Welling on Wall St.

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listeningin

Hot On The Trail

Value Sleuths Mark and Jon Boyar See Odds Favoring "Forgotten 40"

Mark Boyar Jon Boyar

Couldn't help myself. Surveying the carnage on the battleground of the financial markets upon my return from our holiday sojourn, I felt unaccustomed excitement growing.

Stock after stock that I looked at — not the bloodied but still bubbling FAANGS — but considerably less-decorated soldiers from the middle and even the bottom ranks of that miserable group known as common stocks had been so horrifically pummeled that, dare I say, many are on sale at levels even a diehard value investor could love.

So cheap, in other words, as to be practically irresistible, even if the bear is only catching a nap during this rebound rally and returns to do his worst.

That's when I knew I had to talk to the Boyars — Mark and Jon, father and son — the proprietors of Boyar's Intrinsic Value Research LLC in New York and absolute masters at discerning value in neglected and overlooked corners of the market. Mark's a friend from long ago Barron's days, and his reputation as a gimlet-eyed value investor and portfolio manager, to be sure, stretches back longer than most investors today remember, encompassing even the Nifty-Fifty era and its ugly eventual demise.

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Funny, he hears certain echoes of those days in the behavior of the FAANGs...

Meanwhile Jon, though trained as a lawyer, has always been a value guy at heart, and he quit the bar to go to work in research early in this century. He has been building the research side of the family empire since 2008, developing value sleuth cred that's beginning to rival his dad's.

Boyar Research's annual compilation of a "Forgotten Forty" list neglected value stocks had landed on my desk like a Christmas present in the midst of the holidays, and as I turned page after page, I was struck not only by the evident values, but by the way stock after stock on the Boyar list had escaped the worst of the late year retreat.

"We've found over time that where we're finding value, it tends to be in orphaned names — hence our annual "Forgotten Forty" list.

To be sure, that's because in most cases they'd already been trashed earlier. But it also gives rise to a suspicion that they, at least, have found some sort of a bottom.

I got the dynamic duo on the phone Monday, and they filled me in on the ins and outs of where and how they suddenly spy more opportunities than they've seen in years. Listen in, for some great portfolio ideas for the New Year.
— Kate

Happy New Year, and thanks for joining Jon and me on this call, even though you're at your Florida retreat, Mark.
Mark Boyar: Happy New Year to you, too. And a healthy one. Glad to do it.

Jon: Happy New Year. I'm looking forward to reading your book. They handed it out at the recent Columbia Business School breakfast. You interviewed some people in there that are pretty hard to get to talk — John Paulson and Paul Singer, among others.

It was fun, hearing those investors' perspectives first hand and, especially, then also hearing the countervailing insights of the CEOs that I profiled. It's amazingly timely, given that it took two years to write. Plus, you can dip into the chapters in any order that strikes your fancy.
Jon: It's on my desk, in the "things to read" file.

Oh no, I have one of those. But I've actually read Boyar Value Group's recent "Forgotten Forty" report, as well as your October and November research publications —
Jon: Great. The November report includes our analysis of Liberty Braves Group (BATRK), which I know happens to be another of your co-author, Mario's, favorites — and a very interesting story. It is one of those situations in which you know you're going to make money, it's just a question of when. Around here, we like to call it a poor man's Madison Square Garden.

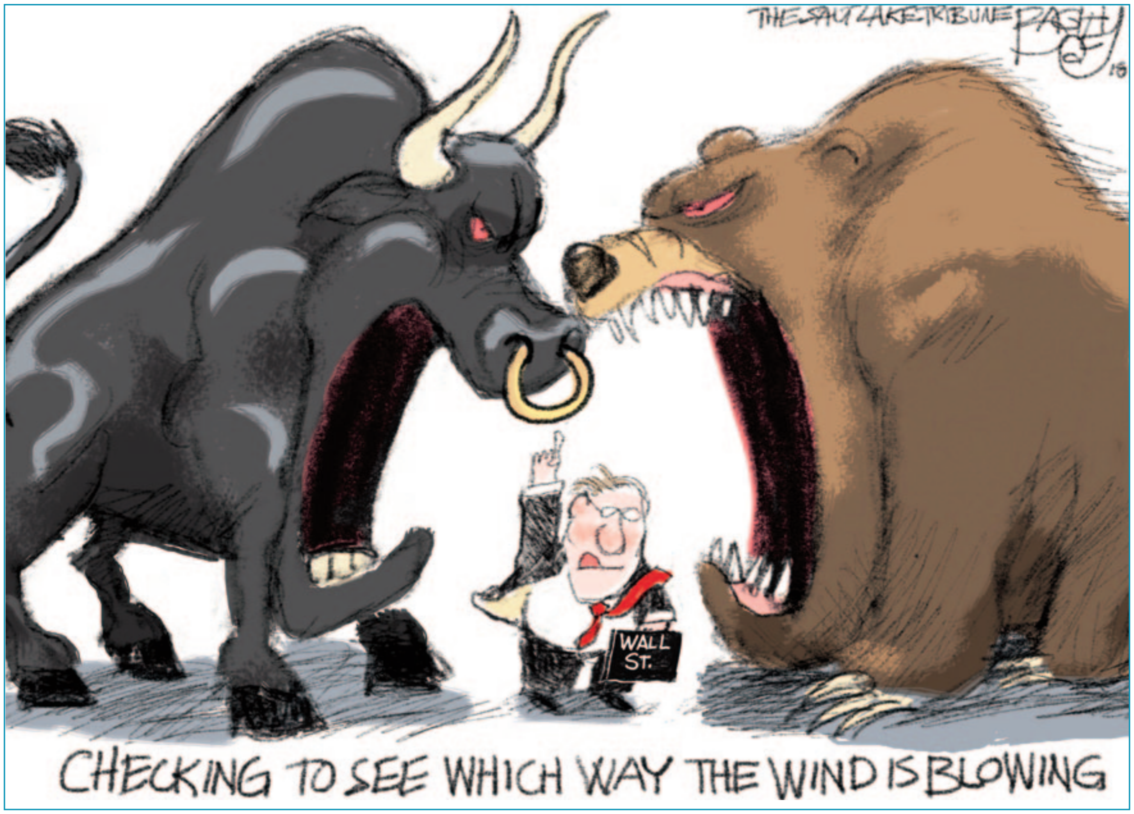
We'll get into Liberty Braves in a bit. I was going to observe that you seem to have an affinity for John Malone's various Liberty trackers and spinoffs. And watching smart investors, like Malone, is one of the tips Mario stressed in his introduction to "Merger Masters."
Jon: We do tend to find them attractive. We've found over time that where we're finding value, it tends to be in orphaned names — hence our annual "Forgotten Forty" list.

We have a seven or eight criteria that determine if a security is orphaned, but one of the criteria includes tracking stocks or securities with complex ownership structures. And John Malone is kind of the modern master at convoluted ways of structuring companies.

Most people just are too lazy to look through complexity to find value, but we often find a lot of value there. I learned that from my dad's stories about investing in Meshulam Riklis's companies. He had a lot of complicated structures, too. And he made a lot of money through his conglomerate.

Boy, that name is a flash from deep in the distant past.
Mark: Yes. He was the first — when I worked for

Stanley Nabi at Schweickart & Co. — Riklis was the first assignment he gave me. Stanley said, "If you can understand Rapid-American Corp., you'll be able to understand *any* company." I discovered that Rapid-American was a very interesting business and it was *really* inexpensive. But it was only inexpensive — as Jon alluded to — because it was so complicated.



Bear and Bull, Pat Bagley, *The Salt Lake Tribune*, UT

Loads of debt and myriad cross-ownerships, as I recall, among other things.

