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listening**in**

Tale of Two Markets

Boyar Research's Jon Boyar Spies Opportunities in Overlooked Stocks

Hope springs eternal, the saying goes — though I oft need reminding, living as we are, under the scourge of Trumpism and the literal plague and economic disaster called Covid-19.

So take it as an act of faith that I turned for this issue's interview to Jon Boyar, he of the noted value house of Boyar, more properly known as Boyar Intrinsic Value Research, LLC. — and son of estimable Mark Boyar, who founded Boyar Asset Management back in 1983. Jon, a lawyer by training but a value analyst by birth, took the helm at their independent research operation about a decade ago, and has turned it into something of a juggernaut of private business valuation analysis.

When I last interviewed Jon (and his dad) 2019 was new and hopes of a value resurgence abroad in the land. Alas, that was not to be, but somehow most of their ideas fared better than the average misbegotten value index, at least until the pandemic hit. This time, I was looking for insight into the markets' staggering insouciance and bifurcation. Jon did not disappoint, even as I tortured him, spreading the interview across a couple of weeks. Listen in. — KMW

Jon Boyar

Greetings, Jon. When we last spoke you were about to take your family to your daughter's sleep away camp for a week. Did you all survive?

Jon: Yes, there is a lake there and they couldn't operate normally, so they offered the cabins to families of their regular campers. The kids had a great time and the adults had a good time — a change of scenery from where we've been since March. We were happy to leave the house.

I'll bet. Living at the beach, we normally have a lot of summer visitors — but not this year. At least our toddler granddaughter has come, with her WFH parents, when they lost their babysitter to quarantine.

Jon: Oh boy. Yes, that's the problem.

Happily, it was a false alarm. But you're probably looking at the approaching school calendar as a huge question.

Jon: Yes. I see both sides of the issue. For the kids, it's just so much better for them to be in school. But obviously everyone's health is the most important thing, so it's a really hard balancing act

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to find some sort of solution. At least in New York, case counts are down. But when they're up everywhere else, it's hard to believe that they're going to stay down here. I'm glad I don't have to make those decisions.

Starting up school systems isn't like flipping a switch.

Jon: Not to mention that many adults involved, teachers and staff, have very legitimate concerns about exposure to coronavirus.

Absolutely. The adults are definitely vulnerable. And even if Covid-19 doesn't *seem* to attack *most* kids as savagely, *some* are getting quite sick, even dying. Besides, have you ever known a kid who wasn't a very efficient little virus spreader?

Jon: It's impossible. Things aren't going to get back to "normal" until there are much better therapeutics or an effective vaccine. At least the preliminary results we're seeing released about the research have been promising. It seems like the question will be the duration of the protection any of the vaccines might offer. But who knows when any of them will actually be widely available? The end of this year, beginning of next, middle of next? It's anyone's guess at this point. But I'm trying to be optimistic.

Any of those outcomes would be record-setting. But our inability to do wide-scale testing in a timely fashion doesn't build much confidence that we can pull off a mass inoculation program.

Jon: No, not at all. There are huge logistical — and educational — issues. At least what the government's doing in financing the start-up of mass production of four or five vaccine candidates sounds smart — assuming at least one of them is safe and effective.

It's still a crap shoot. But I'd love to get a shot and be able to thumb my nose at the whole thing.

Jon: Still, who's going to be the first one to take it? We won't know what the long-term effects are — there will be a lot of unknowns when you haven't done years of study, as my wife, a neurologist, reminds me.

Excellent point. Science isn't an instant-gratification pursuit. So wash your hands, wear a mask and socially distance. Then rinse and repeat.

Jon: The next few months will be interesting. Hopefully, we get some good news, but we definitely have to proceed with caution.

It's funny. I was listening to an interview the other day with Jon Stewart — a smart and funny guy. To try to make himself feel better, he said, he started reading a book about the 1918 flu. He thought he'd discover that they took some wacky preventative measures — but what they advised was "wear a mask." So how far have we really progressed over 100-some years? Not far.

"We're living through a tale of two markets. There's the big five — or the big six or the big seven if you want to include Netflix (NFLX) and Tesla (TSLA) — then there's everything else. I've got to believe — we saw what happened the last time the market got this bifurcated —"

True. But history also shows that the worst outbreaks then were where people rejected that advice. Where people wore masks, the epidemic wasn't as deadly.

Jon: Yes, It's so obvious to me. I don't get the resistance. That it's become so politicized is really unfortunate — it's such a very inexpensive and effective technique. But it's never a win when you start talking politics.

Amen. How's Mark — your father — doing in all this? Is he down in Florida or here?

Jon: He's up here. He was here in March and it didn't make sense to go down there when they were making New Yorkers quarantine —

How that table has turned —

Jon: Yes, so he stayed here, which was nice from a personal perspective. They don't live far away, so we can take the grandkids to visit them, at least from the backyard, which has been fantastic. Logistically, from a business perspective, we can work from anywhere, as you know. I'm not a believer that the world is changed and we'll be working from home forever.

I really think there's a value in human interaction, fostering creativity and all of that. But this pandemic has certainly shown that many people can be exceedingly productive at home.

Thank goodness we heavily invested in technology. Our whole team is basically on the Microsoft cloud and in constant video meetings. Just eliminating all of our commuting time has increased productivity immensely — I think in some ways we've done some of our best work outside of the office. Still, I'm very much looking forward to getting back into Manhattan because it's just psychologically better to be physically with your team.

Unemployment benefits by Adam Zyglis, The Buffalo News

FaceTime or Zoom or any of the rest are still only two-dimensional.

Jon: Yes, it's not the same. But effective collaboration *is* possible. If this pandemic had happened even five years ago, I don't know what we would have done. Boyar Research is *very much* a team effort.

Working remotely in isolation wouldn't have been nearly as productive. The white-collar economy would have been cratered like the blue —

Jon: We are very fortunate to be in a business we can do from anywhere. I feel terrible for so-called essential workers or people who have retail businesses of any kind —

They're screwed.

