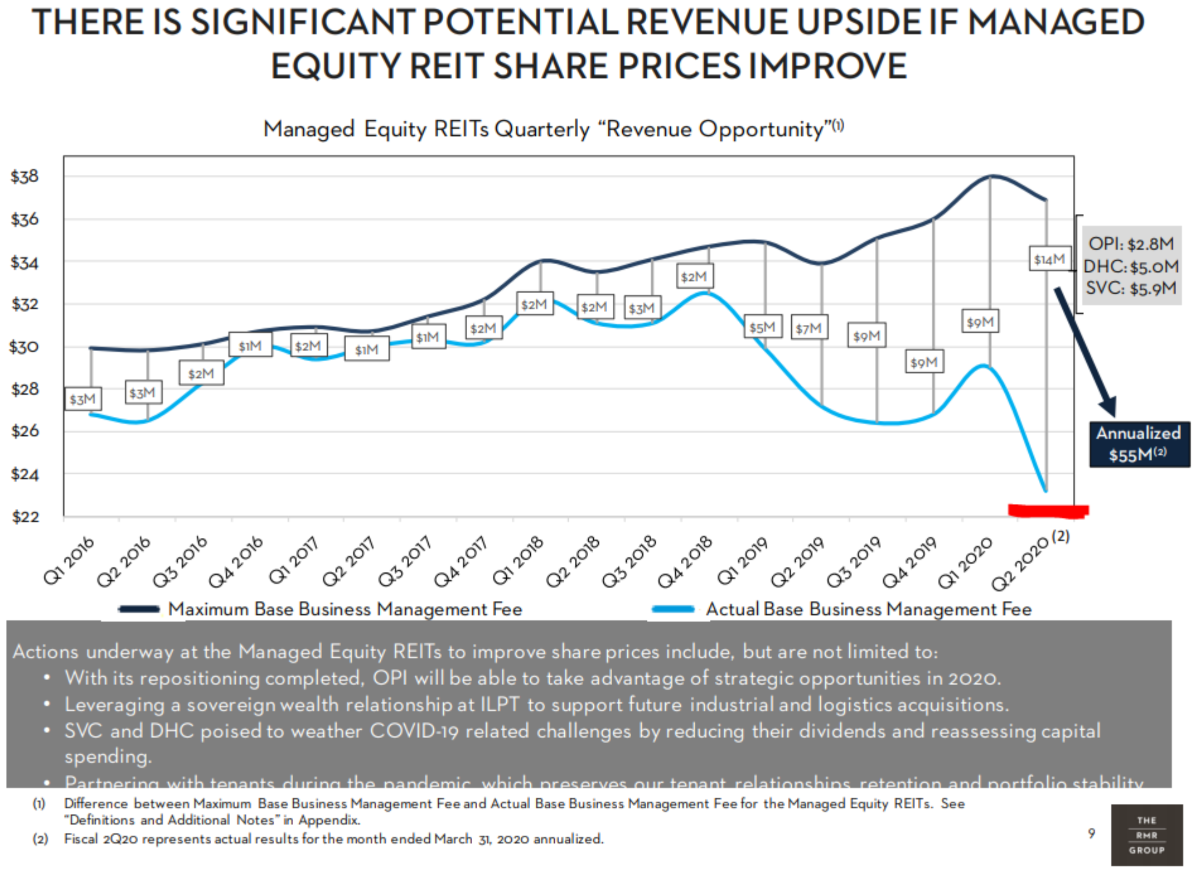
(1) Information presented is as of March 31, 2020.
(2) Information presented represents Gross AUM unless otherwise specified to be annual revenues. Gross AUM information as of March 31, 2020 and annual revenues information as of calendar year ended December 31, 2019.
(3) On April 16, 2020, RIF's shareholders approved its plan to convert from a registered investment company to a commercial mortgage REIT and RIF is in the preliminary stages of implementing a plan to execute this conversion.

6 THE RMR GROUP

When the following happens to on of their largest clients, you know revenues will fall.

Or the other too

As the stock prices of those REITs decline, so does the management fee go down.



So, this is an investment in the market price of the REIT – this is a derivative investment, not something I am looking for. Also, I am not looking into REITs, I took a look last year and not much was interesting in the sector for me.

Vectrus (VEC)

Vectrus Inc VEC

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	—	1,806	1,828	1,512	1,203	1,181	1,191	1,115	1,279	1,383	1,408
Gross Margin %	—	8.7	10.5	14.2	9.9	8.9	9.0	9.1	9.0	9.4	9.3
Operating Income USD Mil	—	87	110	131	38	40	43	41	48	52	54
Operating Margin %	—	4.8	6.0	8.7	3.2	3.4	3.6	3.7	3.8	3.7	3.8
Net Income USD Mil	—	54	75	84	23	31	24	59	35	35	36
Earnings Per Share USD	—	5.40	7.47	8.44	2.13	2.86	2.16	5.31	3.10	2.99	3.11
Dividends USD	—	—	—	—	—	—	—	—	—	—	—
Payout Ratio % *	—	—	—	—	—	—	—	—	—	—	—
Shares Mil	—	10	10	10	11	11	11	11	11	12	12
Book Value Per Share * USD	—	—	—	—	6.49	7.83	10.28	12.74	18.77	21.55	22.80
Operating Cash Flow USD Mil	—	35	116	92	43	19	37	35	40	28	35
Cap Spending USD Mil	—	-3	-3	-2	-4	-1	-1	-2	-10	-16	-7
Free Cash Flow USD Mil	—	32	113	90	39	18	36	33	30	11	28
Free Cash Flow Per Share * USD	—	—	—	—	12.90	0.94	3.83	2.18	1.24	3.60	—
Working Capital USD Mil	—	—	58	47	33	49	56	90	88	78	—

* Indicates calendar year-end data information

This company depends on government spending on defense where the business depends on whether you made the best bit. Given the company didn’t grow, doesn’t pay a dividend and does no buybacks, not for me.