Mark: Right. They had a bond called — Rapid-American and Glen Alden were two essentially interchangeable names for his operations at one point. So they had a Glen Alden 6% bond of 1988, I think it was, that was selling — in 1969/1970 — at 35 cents on the dollar — despite that 6% coupon. Well, I wound up getting wedding gifts of cash, so I took that money and bought those bonds and held them to maturity. When I bought the bonds, the person who sold them to me asked, "How can you invest in something like this?"

But it was a great investment — though it stayed at that depressed level for quite a while. Until it actually matured, it always sold a fairly significant discount. But that was because it was hard to understand what Meshulam Riklis was doing. Again, he was always involved in complex deals with lots of debt and most investors didn't even try to figure it out.

How did you figure out you wanted to get involved? Was it just because of the allure of the 6% coupon?

Mark: No, it was the great names Riklis was acquiring with debt. He essentially bought companies with debt and sold them for cash. He owned Schenley Industries, at that time the U.S. distributor of Dewars scotch. He owned Playtex — he bought great companies and he levered them. All kinds of great brands at the time. McCrory Stores, Gruen Watch, Elizabeth Arden, Beatrice Foods, Samsonite — and that doesn't begin to scratch the list. If I remember correctly, he was Mike Milken's first giant client.

I vaguely remember that he was among the first, anyway.

Jon: I recently read one of those '80s investment books, which said Riklis was either Milken's first or second client — that's definitely correct. But what my Dad's stories about Riklis taught me was to look for complex securities that people tend to overlook. That was the lesson. I mean, you can't say, for the Malone names, for instance, that no one is looking at them. John Malone certainly has a great investment track record and he has a big following among investors.

Nonetheless, because Liberty Braves Group is a tracking stock, it can't be put in indexes, and so it gets overlooked in today's market. I mean, there are a lot of reasons why people can't buy tracking stocks — and that does depress the value of them.

Okay, what's the attraction in Liberty Braves — beyond Malone?

Jon: Liberty Braves Group is the tracking stock representing Liberty Media's (LMCA) ownership of the Atlanta Braves major league baseball team, as well as the mixed-use real estate development that surrounds the team's ballpark, SunTrust Park.

The real estate project, known as The Battery Atlanta, we view as an under-appreciated asset in

Liberty Braves Group

Capitalization Summary ($MM)	
Price (Class A)	$25.71
Diluted Shares (MM)	60
Market Cap	$1,543
Total Debt	$626
Cash	($139)
Enterprise Value	$2,030

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	0.05
52-Week Price Range	$27.93-$21.53
Short % of Float	5.2%
Major Shareholders	Malone: 7%; 47% voting Liberty Media (Formula One Group): 15%

BATRA
NASDAQ

Valuation and Misc. Stats ($MM) 9/30/18	
Net Asset Value (est.)	$2,275
Price/NAV	0.7x
EPS (ttm)	NM
Price/Earnings	NM
EBITDA (ttm)	NM
EV/EBITDA	NM
Dividend Rate/Yield	NM

Net Asset Value Analysis:	$MM
Atlanta Braves Franchise	$2,031
Mixed Use Real Estate, Net Equity	$188
Cash (3Q18) + Residential Proceeds	$139
Debt (ex-mixed use) & ballpark	($225)
Equity Value	$2,275
Diluted Shares (inc. FWON IGI)	60.0
Net Asset Value per Share	$37.91

Catalysts/Highlights

- The Braves' improved performance (won NL East in 2018) could help sustain the operating momentum at their new ballpark
- A portion of the Braves' real estate development in Phase I was monetized at an attractive return; Phase II is commencing
- The pending sale of Fox's RSNs could help to accelerate the monetization of the Braves' valuable sports rights

All Graphics' Source: Boyar Research. Stocks priced as of 12/12/18

Liberty Brave's story that should generate quite attractive returns. In fact, we expect around $25 million in stabilized net operating income from the project. The Braves just sold the residential component of the mixed-use project at a roughly 22% IRR in a deal that will generate around $61 million for Liberty Braves, net of debt and joint venture interests — proceeds the company expects deploy in phase 2 of the real estate project, which includes the North American headquarters of Thyssenkrupp. Meanwhile, the retail component of the project includes three of the top-grossing restaurants in Atlanta — and we also expect John Malone to find shareholder friendly uses for some of the incremental liquidity thrown off by the residential sale.

Like what?

Jon: Who knows, considering his creativity. But one thought is that The Formulat One Group (FWONA), which is an affiliated tracking stock, is currently heavily leveraged, but owns around 9 million shares of BATRA. So BATRA probably could use some of its fresh liquidity to repurchase those shares pretty efficiently.

All in all, we believe that the Braves — the oldest continuously operating professional sports franchise in America — are the epitome of a "trophy asset," offering ownership in a professional sports franchise that can't be replicated. What's more, the pending sale of Fox's Regional Sports Networks, two of which broadcast the majority of the Brave's games, could provide the tracker's management with opportunities to either accelerate the monetization of their valuable sports media rights or to opportunistically acquire the two networks.

What do you figure Liberty Braves would be worth in a takeover?

Jon: Very conservatively — applying just a 25% premium to Forbes' latest valuation of the Braves (when recent deals have taken place at over a 60% premium) and making conservative assumptions about the value of its stadium and mixed-use real estate project, we estimate that BATRA's intrinsic value is $38 a share, or 47% higher than its current trading level.

That much?

Jon: Easily. We suspect that there are multiple billionaires who'd love to own the Braves. And now that the NFL has lifted its restriction on its owners also owning other professional teams, that pool has likely grown. Granted, Liberty doesn't appear to have any immediate plans to put the team on the block. But it *has* stated that it would be amenable to selling at some point.

Meanwhile, it's not the only pony in Malone's stable that's caught your eye —

Jon: Right. Some of Malone's other names have drifted out of favor, as well. Discovery Inc. (DISCK) made our Forgotten Forty list again this year — because of its $15 billion Scripps deal. It was the best-performing stock on our Forgotten Forty list last year, when it gained 39.7%, after a significant selloff on the deal's announcement in 2017 had taken it down to 17 or 18 a share — maybe even lower — and on the heels of encouraging early results from its acquisition of Scripps. But despite that smart rebound — it's still only trading at $24.70 a share today while we have a $44 estimate of its intrinsic value. In other words, we could see upside approaching 70%.

There's no end to upside in media content?

Jon: We're not saying that, just that we see Discovery having a lot more room to run. They've already updated their estimate of cost synergies from the Scripps deal to over $600 million, when only $350 million was the initial target. They've inked recent deals, too, with "over the top" platforms [internet distributors] Hulu and Sling, that are expected to drive a meaningful increase in revenue from affiliate fees. Meanwhile, their strong free cash flow is enabling them to delever rapidly after the Scripps deal. So much so that we expect Discovery's leverage to drop back into its targeted range of 3 - 3.5 times this year, which could well prompt DISCK to resume its robust share repurchase program.

Basically, we believe that recent media M&A,

including Disney's pending acquisition of Fox and Comcast's agreement to acquire Sky, validate Discovery's collection of global programming assets. Those deals are at 13 - 16 times and we think Discovery would warrant a similar multiple if it were ever put up for sale. But our intrinsic value estimate values it conservatively at only a multiple of 8 or 9 times, to come up with 69% upside.

With patience, you do get chances to buy these things on sale, and that's what we try to do!

Which usually works pretty well, over time. Last year wasn't exactly a great one for your Forgotten Forty strategy, Discovery and a few others aside, though.

Jon: Right, but last year wasn't great for *any* strategy based on intrinsic values.

Ironically, cash wasn't trash last year.

Jon: Yes, cash was great. I think the Egyptian stock market also did well — or one of them in the mideast. But that's about it.

It must be fun to trade in hieroglyphics!