Jon: They are. Those are months of business they're never going to get back. At least the PPP [Paycheck Protection Program] has helped some people, though it was an absolute mess when it was rolled out.

Extended jobless benefits and emergency food stamps have reached more — but now that's all up in the air. And it's not like all those millions of people have *voluntarily* quit working.

Jon: I saw this interesting stat. The job postings on Indeed.com as of July 10, were 23% lower than in 2019. I understand the argument that we don't want to incentivize someone *not* to go back to work, but the fact is that so many jobs have just disappeared that many people have *no choice*. There has to be some balancing. The Labor Department, the Bureau of Economic Analysis, has released some scary statistics on unemployment benefits as a share of personal income. The number has run around 1% for probably 20 years and now it's 6% [chart next page].

As Jamie Dimon observed during JPMorgan's latest conference call, "This is not a normal recession. The recessionary part of this, you're going to see down the road...you *will see* the effect of this recession — you're just not going to see it right away

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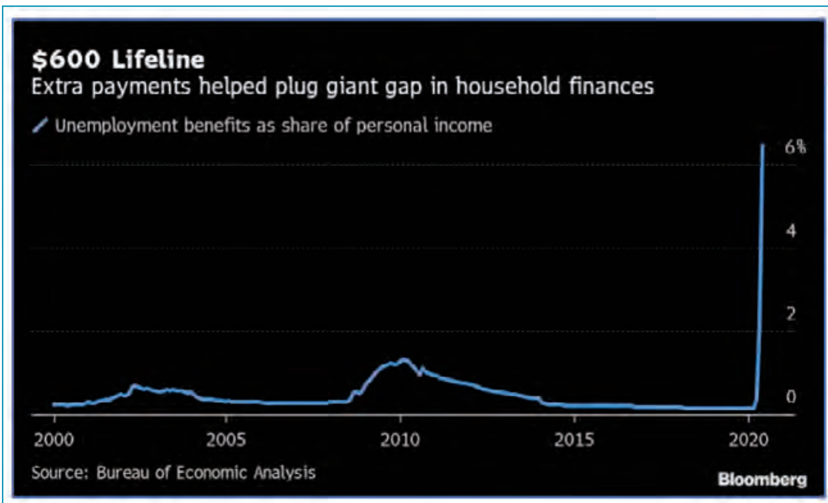

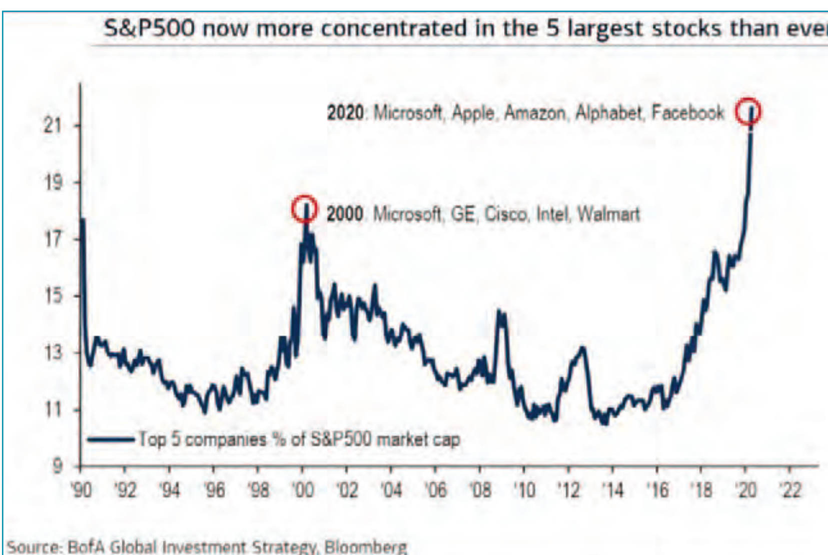

because of all of the stimulus." And the Labor Department's stats show just what a huge lifeline the stimulus has been for Americans who, through no fault of their own, lost their jobs. My guess is that the politicians will do something to prevent all those programs from falling off a cliff — just because we're in an election year, if for no other reason — but especially with the economy still on such shaky ground and effective vaccines and treatments still many months off, at best. If nothing is done, the "recessionary part" of the recession Mr. Dimon spoke of will become quite evident. If that lifeline is significantly withdrawn, the nascent recovery derails.

Alas, pols never act until they wring every political "advantage" they think they can out of a cliff-hanger.

Jon: True. And you never want to see how the sausage is made. The CARES Act early this year wasn't perfect, but they acted much more quickly than they did in somewhat similar circumstances in 2008/2009. Hopefully, they can rediscover that urgency with the election even closer. We'll know soon enough.

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"In God, we trust." In this government, not so much. Though the stock market has been pretty unperturbed so far —

Jon: Well, it's been an interesting year. Certainly one we'd prefer to forget. The broad stock market averages don't show the pain that's been experienced through the breadth of the market.

That's the understatement of the year, although investors in the bond, currency and gold markets have been registering some alarm of late.

Jon: Yes, it's really amazing. I love going through stats showing the impact of market weighting on the S&P 500 — because, of course, it's a market-weighted index and the larger the market capitalization of a company, the larger its impact on the index's return. These numbers are through July 10, meaning they've gone even higher, because the stocks have gone up. But through July 10, on average, the weighting of the five mega-cap technology stocks — Microsoft (MSFT), Apple (APPL), Amazon (AMZN), Facebook (FB), Google [Alphabet] (GOOG) — was 19.35%. More specifically, Microsoft's average weight for the year-to-date was 5.34%, Apple's 5.09%, Amazon's 3.71%, Facebook's 1.96%, and Alphabet's 3.25%. [As of Aug. 6, their combined weighting was 19.7%.]