Jon: If you say so. But yes, Discovery was good last year — if you were able to buy it quickly when it got hammered down to pretty attractive prices. One reason it's really rebounded as much as it has was that Malone put his money where his mouth is and bought a substantial number of shares at close to the bottom. I'm not saying that was the *only* reason — but that was the catalyst.

Mark: Right. And John bought those shares personally; he didn't buy them for the company.

He tends to know when his stuff is value-priced and when it isn't, that's for sure.

Jon: Yes. And buying Scripps made a lot of sense. I think they're the No. 1 programmer now for women. They have a lot of leverage with advertisers because of that — they have three of the four top women's networks, they account for 20% of the pay TV audience — up from 10% — so the deal made a lot of sense. And Malone has also really taken advantage of the low interest rate environment — I mean it's amazing — around 30% of the company's debt matures in 2037 or later.

They must not have communicated the deal's upside very well to the market —

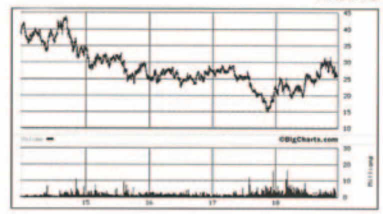
Mark: Well, one of the reasons the stock went down was when they made the Scripps acquisition was that they announced that they would not repurchase any shares for a while. A lot of their holders got

Discovery, Inc.

Capitalization Summary ($MM)	
Price	$26.05
Diluted Shares (MM)	713
Market Cap	$18,574
Total Debt	$17,482
Cash	($531)
Enterprise Value	$35,525

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	3.0
52-Week Price Range	$31.55-$19.08
Short % of Float	6.5%
Major Shareholders	John Malone: econ. ~3.0%; voting 28% Advance/Newhouse: econ. 26%; voting 24%

DISCK
NASDAQ



Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$8,116
Price/Book Value	2.3x
EPS 2018E	$2.24
Price/Earnings	11.6x
Adj. EBITDA 2018E	$4,179
EV/EBITDA	8.5x
Dividend Rate/Yield	N/A

P&L Analysis ($MM) *Fiscal Year Ending December 31,*	2015	2016	2017	2018E*
Revenues	$6,394	$6,497	$6,873	$10,827
Operating Income	$1,985	$2,058	$2,119	$2,013
Margin	*31.0%*	*31.7%*	*30.8%*	*18.6%*
EBITDA	$2,398	$2,426	$2,531	$4,179
Margin	*37.5%*	*37.3%*	*36.8%*	*38.6%*

*FactSet Consensus Estimates

Catalysts/Highlights

- Over $600 million in cost synergies expected from the Scripps acquisition, well up from an initial target of $350 million
- Recent deals with OTT platforms (Hulu and Sling) are expected to drive a meaningful step-up in affiliate fee revenue
- Leverage should approach targeted levels in 2019, setting the stage for a resumption of shareholder-friendly initiatives
- Recent deal with the PGA Tour for international rights should accelerate the Company's direct-to-consumer ambitions

kind of perturbed by that and wound up selling the shares. But Malone just said he wouldn't start buying stock again until Discovery's debt got down to a satisfactory level — and he's there now, right, Jon?

Jon: He's pretty close. Sometime this year he'll get back to it. They got it down from 4.7 times last year to 3.8 times. As I said, once they get it down around 3 times, I think he'll start buying back stock again — and then all the hedge fund people who abandoned ship will come back in. That they're getting that leverage down so quickly just demonstrates how much free cash flow this company flows off.

I guess it's too soon for you to worry about how it will pay off that big slug of debt coming due in 2037 —

Mark: It's de-leveraging very quickly.

Jon: Exactly. And 2037 — is not going to be the company's problem. I mean, Discovery is not a company that makes sense to be independent forever.

Mark: This would clearly be — in the next round of mergers in media — one of the prime targets. There are very few left that could be acquired. But this is clearly one, I think, that will be bought by somebody.

Jon: I mean, obviously, Discovery is not on the level as Fox. But Fox went for 13 times and when we're giving you $44 a share valuation, we're doing it at 9 times, so we are being pretty conservative.

Have you thought about who might want Discovery's assets?

Jon: A Disney wouldn't be a bad acquirer for it, because a lot of Discovery properties would do really well under the Disney umbrella. Just think about all the cross promotions, movies, rides, etc. — that they could do with it. It could make a lot of sense. But it doesn't make sense for it to be a stand alone entity forever.

Before we go too deeply into your ideas, let's go back and set the table. Clearly, 2018 surprised a lot of investors, and not in a pleasant way.

Mark: Yes, in January, last year seemed like it was kind of awesome. Then February came and it was curtains. But it's interesting, I just wrote a letter and recalled how a year earlier, as 2018 began, I was talking about the way the market was melting up and predicting that the move would culminate in a major market decline within the next year. That didn't surprise a lot of friends at the time, because I'd been calling for a correction for over a year by then — and obviously I'd been wrong. I acknowledged that at the beginning of last year, but nonetheless, I insisted that the longer the market advanced without a meaningful decline, the greater the likelihood that the subsequent losses would be of a significantly greater magnitude.

A pretty good call, ultimately, I'd say.

Mark: Well, we certainly had a market correction — and we certainly had a feeling it was going to come — but I didn't think it was going to be as dramatic as it was, I admit. Still, these are the kind of opportunities that we live for — we want them. Of course, corrections are painful — nobody hates them more than I do. But they are an integral part of the investment process and in revaluing stocks, downturns create incredible potential upside.

How many times must it be said? Volatility creates opportunity; it isn't risk.

Mark: Volatility is your friend. Even though it's not always pleasant. Particularly now that 85% of all the stock purchasing is done by machines, and for whatever reason when momentum kicks in, the volatility just continues and continues and continues in one direction. It's interesting though, the volatility on the upside wasn't nearly as horrible as it was on the downside.

Who complains if their stock is going up?

Mark: True. But — I'll just give you an example of what has been going on. On the last day of the year, I was at home working. I was in front of my machine and so now it was 3:45 pm. Meaning that we had 15 minutes left in the trading day — if I remember correctly, the S&P at that point was up two-tenths of a percent — and then, within 15 minutes, it gained six-tenths of a percent. You know, one of the algorithms saw something that it liked and just went out and said, "you have to buy." The move was just extraordinarily fast — and what a way for somebody to buy shares. You don't buy at the market unless you really want to just bolster your performance. But that didn't really make sense at that close, because nobody's performance was any good last year.

A few did okay, still —

Jon: Well, everyone knows about tax-loss selling, but I don't know if anyone's ever done a study of what it's like in years when the market's down like it was. But there is nothing that investors hate more than having to pay capital gains taxes in a year when their portfolio is down for the year. So I think there was a real mad rush at the end of the year to lock in short-term losses to offset whatever you could. I think that was worse in 2018 than in other recent years — and that you can see that in what the rebound has been like so far this year.

Mark: That's a very good point. 2018 was the first year in a number of years when every long-term investor — who had substantial paper gains going back to 2007 and 2008 — had any significant losses they could use to offset them for tax purposes.

Take a look in your crystal ball. What's ahead for investors in 2019?

Mark: I would assume the volatility continues. I don't think it just stops on a dime because there are just too many passive investors out there. Also, as I said, the machines talk to each other, so I think you are going to have volatility.

Beyond that, as I mentioned, it didn't surprise me at all that we had a correction of some sort last year. But I was pleasantly surprised by how large the correction was in a lot of stocks. Really, the moves in the indexes were not at all indicative of just how badly many stocks performed.

It was a very bifurcated market. The FAANGs and then all the rest. Reminiscent of 2000.

Mark: Oh, absolutely. Or even the Nifty-Fifty. It was an extraordinarily bifurcated market when you had 65% or 70% of the S&P stocks down by 10% or 20% — or more. It has created value, at least in my eyes, for the first time in a long time. You can buy stocks that are yielding 3%, 4%, 5% that are selling at 10, 12 — even 8 times — earnings and you're doing it in an environment where the

10-year is under 2.7%.

A couple of months ago, you could make the argument that individuals could buy bonds or short-term debt instruments and get a return that was better than they were getting from stock dividends. But now that has reversed itself in a very, very short period of time. Now equities are much more interesting than any bond.

Jon: Looking at the names in our universe, we have many, many stocks with dividend yields between 2% and 4.5% to 5% — that are *good* companies. A large majority of them have the capability of increasing their dividends over time. Those are great places for people to be and can give folks some protection on the downside. They should be really good places to be for the next couple years.

Mark: Clearly, it's great cocktail party chatter pose the question, "Has the market bottomed? Have we finally washed everything out and is 2019 going to be an up year?" And it is unusual to have two consecutive down years in the major averages.

But not unprecedented —

Mark: True. But the crucial question for investors, as I see it, is whether a number of stocks are now at good entry points. And it's my belief that buying those stocks at these levels — even though they could conceivably go 10% or 15% or 20% lower — will generate very nice returns.

But they could always get cheaper first.

Mark: Anything's possible. But if they get cheaper, I'll buy more of them. My bet is that over the next 3 to 5 years those stocks will give you a very handsome return. To me, that's the most important thing. It is *not* what's going to happen to the market in 2019. It is, am I going to make money over two, three, four, five years by buying at these levels? As Jon said, there are a whole bunch of stocks that are really intriguing at current levels.

So you're going to persist doing old-fashioned active management of individual stocks? How retro is that?

Jon: Not only that, we're actually *buying* the shares of active management companies, which is even more dangerous.

Mark: Good point.

Jon: What's more, we're buying active *value* managers — it's like we're gluttons for punishment.

Rather like buying CDO^{2}s in 2006-'07?

Mark: You know, we *are* gluttons for punishment. But the fact is that if you could buy the entire companies at these levels, you would do it with your eyes closed. Just because transactions do *not* happen at these depressed levels. That means the question is when one of them decides to go private or when one decides to acquire another one? A catalyst will emerge and these things will not trade at — 5, 6, 7 times earnings. There will be an event that will change perceptions. Maybe there will even be one or two years in which active managers actually outperform the indexes. *Something* will occur that will unlock the value in these companies.

Which active managers?

Jon: Among active investment managers, I think Legg Mason (LM) is extremely interesting. It has almost a 20% free cash flow yield. It's been a horrific performer (down 33% last year) but —

You'd be hard pressed to find one worse.

Jon: Pretty much.

Mark: Well, Ameriprise Financial has probably been equally bad.

I forgot about AMP.

Jon: And I guess Franklin Resources (BEN) wasn't so hot, either. I mean, we're utilizing a blended 1% multiple of AUM in our valuation of Legg Mason. That gets us to an intrinsic value of $68 on a stock that's I think is trading at about $27 now. And you're getting a 5.1% yield now while you wait. What's more, our intrinsic value estimate doesn't assume any future growth in LM's AUM — or any future share repurchases.

Clearly, you don't buy the argument that active managers are dinosaurs, but what does Legg Mason have going for it?

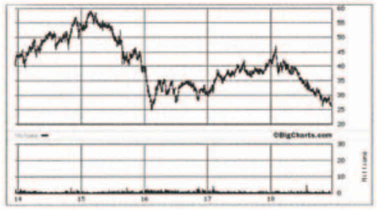
Jon: The travails of active managers are well-known, but Legg is a well-established player with impressive scale and diverse entrenched products that isn't merely resting on its laurels. It's shown a willingness to pursue strategic M&A opportunities and even has launched some ETFs. While the cost advantages of passive products is unlikely to go away any time soon, we are less convinced that the performance gap that has opened up between active managers and passive vehicles over the past decade will prove sustainable, long term. The market's sharp rise in volatility in 2018 likely will create a market environment more conducive to active strategy outperformance going forward. And it's not insignificant that Legg's performance record, even among the rough sledding of the recent past for active managers, has been notably solid. In fact,

Legg Mason, Inc.

Capitalization Summary ($MM)	
Price	$26.52
Diluted Shares (MM)	85.6
Market Cap	$2,270
Total Debt	$2,200
Cash	($861)
Enterprise Value	$3,609

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	0.9
52-Week Price Range	$47.13-$25.89
Short % of Float	3.8%
Major Shareholders	BlackRock: ~9%

LM
NYSE



Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$3,900
Price/Book Value	0.6x
EPS (ttm)	$3.26
Price/Earnings	8.1x
EBITDA (ttm)	$605
EV/EBITDA	7.2x
Dividend Rate/Yield	$1.36/5.1%

P&L Analysis ($MM) *Fiscal Year Ending March 31,*	2016	2017	2018	2019E*
Revenues	$2,661	$2,887	$3,140	$2,990
Operating Income	$422	$457	$553	$536
Margin	*15.9%*	*15.8%*	*17.6%*	*17.9%*
EBITDA	$561	$560	$637	$634
Margin	*21.1%*	*19.4%*	*20.3%*	*21.2%*

*FactSet Consensus Estimates

Catalysts/Highlights

- Stock decline ignores improved competitive position
- LM should resume significant share repurchase activity in 2019
- LM could be a candidate for industry consolidation

68% and 73% of LM's AUM have outperformed their relevant benchmarks over 3 years and 5 years, respectively.

So why has Legg's own shares performed so miserably?

Jon: Largely, I think, because LM has temporarily suspended share repurchases during recent quarters, so that it can focus its prodigious free cash flow on debt reduction. As a matter of company policy, Legg Mason had typically been returning the majority of the cash generated by its operations to its shareholders via repurchases and dividends. Thus, the company has increased its annual dividend for eight consecutive years and slashed its share count by around 30% over the last five years. But what happened was that it incurred debt late last year when it repurchased Shanda Asset Management's $225 million stake in LM shares at $40.50 apiece.

Now, Legg management expects to be able to retire the $250 million of senior notes it raised for the buyback in July — and, given the company's strong cash flow generation and depressed share price, we expect to see a significant buyback program restarted in the second half of this year.

So there would be a catalyst —

Jon: These are just cheap stocks. Listen, if passive management continues to just dominate, then there's an issue. But the VIX, as we talked about earlier, is at relatively high levels — and stock pickers generally do well when that happens. Stock pickers also do well in rising interest rate environments. So the table is set. Even just a reversion to the mean in theory makes this an attractive investment.

Well, retail investors are fleeing, I hear; that's usually a sign a bottom is near.

Mark: Yes, that's another good point. The pessimism is quite a bit higher — at least, it *was* until the market rallied over the last 10 days or so. They might turn on a dime —

Anything's possible, but that wouldn't be typical for that crew

Mark: True, and last quarter pessimism and redemptions were clearly rampant. I think December saw record mutual fund and ETF redemptions. And that's traditionally a great contrary indicator of a market nearing a bottom. But again, whether it was or wasn't a bottom, is important to me. I just want to buy securities at big discounts to what they're worth and then wait for the market to do its magic. Then, as you know, we tend to hold things — for decades in some instances — the idea is to compound at a nice rate and *not* take on Uncle Sam as your partner.

Put off paying capital gains, in other words.

Mark: I'll let my heirs worry about that.

Jon: We'll get a step up in basis, anyway.

Mark: Unless they do away with that — but that step up in basis *is* wonderful for heirs.

Well, there was a bit of good news today on one of your stocks – and it definitely popped – Dollar Tree (DLTR)

Jon: Oh, Dollar Tree. Yeah. It's amazing — you know Icahn doesn't subscribe to our service but he turns up in a lot of our names somehow — so he should.