You had to add together the weightings of the next 19 biggest companies [now, the 20 biggest] — including the likes of Berkshire Hathaway (BRKA), Procter & Gamble (PG), Johnson & Johnson (JNJ) and JPMorgan (JPM), really big companies — to get a weighting equal to the Big Five Techs. What's more, when measured through July 10, the S&P 500 had actually dropped slightly, by 0.41% [It was up about 4% at Thursday's close.] But those mega-cap techs had generated an average return of 31.7% [33.6%, as of 8/6/20], so the high-flyers are masking a lot of pain that many of the other stocks in the index are experiencing. Without those five tech darlings, the S&P 500's return through July 10 would have been a loss of around 6.85%. [Down more than 3%, at yesterday's close.].

So while the rest of the list has been performing a mite better in the last few weeks, that improvement pales against the mega-caps'.

Jon: No question. The "average" stock in the S&P

is down 11% [now, it's down more than 5%] year-to-date and there are over 130 stocks in the index that have lost 25% or more of their value. Because of the tech-stock outperformance, the index weightings of the five major technology companies have increased significantly throughout 2020, making their contributions to the index's return even more impactful.

And that still doesn't tell the story. Look at the smaller names, which have fared the worst. I like to track the Russell 2000, because I think you find the most value in the micro-, small-, and mid-caps. As of July 9th, Russell 2000 was down about 14%, but the "typical" stock in that index has done far worse. Again, simply computing the average of all the companies in the index masks real pain within it, with outliers like Novavax Inc. (NVAX) — which has gained around 2000% for the year — skewing the results. Calculating the median return for each company, however, produces a negative 20% return. Even worse, about a third of the stocks in that index have seen their prices drop by a third or more over that span. The picture is even bleaker if you look at the Russell 2000 Value Index — which by the way doesn't consist of 2000 stocks —

They can't *find* that many.

Jon: Right. It's down roughly 19% for the year. The median stock in the value index has lost over 30% and roughly 30% of the constituents in the index have plunged 33% or more. So we're living through a tale of two markets. There's the big five — or the big six or the big seven if you want to include Netflix (NFLX) and Tesla (TSLA) — then there's everything else. I've got to believe — we saw what happened the last time the market got this bifurcated —

It's not a good sign when the rank and file don't follow the generals, or so I was taught —

Jon: No. If history is any guide, this index concentration could be dangerous for investors in these high-flying shares. In 2000, around 19% of the S&P 500 was concentrated in Microsoft, General Electric (GE), Cisco (CSCO), Intel (INTL) and Walmart (WMT).

Until the bubble went poof —

Jon: Right, from the bursting of the dot.com bubble to the October 9, 2002, S&P 500 low, each of these stocks (except for Walmart, which nonetheless lost 7.39% of its value), significantly underperformed the S&P 500. This underperformance ranged from about 9% in the case of GE, which lost 56% of its value (compared with a decline of 47.5% in the S&P index), to Cisco Systems, which saw its shares plunge a staggering 88%.

What's more, calculating the return of those erstwhile high-flyers from the dot.com bust to the 2007 S&P 500 peak reveals that each significantly underperformed the S&P 500's 14.95% return. The "best" performer in the group over that bull market span was GE, which lost a mere 5%, and the worst performer was Intel, which lost 60%.

Like today's market leaders, these were great companies that were dominant in their respective fields. However, from an investment perspective, they were simply too expensive. At its peak, Cisco Systems sold for well over 100 times earnings, Intel for 60 times, and Microsoft for 73 times. While today's leaders (except Amazon) are not as expensive today on a P/E basis — even the five mega-cap techs aren't selling at the sort of crazy P/E multiples they hit amid the dot.com bubble (except for Amazon) — there's ample reason for caution.

More specifically?

Jon: Remember — you can buy the greatest company in the world, but if you pay too much for it, you will not receive a satisfactory return. The *price* you pay for a stock is just as important to your investment outcome as *which stock* you purchase.

That has all the markings of a lesson you learned at Mark's knee.

Jon: I admit, I can sound like him. But I should also stress that despite everything I've said about the mega-cap techs certainly being no bargains here, we actually own a heck of a lot of Microsoft, in Boyar Asset Management accounts, especially older accounts. We buy things individually, on a client-by-client basis, so anyone who has been with us for a while has a very large exposure to Microsoft —

Picked up, I'm guessing, when it was trading like a scorned value trap?

Jon: Exactly. I forget the precise numbers, but it was trading at a price that valued it at not a heck of a lot more than the cash on its balance sheet back then, in 2005-2007. We've probably trimmed those positions back 20% or so, but in some long-term accounts it's probably 7%-9% of the portfolio, just because we're very tax-sensitive.

The way I see it, and Mark would say the same thing, we're not predicting a dot.com-style crash in the mega-caps. They're good companies. We just think others are going to play catch up. So maybe

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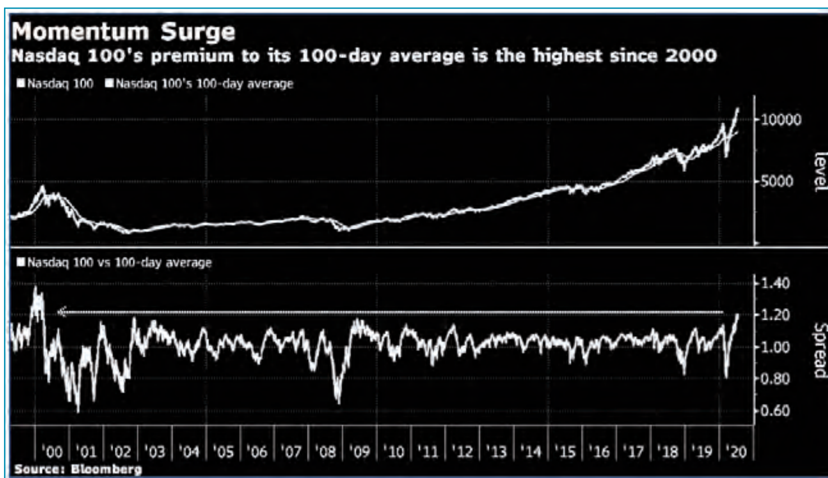

the mega-caps' performance languishes for a couple years. Though there could be exceptions that fare worse, maybe a Netflix or an Amazon, just on valuation or maybe antitrust issues.

They *are* getting more scrutiny on that score of late –

Jon: Yes, they've drawn a lot of attention to themselves. But it's not black and white, from an investment perspective. If they broke up Google, for instance, it would probably be better for the stockholders — surface more value. Or maybe not, you never know.

Anyway, the real risk in most of the mega-cap techs here is dead money for a few years. They're great businesses, with tons of cash, great moats. They're just too rich for our blood. And we're keeping Microsoft, as I said, because we have very little exposure elsewhere in tech, and we don't want to pay Uncle Sam. One of my pet peeves is that everyone complains about investment managers' fees — I'm obviously sensitive to that — but the biggest expense any taxable investment will incur is paying Uncle Sam. So you want to hold onto winners, unless they get blatantly overvalued.

Hmmm –

Jon: Okay, but we take comfort in the fact that the market overall isn't anywhere nearly as frothy as it was in 2000. Yes, at around 22 times earnings, the S&P 500 is certainly no bargain, either (especially considering all the uncertainty in the world). At its March 2020 low, the index briefly touched a more reasonable P/E of about 14.6 times.

And I will point out, according to a report in *Barron's*, that the 32.91% annual gains the five mega-cap techs, plus Netflix, have notched during the last five years happen to match up very well against the 33.3% annual gains across comparable spans that Ned Davis Research has measured in their historical bubble composite — which aggregates the 1929 Dow, 1980's gold price, 1989's Nikkei 225, and the Nasdaq Composite in 2000. All bubble market extremes. And, the six times sales that today's darlings are trading at is that measure's highest ever.

A mite frothy, to my old eyes –

Jon: Even mine. The Nasdaq 100 index, which is heavily weighted toward technology shares, has been 2020's standout (advancing almost 25% through July 10). Almost 40% of the index's weight consists of Apple, Microsoft, Amazon, and Facebook shares. (These 4 companies have increased, on average, 40% for 2020 so far.) Buyers of this index, however, are paying quite a price — it is currently trading at a nosebleed 34 times earnings. What's more, the Nasdaq 100's momentum is also currently exhibiting a striking similarity between now and the dot.com era, with the index trading 21% above its average price over the past 100 days—the widest spread since March 2000 [chart nearby].

There's speculation out there, no doubt. Just look at what all the frustrated sports gamblers have been doing with the likes of Hertz or Kodak via Robinhood.

Jon: Definitely, They've turned Hertz — in bankruptcy — into the Pets.com of this decade. There's unbelievable speculation. Look at Tesla, I mean —

Elon Musk? Speculative, you say?

Jon: His personal stake in Tesla is currently valued at something like $51 billion, or nearly as much as the combined market capitalizations of General Motors (GM) and Ford (F) — even though Tesla ended up delivering only 90,650 vehicles during the second quarter. (For context, Ford delivered 2.4 million cars in 2019.) It's absurd, but Tesla's share price continues to defy gravity. The stock started the year trading around $418 a share and now changes hands over $1,600 a share — which makes its market cap over $300 billion. That tidy sum is bigger than the combined market caps of Bank of America (BAC) and American Express (AXP).

You misunderstand. Telsa is no simple car maker. *It's the future of transportation.*

Jon: It's the future of transportation, it's the future of batteries, it's the future of the future — and this valuation prices it as if everything goes right for Tesla forever. Yet we all know that doesn't happen. We also know that Volkswagen is spending tons of money on electric vehicles, as are other companies

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— they're playing catch-up. But Tesla is a cult stock. It's impossible to talk any sense into people who are believers — and so far they've been right.

So why should they believe anything else?
JON: Because at some point they're going to be wrong; it's just a question of when. It's just like in 2000 when Cisco, Wal-Mart, GE, Intel, Microsoft were priced for infinity and beyond. It's that old Mark Twain saying, "History doesn't repeat but it rhymes."

We'll see what happens — P/Es in the dot.com era got much higher than today's, so this could go on a lot longer. But as a value investor and someone who is very price-conscious, I just won't play that game. I don't want to be the one holding the empty bag. We may look foolish for the time being, but at some point, value will win out.

And getting cute about market timing isn't your thing —
JON: You know that very well. That stock market adage about the important thing being "time in the market, not market timing" certainly held true during the first half. For all its dizzying turbulence, it is worth noting that the S&P 500 is almost flat for anyone who sat tight in it through the chaos.

True enough, however unlikely.
JON: Periods of stock market volatility *should* be when active managers shine, but the downside of getting it wrong (especially by trying to time the market) has rarely been greater.

One stark statistic highlighting the risk of market timing focuses on the penalty an investor would have incurred by *not* being invested during the biggest single-day stock market gains. According to Bloomberg News, if an investor missed the five best days of this year, a mediocre 2020 became a disastrous one, with investors who were out of the market on those days down 30%.

Woulda, shoulda, coulda. That's the kind of statistical back testing that can prove almost anything.
JON: While it *is* highly unlikely that someone would miss *just* those days, this statistic helps demonstrate the value of staying the course. My point is just that with market volatility zigging and zagging back and forth by 2% in a day, at a pace not seen in decades, it might seem that it was a great time to sit on sidelines. However, trying to time the market is a fool's errand — often the stock market rallies just when the situation looks the bleakest.

This year's first half is a perfect example: the S&P 500 dropped more than 5% during five sessions — four of them in March, when the world was in an all-out pandemic panic. However, that same terror-filled month, Bloomberg notes, also registered four of the five biggest daily gains. Timing the market is extremely difficult, but that hasn't ever stopped investors from trying. So of course, bears haven't stopped calling for the S&P 500 to crash, potentially revisiting its March low, but if history is any guide, that may not play out. During the eight market cycles since World War II, only once has the S&P 500 come within 5% of its bear market low — if it didn't do it before three months had passed, according to a study by BMO Capital Markets.