Mark: Actually, he did. He was a subscriber in the '80s for quite a while — but it's very hard to collect from Carl.

Anyway, today's news wasn't from Icahn – Starboard Value said it too has been buying shares and wants changes there.

Jon: Interesting. I mean, Dollar Tree is a great example of the amazing way activism often works. Now, Icahn basically wants, I guess, to undo what he originally called for — Dollar Tree's 2015 acquisition of Family Dollar —

One deal leads to the next, whether they work or not.

Jon: Well, I see it popped a nice $5 a share on the open, after Starboard's announcement. It's really an interesting situation. It was part of thematic report

WOWS 2019 Issue Dates

January 11
February 1
February 22
March 29
April 19
May 17
May 31
June 14
July 12
August 2
August 23
September 20
October 11
November 1
November 22
December 13

that our research service put out in October — we do work every summer into something that's out-of-favor or contrarian ways to invest in themes. This last summer it was "Investing in the Age of Disruption." focusing on buying the likes of Hudson Ltd., JetBlue Airways, and Owens-Illinois — as well as Dollar Tree — as ways to escape "the Amazon effect" and such.

The discount variety store operator was a great example of a company fairly immune from the sorts of disruptive pressures Amazon has been bringing to bear against large swaths of retailing. To us, it looks like Dollar Tree is fairly immune to the Amazon effect because of the high cost of shipping its merchandise — relative to its value, its large number of convenient locations and the types of items it sells.

You're not likely to order a pack of gum or a roll of gift wrap from Amazon.

Jon: Right. Besides, people like going into Dollar Tree stores. There's something of a treasure hunt feel to the experience. There are actually lots of reasons people shop Dollar Tree. But our investment thesis certainly wasn't that Icahn or other activists were going to come in soon and suggest dismantling the business. It's not that we thought it *couldn't* happen, it was just that we were surprised at the timing. It will be interesting to see what happens. But for now, we'll take a mild victory. It was around $81 when our report came out, and it's pushing $100 now.

I assume you figure DLTR's intrinsic value is even higher?

Jon: Yes, it's selling now for considerably less than what we think it's worth. Our estimate of its intrinsic value is $131 share. The shares have been pressured due in large part to disappointingly weak operating results at the company's Family Dollar units, which it acquired for $9.1 billion in an on-again, off-again 2015 bidding contest with rival Dollar General — a competition that Carl Icahn played a role in stoking.

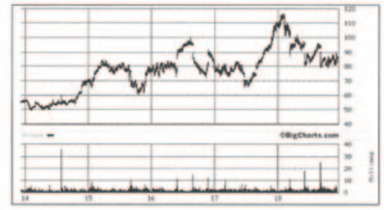
At current prices we don't believe investors are fully appreciating the strength of Dollar Tree's crown jewel chain, with its strong sales growth, industry-leading profitability (13%-plus operating margins) and robust prospects. Meanwhile, they haven't yet noticed that the outlook for its Family Dollar units, which had long been under-managed and even neglected by prior ownership, is looking up. A store renovation model has proven a success and is beginning to be rolled out aggressively, and

Dollar Tree, Inc.

DLTR
NASDAQ

Capitalization Summary ($MM)	
Price	$84.58
Diluted Shares (MM)	238.7
Market Cap	$20,189
Total Debt	$6,409
Cash	($708)
Enterprise Value	$24,525

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	3.6
52-Week Price Range	$116.65-$78.78
Short % of Float	2.4%
Major Shareholders	Insiders: ~1.5%



Valuation and Misc. Stats ($MM) 11/3/18	
Book Value	$7,943
Price/Book Value	2.5x
EPS (ttm)	$7.75
Price/Earnings	10.9x
EBITDA (ttm)	$2,585
EV/EBITDA	9.5x
Dividend Rate/Yield	N/A

P&L Analysis ($MM) *Fiscal Year Ending January 31.*	2015	2016	2017	2018E*
Revenues	$15,498	$20,719	$22,246	$22,813
Operating Income	$1,050	$1,705	$1,999	$1,849
Margin	*6.8%*	*8.2%*	*9.0%*	*8.1%*
EBITDA	$1,537	$2,342	$2,610	$2,456
Margin	*9.9%*	*11.3%*	*11.7%*	*10.8%*

*FactSet Consensus Estimates

Catalysts/Highlights

- Family Dollar store renovations are delivering strong results, and their pace will accelerate in FY 2019
- $300 million in annual synergies was recently achieved, and further savings are likely from streamlining distribution
- Share repurchases could resume with debt down meaningfully in the wake of the 2015 Family Dollar acquisition
- DLTR is an all-weather stock, and the business has historically delivered strong performance during difficult times

the rebranding of some underperforming Family Dollar Stores as Dollar Tree units also presents attractive opportunities. Meanwhile, Dollar Tree's management team is focused on measures to improve its acquisition's operating margins, which lag behind its own, and the competition. And, that Dollar Tree recently achieved $300 million in annual synergies from the merger, in our view, is evidence its management is gaining traction. But clearly, some of the activists aren't as patient as we are.

Clearly. Tell me about another of your forgotten stocks.

Jon: Did you look at our write up of Acushnet?

I did. Ironic that a company with such high-profile products, flies so far under the radar. Though someone was trying to send a message when they took GOLF as its ticker symbol.

Jon: So true. But good for us. One of the things we like to do here is look for great consumer franchisers that are masked by anodyne corporate names. Believe it or not, that very often leads to valuation discrepancies. I talk to a lot of hedge fund managers and mutual fund managers — and when I bring up Acushnet —

They say, "What's that?"

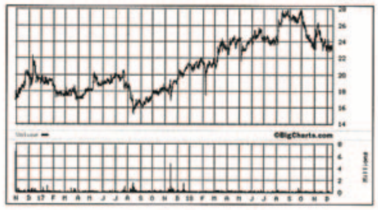
Jon: At best. Sometimes, it's just, "Next?" When I tell them that Acushnet Holdings Corp. owns brands like Titleist golf balls and FootJoy golf shoes and gloves, that gets them excited. But a lot of times, if the name just pops up on a screen or something, they'll just glance over it.

Yet Acushnet is a real company. Generated around

Acushnet Holdings Corp.

GOLF
NYSE

Capitalization Summary ($MM)	
Price	$23.17
Diluted Shares (MM)	75.9
Market Cap	$1,758
Total Debt	$406
Cash	($58)
Enterprise Value	$2,106



Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	0.2
52-Week Price Range	$27.87-$17.55
Short % of Float	13.0%
Major Shareholders	Fila Korea: 52.6%

Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$885
Price/Book Value	2.0x
EPS (ttm)	$1.26
Price/Earnings	18.4x
EBITDA (ttm)	$236
EV/EBITDA	8.9x
Dividend Rate/Yield	$0.52/2.2%

P&L Analysis ($MM)

Fiscal Year Ending December 31,	2015	2016	2017	2018E*
Revenues	$1,503	$1,572	$1,560	$1,634
Operating Income	$118	$141	$166	$179
Margin	*7.8%*	*9.0%*	*10.7%*	*11.0%*
EBITDA	$215	$228	$223	$233
Margin	*14.3%*	*14.5%*	*14.3%*	*14.3%*

**FactSet Consensus Estimates*

Catalysts/Highlights

- The latest iteration of the Company's Pro V1 franchise will be formally launched in early 2019
- Recent new golf club (TS Drivers/fairway woods) and golf ball (AVX) introductions have been well received by consumers
- GOLF amended its credit facility in June 2018 to allow for share repurchases; a $20 million authorization was established
- GOLF's FCF is becoming apparent, and we would not be surprised if it were to boost its payout or pay a special dividend

$1.6 billion in sales last year. Commands great market share. Titleist and FootJoy have been the No. 1 golf ball and shoe for the last 70 years.