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The Walt Disney Company: Estimate of Intrinsic Value	Value ($MM)
Media Networks FY 2022E EBITDA	$7,507
Parks, Experiences & Products FY 2022E EBITDA	$10,210
Studio Entertainment FY 2022E EBITDA	$2,643
International Channels FY 2022E EBITDA	$1,200
Less: Estimated Corporate Expenses FY 2022	($950)
Total EBITDA	$20,610
12x FY 2022E EBITDA	$247,320
Direct-to-Consumer @ 5.5x FYE 2022E Revenue Run Rate	$132,412
Total Enterprise Value	$379,732
Net Debt	($39,000)
Minority Interests	($4,500)
Equity Value	$336,232
FY 2022E Shares Outstanding	1,837
Estimate of Intrinsic Value (Per Share)	**$183.03**
Implied Upside to Intrinsic Value Estimate	57.9%

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Which means that wouldn't even be unprecedented. Nor is it outside the realm of possibility that investors decamp en masse from *all* stocks into — I don't know, bitcoin or survival rations.

Jon: Well, that is bleak. My point is that value stocks should be a lot more insulated from a bear market than today's tech favorites, and that people are going to have to put their money somewhere — assuming interest rates are where they are now.

I'm not sure many investors even remember what a value stock is, anymore.

Jon: It's no secret that ever since the financial crisis, growth stocks have been outperforming value by the widest margin in decades — with economic uncertainty pushing investors into companies that can deliver fast growth.

As the chart [above] shows, value shares haven't been this cheap relative to growth stocks since the dot.com era. Back then, the bull market for growth stocks charged relentlessly upward — until March 2000. Then, the dot.com craze took a nosedive that lasted years. The NASDAQ Index, which had risen fivefold between 1995 and 2000, tumbled from a peak of 5,048 on March 10, 2000, to 1,139 on October 4, 2002 — a decline of 76.81%.

During the next couple of years, our style of investing came back into vogue as value once again shone. We see no reason history should not repeat itself once again. Investment theory suggests that value stocks, such as banks and industrials, tend to do better when the economy begins to recover from a downturn, because many value stocks are particularly sensitive to the ebb and flow of economic activity. As David Kostin, chief U.S. equity strategist for Goldman Sachs, put it in a recent note, "In our view the extreme valuation gap between the most expensive and least expensive stocks will most likely be closed when an improving economic environment causes low-valuation stocks to catch up with the current market leaders."

Though of course, that gap could also close in the other direction —

Jon: Clearly, as I've said, today's market leaders are not nearly as stretched as they were in 1999. But by any acceptable analytical benchmark, they are certainly *not* inexpensive [lower chart, this page]. Throughout our careers, both my dad and I have seen growth trounce value for extended periods — we've both been called dinosaurs. And yes, we've heard that value metrics are no longer relevant and our investment style is passé. But those naysayers have always been proven wrong in the past. We confidently expect that to happen again, although precisely when is anyone's guess.

Maybe investors will just start looking at some of these smaller or mid-cap names. Or at names with more reasonable valuations, like some of the banks. A JPMorgan (JPM) is still paying a 3.7% yield. A Bank of America (BAC) is a good, solid business. Or something like Disney (DIS). All of those companies have gone through changes over the years, gone into different businesses, but my dad has always talked about Disney, for instance, as an extraordinary consumer franchise; a great value stock. Until I had children myself, however, I never really appreciated the power of the Disney brands — or how much of my own money I'd end up throwing into its coffers.

It's a parental rite of passage.

Jon: Indeed. Although, with two young children, I've got to say that Disney+ is the best $6.99 a month I've spent on anything.

Plus, you get to watch Hamilton on your home screen.

Jon: It blew me away how good that Hamilton was. It was $75 million well-spent — especially since I didn't have to pay that bill. It was fantastic.

I thought so. Had you seen the show while Broadway was still a thing?

Jon: We were fortunate and saw it before the original cast left. And listen, it's like working from home — there's nothing like being there — but they got pretty darn close with that film. I'm embarrassed to say I think we watched it two-and-a-half times over one weekend. It was just spell-

binding— have you seen it?

We watched it. And we saw it in the theater, but not, alas, with Lin-Manuel Miranda. The film adaptation was extraordinary.

Jon: Just brilliant, yes, it was a real treat. So 99% of Disney+ content is for my children and 1% is for my wife and me. But this pandemic just drives home to me the value in a Disney — a stock the firm and some clients have owned forever — at the same time that the stock has been driven down to levels that are starting to make it very interesting to me again.

It's pretty obvious why Disney has taken a beating, amid the pandemic — its parks, hotels and cruise ships —

Jon: Clearly, there's going to be a hit at the parks — that's stating the obvious. Disney is estimating $1 billion in operating income lost for the parks in the second quarter. But I'm going under the assumption that 1) we get a vaccine in the not-too-distant future and that the business at Disney's parks then goes back to normal — because you have fanatics who will go down there almost regardless. But where Disney has really benefited from this pandemic is with Disney+.

How so?

Jon: They were forecasting that the new business would find 80 to 90 million subscribers by 2024, or something to that effect. But in just six months, they've signed 60 million — and they haven't even rolled it out yet in all of their markets!

I heard someone say Disney got about five years' worth of projected growth in Disney+'s first six months. Which of course can't last.

Jon: It's been a perfect storm for them. You have a bunch of kids stuck at home, all across the country. Sure, there will be some drop off in subscriptions. Verizon was giving it away. But I think that's actually helped Disney demonstrate what a good value it is. All someone has to do is compare Disney+ to Netflix, where you're paying basically double the price, for inferior content.

You're not a Netflix fan?

Jon: I think that Netflix has major problems. It's crazy that it has a market cap greater than that of all of Disney. That just makes absolutely no sense, though it is the largest and closest competitor to Disney+. Although Netflix has three times the number of subscribers with almost two times the monthly pricing, we strongly believe that this gap will close over time. Moreover, we believe that Disney's content library is vastly superior to Netflix's. Which stock would you rather own here?

I mean, Netflix is now going to have to fully get into the content-creation business to compete. And that is a *very* difficult business; it'll be very expensive to replicate the library that Disney has already created — not to mention what Disney bought from Fox, including National Geographic. Netflix is spending billions to produce original content (driving its free cash flow deep into negative territory), but even under a best-case scenario, Netflix would take decades to build a library of comparable quality. In the meantime, Netflix is paying top dollar to license content even as Disney continues to produce new content. Moreover, Disney's studio productions have been winning the popularity contests with consumers based on its recent box office successes. Given these factors, Disney+ could arguably be worth more than Netflix.

Need I remind you of Netflix's stratospheric market valuation?

Jon: Put it this way: Assuming that Netflix is appropriately valued — even though we note that it could easily be significantly overvalued — attributing an enterprise value to Disney+ equal to Netflix's would drive our Disney valuation up to around $228 a share.

My issue with Netflix is finding something I *want* to watch. Lots of titles, lots of dreck.

Jon: I've got to say Bob Iger really must have had a road map. Disney systematically pulled their content from Netflix — and they took a big hit to earnings because of it. But now they've been able to launch this service with just unbelievable content. With the timeless Disney catalog and the acquisitions he's added — Marvel, Lucasfilm, and now Fox — it's a treasure trove. Yet Disney is a stock investors are punishing because they're thinking pandemics and theme parks don't mix. At some point, though, those businesses will come back.

Likewise cruise ships and ESPN?

Jon: Yes. ESPN is obviously an overhang. It's usually 16% of revenue. But their current sales agreements with cable operators are not up until 2022 - '24 and their fee increases should offset What they're going to have to figure out is how do they eventually offer ESPN as a direct to consumer product. That's further in the future — but the company continues to reinvent itself.

It's no longer just Mickey and Daffy —

Jon: Scarcely. Disney is a company that definitely

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Twitter Inc. (TWTR)

Intrinsic Value Estimate ($MM)

EV @ 11x 2022E EBITDA	$28,516
Net Cash	3,534
NOL Carryforwards	752
Equity Value	**$32,802**
Per Share	$42.93
Upside	48%

Source: Boyar Research 5/15/2020

has had problems but they've always addressed them. It's rare that a public company is able to take a long-term view and get away from the easy money — such as licensing content to Netflix — as Disney did. But Disney decided, "Hey, we're going to do this ourselves and the transition will involve a large hit to earnings — but we're going to build a great platform." That's what they're doing with Disney+.

It was a godsend when I had a visiting toddler.

Jon: Cheapest babysitting you'll ever get. That's the thing, with the Disney brand you know, when you put your kids or grandkids in front of it, that it's something safe and appropriate. That brand reputation is something that takes decades to build and it's not replicable. It's just a special company. Clearly, its outlook isn't all rosy right now, but in a couple of years this $130 stock could be worth $183, using what we think are relatively reasonable assumptions. In the end, they're going to be a winner.

What about Disney's balance sheet?

Jon: They immediately tapped the debt markets after we went into lockdown and they certainly have plenty of liquidity — they have the benefit of time now in their debt structure. They're not going to have forced sales or anything like that — all this is predicated on this is not being a five-year pandemic. Clearly, if this goes on for many, many years that's a whole other story. But assuming that the world comes back in the relatively normal amount of time, Disney should do well.

What other stocks catch your eye here?

Jon: If you believe the U.S. will recover and continue to grow, we still believe the two best banks with the two best CEOs — JPMorgan (JPM) and Bank of America (BAC) should be preferred investments. They're being very conservative in their reporting under an accounting change that took place last year, called CECL, I guess, for Current Expected Credit Losses. We think that eventually a lot of the expected losses they're reporting, they'll end up reversing — and they have very strong capital levels.

Stock investors don't seem impressed —

Jon: I think people are afraid this is going to be like 2008/2009, when the banks just kept reporting big credit losses, quarter after quarter. But this accounting system change is essentially designed to prevent that from happening. And these banks are in so much better shape.

An unintended consequence of Dodd-Frank and some of the other changes we've seen in banking regulation is that banks have to be large; have to have scale to compete. Bank of America and JPMorgan certainly have scale and they're going to be able to take advantage of it. And, importantly, the stocks are now trading at really reasonable levels. At JPMorgan you're getting 3.7% yield while you're waiting and it has a fortress balance sheet; The dividend yield is 2.84% at BAC.

How about something a mite less staid?

Jon: Well, a name that you probably wouldn't think of as a "value name" that we recently started looking at and accumulating is Twitter (TWTR).

For real?

Jon: Yes, we've always said that instead of being strict value investors, we consider ourselves opportunists — and we see Twitter as a tremendous opportunity there. It reminds us in some ways of the way that PayPal looked when we profiled it as one of our "Forgotten Forty" a few years ago because of its huge user base. In other words, there's a value in enjoying a network effect that's being overlooked, we think, at Twitter.

How so?

Jon: Twitter, as one of the largest social media companies, today has 166 million monetizeable daily users. The company plays a crucial role in news media, given its rapid, real-time content distribution and democratized platform. Twitter's relevance and influence on the public discourse is difficult to overstate. When we wrote it up in our research publication in mid-May — it was around $29 a share — or $3 off of its 2013 IPO price. It's gone up a bit since, but the stock basically has done nothing for seven years now. Which has attracted the interest of activist investor — Elliott Management — who has a fantastic track record. Paul Singer is a guy you wouldn't want to mess

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with — he's sued nations, and won.

You're telling me? Paul is one of the *"Merger Masters"* featured in the book I did with Mario Gabelli.

JON: He's definitely a very interesting and very serious character. One of the things that Elliott has criticized at Twitter — and so has Wall Street in general — is Jack Dorsey's dual CEO roles at both Twitter and Square [SQ]. He's a brilliant guy, no doubt. He started the things. But Dorsey's personal stake in Square is 10 times the size of his Twitter stake. So where is he really going to focus his efforts?