But golf isn't exactly a booming sport, especially among the younger generations, is it?

Jon: That's where you're wrong. Golf has actually started to stabilize in terms of participation rates. The number of beginning golfers reached 2.6 million in 2017. It has increased at 9% compound annual rate since 2011 — and a large part of that is because women are really taking up the game.

Besides, like the other stocks we've been talking about, Acushnet is a terrific free cash flow generator. That was masked, initially in the financial documents issued in connection with its IPO, because the company had been owned by private equity interests — and so it was paying *a lot* of interest expenses. Also because of big one-time payments to executives, in 2017, related to its prior private equity owners. But in the first nine months of 2018, it generated $110 million in free cash flow — compared with $30 million in the year-earlier period. And GOLF is paying down debt and increasing its dividend. It has also announced a share repurchase program.

What is it worth, do you think?

Jon: Well, the stock is selling for $22; we think it's worth $33 — and we think it could be a takeout.

Because?

Jon: It is 52% owned by FILA Korea — and we wouldn't be surprised if they bought the whole thing.

Acushet could probably levitate its shares on its own, simply by calling itself Titleist or Footjoy — or just GOLF.

Jon: Yes, and I could save them the few million dollars that McKinsey & Co. would charge to tell them to do that! I never understood why some companies hide behind bland monikers. I heard similar stories from my dad when I was growing up. Gatorade was buried deep inside Stokely-Van Camp, but its great consumer franchise was worth more than the entire rest of the company — and eventually Quaker Oats bought Gatorade. Crayola Crayons was hidden under another oddly named —

Mark: Binney & Smith owned Crayola. But few investors knew what they did, and most people don't want to do the research to find out. Eventually, thought, with quality stocks like these, someone figures it out and they are revalued.

It wasn't even a year ago that people were moaning that the halcyon days of finding value stocks trading for less then tangible book or even at 5 to 7 times earnings were gone for good. But after December, we're a lot closer, it seems.

Mark: I've heard that many times in my career, particularly during the internet boom. Then, they called us dinosaurs; said the way we looked at businesses had to change. Said value would never come into favor again. Then, we had the last two or two and a half years, when these FAANG stocks just were the cat's meow. They didn't make any sense — some of them still don't. But when you had all this passive money pouring into the market, passive investors were bidding up all these things to extreme levels. They didn't really care about the individual stocks to the extent that they should have, but in buying slugs of index components, they drove multiples to extreme levels. Now, however, they've come back down, in many cases to the points where they are getting attractive again.

I was a bit surprised to see a couple of banking Goliaths in your Forgotten Forty —

Mark: You mean Bank of America (BAC) and JPMorgan Chase (JPM)? I'm at a loss, I'll tell you. When Bank of America was in single-digits, my back-of-the-envelope model said that they had $2.50 of earnings power and that the stock should sell at $30. Now, they are probably going to earn $2.50 this year, or close to it, and the stock is around $25, down from $33-$34. Meanwhile —assuming we don't have a calamity — the earnings power at Bank of America in three or four years could get up to $4 a share, and so you could have a $40 stock.

Let's hope that's not a wildly optimistic assumption! But isn't Bank of America more exposed to shifts in interest rates than its peers?

Jon: That perception, on the part of investors, probably explains BAC's sharp selloff during the recent spate of macro uncertainty. As of the end of the third quarter, the bank estimated that a one-percentage point negative parallel shift in the yield curve would cost it about $4.3 billion in net interest income, while a like move in rates the opposite direction (up) would add around $2.9 billion. Those numbers work out to about 9.6% and 6.5% of 2018 net interest income, respectively.

So it is less leveraged to rising rates —

Jon: Nonetheless, we believe BAC is well-positioned to benefit from rising rates. Because its deposit betas (which is a measure of the proportion of a Fed rate hike passed on to clients) are well below 1, BAC captures higher net interest income as the Fed raises rates. Plus, at BAC, unlike many banks, transactional checking accounts — which are non-interest bearing — are still growing, further enabling the company to grow net interest income as it invests those funds at higher rates, while paying only slightly higher rates on deposits.

What about vulnerability to slowing GDP?

Jon: Well, BAC management expects its loan growth to be in the mid-single digits amid a U.S. economy growing at 2%-3%. But the thing is, the company has consistently grown its deposits more quickly than its loans — while investing the excess funds in its securities portfolio at increasingly higher yields.

Which doesn't tend to endear it to consumer advocates.

Jon: No, BAC has been especially conservative in its credit portfolio, even compared with peers who were similarly chastened in the financial crisis. It has clearly been targeting upper-income households, as the high average FICO scores of its credit card and consumer loan customers demonstrate.

While this has clearly depressed BAC's loan growth in the recovery, it's certainly beneficial to shareholders from risk and capital efficiency standpoints. And, as long as the macro trend remains relatively stable, we expect these trends to continue, enabling net interest income to grind higher while expenses — driven by CEO Brian Moynihan's focus on removing excess costs from the business to generate positive operating leverage — continues to bear fruit.

Bank of America Corporation

BAC
NYSE

Capitalization Summary ($MM)	
Price	$24.52
Diluted Shares (MM)	10,171
Market Cap	$249,388
Total Debt	N/A
Cash	N/A
Enterprise Value	$249,388

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	61.5
52-Week Price Range	$33.05-$25.30
Short % of Float	1.2%
Major Shareholders	Berkshire Hathaway: ~9%

Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$24.33
Price/Book Value	1.2x
EPS (ttm)	$2.12
Price/Earnings	13.9x
EBITDA (ttm)	N/A
EV/EBITDA	N/A
Dividend Rate/Yield	$0.60/2.5%

P&L Analysis ($MM)

Fiscal Year Ending September 30,	2015	2016	2017	2018E*
Revenues	$82,965	$83,701	$87,352	$91,355
Net Income	$14,427	$16,140	$16,618	$26,398
Margin	*17.4%*	*19.3%*	*19.0%*	*28.9%*
BV per share	$22.54	$24.04	$23.80	$24.74
ROCE	*9.1%*	*9.6%*	*9.7%*	*15.1%*

*FactSet Consensus Estimates

Catalysts/Highlights

- Asset sensitivity, low deposit betas, and higher yields on investments enable the Company to benefit from rising rates
- Conservative loan growth protects against downside risk while maximizing capital efficiency versus peers
- Strong cash return program of >90% of earnings should continue, leading to an ~13% reduction of share count

Over the 15 quarters through Q3 2018, he succeed in compressing BAC's efficiency ratio (non-interest expense as a percentage of revenues) to 57% from 69.4% — and he's still at it. We expect to see that ratio at 56% in 2020.

Mark threw out a $40 number for the stock a few years out. What does your intrinsic value math say BAC is worth?

Jon: The December selloff pounded the stock to under $25, or trading at about 1.4 times tangible book value (as of the end of Q3). When we conservatively value the company, we use 1.8 times estimated 2020 tangible book to arrive at an intrinsic value estimate of $35 a share — or roughly 40% upside from recent levels. We expect BAC to command that slightly higher multiple as it continues returning cash to shareholders, responsibly growing its loan book and benefitting from high rates. But, if the multiple instead remains frozen, our calculation of estimated 2020 intrinsic value still works out to $27 a share. Granted, that's not significant upside, but it does show you what kind of a margin of safety recent share price declines are putting on offer.

Is your JPMorgan Chase story similar?

Jon: In many respects. JPM is the best-in-its-class banking stock; it leads its peers in equity, dividend yield and technology — where investments will continue to generate operating leverage and push further reductions in the bank's efficiency ratio. What's more, JPM's model is more diversified than many of its rivals', which offers it some protection in downturns while still positioning it to capitalize on a rising rate environment.