So make your case for Twitter –

JON: For starters, Dorsey doesn't control the company. They have $3.5 billion in cash and significant NOLs [net operating loss carryforwards) and they've been doing the right things.

That depends on who you're listening to –

JON: Sure, there's been a lot written about partisan boycotts and all of that kind of stuff, but Twitter has spent a lot of time and money developing artificial intelligence and other systems to get rid of spam accounts on its network and at least try to proactively police, in some way, some of the horrible speech online. Certainly, Twitter is nowhere near perfect on that score but they're starting to address those issues with — they call them health initiatives. And that's starting to help with its user growth metrics.

Isn't that one of Elliott's big complaints?

JON: Yes, and Twitter has promised that they're going to get 20% annualized user growth. If they don't achieve that, I suspect the activists will get even more involved — and may push for a sale of the company.

You'd expect it to fetch a fancy price?

JON: A good one, anyway. There's a whole host of companies that could buy them. As I said, they're under monetized, their revenue per user in the U.S. is half that of Facebook's — a tremendous amount of opportunity. As for potential acquirers — Facebook would be difficult, considering the likely antitrust issues but Google has always expressed an interest in the social media platform. They tried Google+ it didn't work. And of course there's Microsoft — if its play for TikTok doesn't pan out.

TBD.

JON: Right, that's a whole other unfolding drama. But there are a bunch that could potentially want to buy Twitter. I talked about Disney earlier. One of the best books I've read in a while is Bob Iger's *"The Ride of a Lifetime: Lessons Learned from 15 Years as CEO of the Walt Disney Co."* He talked about how they were very close to buying Twitter in 2016/2017, but because of all of Twitter's hate speech issues, et cetera, he ultimately decided it didn't fit well with their brand. That was probably a smart move for the Mouse House, but there are plenty of other folks that would buy the company. It's easily digestible, with an enterprise value of less than $25 billion. This is not a huge company.

MAR Estimate of Intrinsic Value

	Value ($MM)
MAR @14x Midpoint of 2021E EBITDA (pre-coronavirus projection)	$60,725
Current Net Debt (Pro Forma)	($12,803)
Cash Burn: 9 months at $155 million/month	($1,395)
Equity Value	$46,527
Diluted Shares (current)	327.4
Intrinsic Value Estimate (per share)	$142.11
Implied Upside	58%

Source: Boyar Research 6/2020

What's your valuation?

JON: Using a discounted multiple of 11 times our estimate of 2022 EBITDA gets us to $43 a share for Twitter. But their average EBITDA multiple over the past three years has been 16 times, and they are growing — the pandemic has obviously hurt them in terms of advertising but their engagement and their user growth has certainly accelerated through all of this. So the advertising will follow; it's just a question of when folks decide to start advertising again.

They seem to be doing better than Facebook when it comes to blocking some of the most egregious garbage.

JON: People really do care and some of the stuff is vile. I get why a Procter & Gamble or a Unilever doesn't want to have their ads show up next to a hate speech or even to associate with a company that carries that. It seems that Twitter gets that, too.

Twitter is also focusing on making an effort to go after ads from small businesses — which is 30%-40% of Facebook's business. That's a lot of big, green opportunity space for Twitter. Clearly, it is not a typical Boyar stock but value is in the eye of the beholder and you can't be just rigidly buy "cheap" stocks.

Obviously, there are often good reasons a stock is cheap.

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Jon: Quality is also important. It's about the value you're getting for the price you're paying. Disney isn't particularly cheap but it's a great value — Twitter, I think, is pretty interesting.

Another idea my team and I have written up recently is Marriott International (MAR) —

Another case of, if you think the world will soon enough resume spinning?

Jon: Yes, you have to believe that the world as we knew it, pre-pandemic, is not over. But Marriott has a lot of competitive advantages and great brands, including the Ritz Carlton, St. Regis, and JW Marriott. During 2019, Marriott generated $20.9 billion in revenue from its portfolio of 7,349 properties with 1.4 million rooms that, under its asset-light business model are either franchised (58%), managed (41%), or owned/leased (1%).

Does it have the balance sheet heft to absorb all the hurt the pandemic is inflicting on the travel industry?

Jon: We think so. As of May 2020, Marriott had around $4.3 billion of available liquidity, including $3.9 billion in cash. That should enable it not only to navigate the current financial downturn but indeed, to prosper despite it. Business and consumer travel have shown an uncanny ability to recover following past crises, and we believe that this time will be no different.

But it is different, as a pandemic *and* not "just" an economic downturn.

Jon: A recent study (May 2020) by Oliver Wyman revealed that on the order of 75% of business travelers — the kind who book 67% of MAR's room nights — expect to travel the same amount or even more after the pandemic, reflecting multiple factors (lower travel costs, pent-up demand, etc.).

I wonder what their bosses think, looking at the relative costs of travel and Zoom?

Jon: Even if cabin fever was making those road warriors a mite overly optimistic about the return of business travel, Marriott's fee-based and asset-light business model — for instance, its capital expenditures as a percentage of revenues over the past five years has averaged on the order of 2% — throws off a tremendous amount of free cash flow.

Can you put a number on it?

Jon: Over the past 5 years, Marriott has generated $7.5 billion of cumulative free cash flow, representing about 25% of its current market cap. What's more, Marriott's 2016 acquisition of Starwood in a $13.6 billion deal has proved transformational. It's one M&A deal that's actually delivered on meaningful cost synergies — amounting to roughly $250 million in annual savings. And it still offers future growth opportunities, with greater developer/franchisee interest in its broad portfolio of properties.

So what do you figure Marriott, which is trading around $90 a share, is worth?