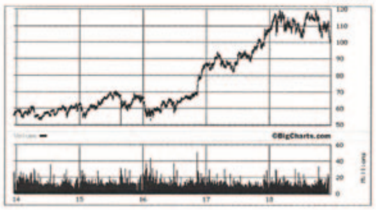
In fact, JPM has led its sector in terms of technolo-

JPMorgan Chase & Co.

Capitalization Summary ($MM)	
Price	$101.02
Diluted Shares (MM)	3,394
Market Cap	$342,892
Total Debt	N/A
Cash	N/A
Enterprise Value	$342,892

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	14.1
52-Week Price Range	$119.33-$99.28
Short % of Float	0.6%
Major Shareholders	Berkshire Hathaway: ~1%

JPM
NYSE



Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$69.52
Price/Book Value	1.6
EPS (ttm)	$8.08
Price/Earnings	14.0x
EBITDA (ttm)	N/A
EV/EBITDA	N/A
Dividend Rate/Yield	$3.20/3.2%

P&L Analysis ($MM) *Fiscal Year Ending September 30,*	2015	2016	2017	2018E*
Revenues	$96,633	$99,142	$103,641	$111,125
Net Income	$22,651	$22,834	$22,567	$31,554
Margin	*24.2%*	*23.9%*	*22.7%*	*28.4%*
BV per share	$60.46	$64.06	$67.04	$70.61
ROTE	12.7%	12.5%	12.7%	17.3%

*FactSet Consensus Estimates

Catalysts/Highlights

- Best-in-class banking stock leading its peers in return on equity, dividend yield, and technology
- Technology investments will continue to yield operating leverage and lead to a further reduction in efficiency ratio
- Diversified model protects the Company in a downturn while still positioning it to capitalize on a rising rate environment

gy investments, with stakes in a blockchain information network that might become a rival in international money transfer to the SWIFT system, as well as in robotics and artificial intelligence to automate processes and cut costs, in consumer-to-consumer payments via applications like Zelle and Chase Pay, in shared tech infrastructure in the cloud and data centers, and in JPMorgan Chase APIs that allow its customers to add simple payments capabilities to its software. All of that is helping JPM attract younger customers, who shy away from "traditional" banking. And where younger generations are becoming increasing important to JPM's wealth management business, where it claims an 8% share of the global ultra-high net worth market.

What's your investment case here?

Mark: JPMorgan Chase is selling now at a ridiculous multiple and yields over 3% — all these companies are going to be able to increase their dividends significantly over the next three or four years. Their balance sheets are as good as they've ever been since I started following them and I said last year that I expected narrowing spreads to be the catalyst that got banking stocks revalued — but now everyone's saying "their time has come and gone" and they never moved to the levels they should have. It's frustrating. But I've been doing this so long, I know it will happen eventually. There will be some catalyst, at some point, and they will sell at significantly higher prices than they are now.

Jon: The macro fears that inspired the December selloff in the banks knocked JPM shares down to just around $100 — where they're trading at roughly 1.8 times tangible book. Yet they are still providing a 17% return on tangible common equity, up from 12% in 2017. The upshot is, the best-in-class is now trading at an attractive price — and we expect its continuing investments in technology and management focus will lead to further improvements in its efficiency ratios and return on tangible common equity. Optimistically then, we calculate that JPM's intrinsic value is worth 2.2 times our estimate of its 2020 tangible book, or $139 a share. But even our pessimistic calculation, with JPM's multiple held static at today's depressed level, puts the banking behemoth's intrinsic value at $114 a year out. We like that ample margin of safety.

Tell me about another neglected value —

Mark: Jon mentioned the Atlanta Braves as one of our stocks that we've been in for quite a while — and made a lot of money with — but is still probably at least 50% undervalued. Well, The Madison Square Garden Co. (MSG) is another.

When you look at Madison Square Garden, it's got a $6.3 billion market cap, but it's got a $1.2 billion in cash — so you're paying $4.9 billion for the Knicks, the Rangers, Madison Square Garden, Manhattan development/air rights — a wonderful entertainment company. MSG has *a lot* of free cash flow — they have long-term leases on Radio City Music all, they own the Forum in California. If you go through it and value all of the parts, you quickly get to numbers 50% or 60% or 70% higher than the valuation the stock is selling at.

That high?

Mark: Sure. They've announced that they are going to spin out the basketball and hockey teams — the Knicks and the Rangers — into a separate company. The two of them alone will probably be valued — even if you insist on applying a discount to what somebody would pay to buy them outright — at $3.5 or maybe $4 billion when that business trades separately from Madison Square Garden.

I don't know. Are the Dolans really ever going to let go of those properties?

Mark: That's the thing. Jim Dolan gave a very lengthy interview to ESPN Magazine recently and said something that he'd never said before: that he would consider selling the teams. Now, shortly thereafter, the parent company put out a statement saying that Jim Dolan's comment hadn't been approved. But we've been involved with Dolan stocks for 20-some odd years and usually they trade at a "Dolan discount."

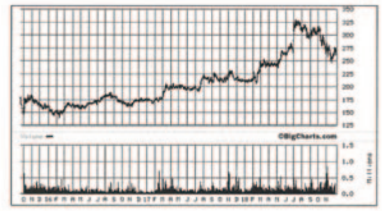
Exactly what I was getting at.

The Madison Square Garden Company

Capitalization Summary ($MM)	
Price	$266.55
Diluted Shares (MM)	23.7
Market Cap	$6,319
Total Debt	$103
Cash	($1,101)
Enterprise Value	$5,321

Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	0.2
52-Week Price Range	$327.30-$208.74
Short % of Float	4.0%
Major Shareholders	Dolan Family Group: 21%; 71% voting

MSG
NYSE



Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$2,530
Price/Book Value	2.5x
EPS (ttm)	NM
Price/Earnings	NM
Adj. EBITDA (ttm)	$154
EV/EBITDA	NM
Dividend Rate/Yield	N/A

P&L Analysis ($MM)

Fiscal Year Ending June 30,	2016	2017	2018	2019E*
Revenues	$1,115	$1,319	$1,559	$1,626
Operating Income	$68	$98	$194	$233
Margin	*6.1%*	*7.4%*	*12.4%*	*8.7%*

*FactSet Consensus Estimates

Catalysts/Highlights

- Spinoff of MSG Sports (~1H 2019) should help narrow the gap between MSG's public and private market values
- Sports gambling legalization could present new revenue streams and boost the valuation of MSG's sports franchises
- MSG could utilize a portion of its large cash balance (~$1.1 billion) to repurchase shares following recent sell-off

Mark: But the fact of the matter is they're very good partners. We've made a lot of money with Cablevision; we've made a lot of money with Madison Square Garden. Jim Dolan does things that enhance shareholder values that he doesn't get credit for and they sell at these huge discounts.

I mean, he pretty much telegraphed that he was going to sell Cablevision — and he got significantly more for the company than we thought he would. Now, he's kind of telegraphing that he's going to sell the Knicks and the Rangers. If that happens, the stock will probably get close to what we believe its intrinsic, or private market, value is.

Jon: In that same article in ESPN Magazine that Dad mentioned, Dolan also hinted that he's fielded offers of $5 billion for the Knicks, alone.

Mark: Yes, and that's not a stretch if you look at what some of the other NBA teams have gone for. I've always said that if they ever put the Knicks up for sale it would spark a huge bidding war, just in New York City. Yes, it's a horrible basketball team, but they fill the arena up all the time. There's not much growth in professional teams, however they command large prices when they're sold and I think that will continue.

They're the ultimate trophy properties for billionaires — males ones, at least.
Mark: Particularly the Knicks.

Jon: Any New York City team, actually.
Mark: Listen to Mike Krzyzewski from Duke. He takes his team up to New York at least once a year because he says it's because playing in Madison Square Garden is what every college basketball player aspires to —

I'd never argue with Coach K.
Mark: MSG is just a unique collection of trophy properties. The high on the stock was like $330 — it's $268 now — but we think it could be worth $400 a share or more.

Jon: Let me put it this way — at current levels, MSG is valued at an enterprise value of around $5.3 billion. Which means that investors are effectively acquiring the NY Knicks franchise at its private market value and then receiving on the order of $5 billion in additional asset value, for free. That includes the NY Rangers, and MSG's swollen cash coffers of $1.1 billion, plus first-class entertainment venues like the Garden, the LA Forum, Radio City, hidden real estate upside and a raft of other investments.

It shouldn't be lost on investors that Silver Lake, the huge private equity firm, recently increased its stake in MSG from 5% to 6% a valuations that ranged from $260 - $300 a share. And we wouldn't be surprised if MSG decided to use some of its cash stores to repurchase shares around these now-depressed prices.

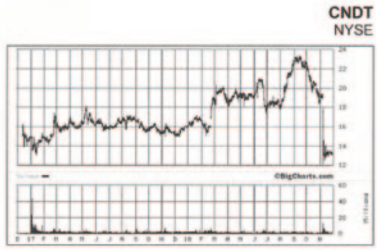
But we think the planned spinoff of the sports teams in the first half of this year is what's likely to really help narrow the discount between the teams' public and private market values and pave the way for their sale. Especially since Jim Dolan is said to be focused on expanding the company's entertainment venues into new state-of-the-art "MSG Spheres," we in fact see the sale of the teams as a distinct possibility — and expect the prices they'd command to be eye-watering.

Then there's also still opportunity in MSG Networks (MSGN) which was spun out of Madison Square Garden — even though it was one of our best-performing "Forgotten Forty" last year, up 25%.

It didn't make this year's list —
Jon: We just had too many choices this year. But with what's going on with Disney and their sports networks that they're going to have to divest because of the Fox deal, it wouldn't surprise us to also see some sort of deal emerging involving MSGN. It doesn't really makes sense for it to remain an independent network. Should that happen, we figure its value could be as high as $40 a share and it's now, what? $25.

Conduent Incorporated

Capitalization Summary ($MM)	
Price	$11.68
Diluted Shares (MM)	211.3
Market Cap	$2,468
Total Debt	$1,577
Cash & Investments	($586)
Enterprise Value	$3,459



Share Ownership and Trading Data	
Average Daily Trading Volume (MM)	2.2
52-Week Price Range	$23.39-$11.24
Short % of Float	2.9%
Major Shareholders	Carl Icahn: 12%

Valuation and Misc. Stats ($MM) 9/30/18	
Book Value	$3,359
Price/Book Value	0.7x
EPS (ttm)	$1.10
Price/Earnings	10.6x
EBITDA (ttm)	$713
EV/EBITDA	5.3x
Dividend Rate/Yield	N/A

P&L Analysis ($MM)

Fiscal Year Ending December 31,	2015	2016	2017	2018E*
Revenues	$6,778	$6,491	$6,022	$5,371
Operating Income	$326	$357	$418	$423
Margin	*4.8%*	*5.5%*	*6.9%*	*7.9%*
EBITDA	$639	$635	$672	$644
Margin	*9.4%*	*9.8%*	*11.2%*	*12.0%*

*FactSet Consensus Estimates

Catalysts/Highlights

- CNDT will continue to achieve margin expansion
- Revenue comparisons should gain momentum during 2019
- Bolt-on M&A will bolster profits and growth UX

Mark: That would be a very modest multiple of MSGN's free cash flow. And, *if* the Knicks ever got a good team — its network's subscriber base would increase dramatically.

Talk about a big "if"!

Jon: Well, the legalization of sports gambling is going to be a boon for both MSG and MSG Networks — as well as for Liberty Braves.

Mark: It's already starting.

Jon: Right, Neilson did a study that said Major League Baseball will increase its revenues by about $1 billion dollars a year if they do gambling, and that flows through to the teams. Think about how it will impact MSGN, where they're going to get new advertisers — all the sports books will want to be on their network. Even with the Knicks having a lousy team, if you're betting on the game, you're going to watch it.

You think the leagues' traditional resistance to sports gambling is crumbling? They'll follow the money?

Mark: No doubt. They'll get a share of the revenue which is generated by the "legal bookie" and a lot of them have already signed agreements with the persons who is going to take the bets. This is only the beginning, but I think legal gambling will significantly increase the value of sports franchises.

There's going to be a time when you come into Madison Square Garden and find a small computer at your seat on which you can not only bet on the game's outcome, but on things like who is going to score next. There will be *lots* of ways to interact. And the teams will get participations in all the revenue that accrues. That's going to happen. And increase the values of the teams. Bookies are already advertising on TV here for people to open accounts.

Jon: I don't know if he was being tongue-in-cheek, — and I take everything he says with a grain of salt — but Mark Cuban said that legalizing sports gambling doubled overnight the value of his teams. Granted, he has his own incentives for saying that. But the sentiment I think is directionally correct.

Let's switch gears and look at one of the really unfamiliar names on your list —

Jon: How about Conduent (CNDT)? It's pretty obscure, though it's another Carl Icahn name, and also a spinoff from Xerox.

Mark: Right. Carl keeps on buying the stock; owns around 12% of it now.

What's the attraction?

Jon: Conduent is a very interesting situation. They've been shedding non-core divisions and doing the right things — essentially, it is a business process outsourcing company that Xerox spun out at the beginning of 2017, in what was basically an admission by Xerox of the folly of its 2010 acquisition of Affiliated Computer Services. That is a whole other long, sad story.

Suffice it to say that Icahn pressured Xerox to make the move and the new company's CEO was handpicked by Carl Icahn to turn Conduent around. I think he was at his last job for a year, or year-and-a-half before they sold the company at a nice profit. This one is probably going to take a bit longer, but its peers sell at 12 multiples and right now CNDT trades at about 8 times. It's a cheap stock in a restructuring mode, which is giving us an opportunity. Betting with Icahn usually is a pretty good bet. Besides, our intrinsic value estimate of Conduent is $20 a share, which allows considerable upside.

Sounds like a better bet to me than any of the FAANGs here. Then again, I actually remember the "Nifty-Fifty's" demise —

Mark: I remember well when Morgan Guaranty said the "Nifty Fifty" were one-decision stocks: You buy them, you hold them, you never have to sell them. Their earnings are going to increase dramatically no matter what happens in the economy.

Didn't work so well, did it?

Mark: Then 1974 came and we had the recession and all those stocks lost 85% of their value from top to bottom. A lot of them never came back close to what they were selling for at the top. Polaroid was one of those, the first big cap stock that ever traded at 100 times earnings. Sears was another. So was Xerox. Today, the question is which FAANG stocks are going to wind up going down to levels you can't imagine. Because trees don't grow to the sky forever.

More importantly, perhaps, for the market, is the question of where its leadership is going to come from, if the bull is really resuming his run. Because it will need more leadership than just the FAANG stocks. This market has to broaden out and people have to start to gravitate to the kinds of stocks that we're talking about for it to continue any kind of healthy advance, because they're the cheapest part of the market. Otherwise, while the indexes might continue to go up with the FAANGs, investors will be paying exorbitant prices for the stocks driving the move.

Which is ultimately a mug's game.

Mark: Yes. I guess if you're a portfolio manager of a hedge fund that buys these things you believe you're smart enough to get out before the party's over. Maybe you will.

Jon: But we're going to hear that bell.

Enough said! Thanks, guys.