Jon: We start by applying a discounted 14.0 times multiple — meaning discounted relative to precedent industry transactions — to our estimate of Marriott's future 3-to-4-year earnings power. That brings us to an intrinsic value estimate of $142 a share — or around 58% upside from the recent stock price. But there are also multiple ways that valuation could be pushed even higher — starting with a quicker and greater-than-expected recovery from the pandemic. Marriott could also increase its market share — or there might even be a buyout of the company by a private equity group, or its own management. It's worth noting that members of the Marriott family own more than 20% of MAR's shares. So, if you believe travel and leisure will ever come back again, Marriott is certainly an interesting place to be.

Want to mention another?

Jon: Well, one of our favorite places to dabble is in micro-cap land. Marriott is at one end of our spectrum of interest, and there's another business in the travel industry — but at the micro end of the spectrum — that has also caught our eye. In fact, we featured it in our May 18 *Boyar micro cap focus* letter. It's called Travelzoo (TZOO). We write up these micro-caps more because they're fun and instructive — it's not that we're saying lightening will strike.

Have you put Boyar Asset Management clients into it?

Jon: We do buy them for Boyar clients, if they're appropriate for their individual circumstances. But we do the micro-cap research partly for fun. While we do it to find hidden gems that we can buy for some clients, our micro cap letter isn't an investment advisory bulletin, or a recommendation to buy or sell any security, as our disclosure lawyers put it. It's more of a labor of love than a capitalist venture — there's not a lot of money in selling research on micro-caps! We hope it's useful as a way to increase investors' understanding of ways to analyze the intrinsic worth of corporations — but it's not intended to replace investors' own fundamental research.

What made Travelzoo worth spilling the ink, not to mention analytical time?

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Jon: Well, to start, it is a countercyclical internet travel media business that has about a $50 million market cap — and about a third of it is in cash. The company is founder-led, and insiders control almost 50% of the company's 12 million outstanding shares.

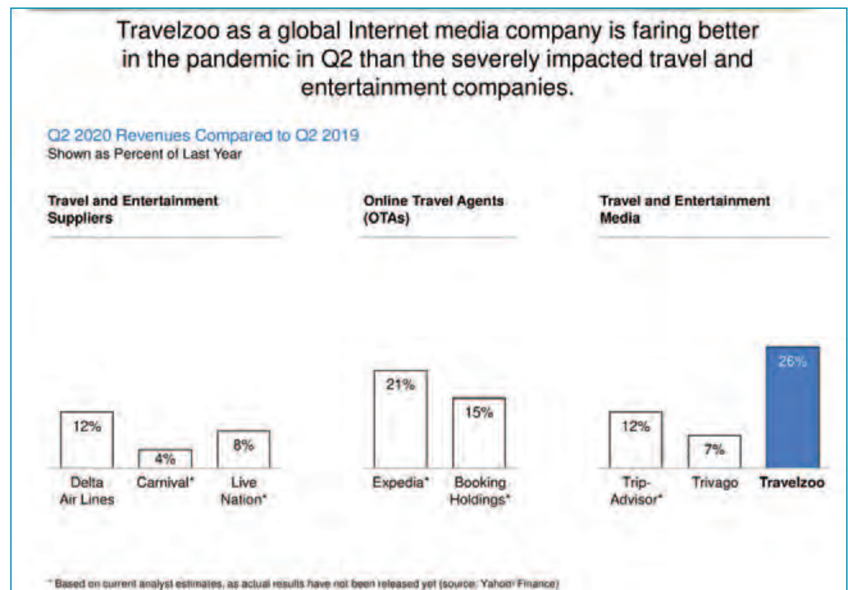
I'm guessing it doesn't specialize in offering tours of zoos, but what does it do?
Jon: Travelzoo basically has a website with 27 million members, now that they've jettisoned a money-losing Asia Pacific operation that had 3 million members. What it offers those member are mostly bargain travel deals that are sourced by a sales force working out of 22 offices worldwide. Travelzoo also promotes its deals through email newsletters published in 22 countries, as well as via Facebook and Twitter accounts, and offers access via mobile apps as well as online.

And what's the rest of the business?
Jon: The advertising for travel packages generated more than 85% of revenue last year; the company's other revenue are generated by selling discount vouchers for local restaurants, spas and such — similar to the Groupon model.

What's countercyclical about a business offering deals on leisure travel? Sounds pretty economically sensitive to me —
Jon: I hear you, but it's actually counter-cyclical — a very cyclically sensitive business. Interestingly, the reason is tied to the very attractive demographics that the company's user base provides for travel-suppliers seeking to advertise in the highest ROI advertising venues. Simply put, Travelzoo's high-quality user base is particularly prized by travel suppliers like hotels and airlines during downturns in the travel industry. It's not that Travelzoo can't get top quality hotels to advertise on their site during flush times for the industry, but the suppliers don't really *need* to advertise deals. When travel is booming, people go directly to the suppliers, or others, and pay up.

So for Travelzoo, it's when the hotels and airlines need to offload inventory that TZOO does really well. During in the Great Recession and after 9/11, both periods when overall travel demand sank, Travelzoo stock went up by a factor of 10 — each time. I'm not saying that will happen again — by any stretch of the imagination — but their website *is* growing, because suppliers are placing ads for much better deals.

They have to, to stir any interest in discretionary travel in the age of Covid-19.



Source: Travelzoo 7/30/20 Earnings Call

Jon: Well, people *are* booking — travel suppliers are advertising trips on Travelzoo's website that you can book for 2021 or 2022 — at prices that are great deals, with flexible refund and cancellation terms. So Travelzoo is collecting an accelerating stream of fees on that high-ROI advertising from those travel providers desperate for sales — even as travel spending, overall, is shrinking around the world. In other words, a counter-cyclical story of some magnitude *should* play out in Travelzoo through the end of this pandemic. We even think, if we're right, Travelzoo even could be a ten-bagger. But it's an idea obviously in the more-speculative camp, just because it's a micro-cap.

What makes Travelzoo's users such fertile ground for its advertisers — gullibility?
Jon: No, it's because they are pretty precisely the people its advertisers want to sell to. The listing fees that Travelzoo charges are based on audience reach, placement, number of listings, number of impressions, number of clickthroughs, number of referrals, or a percentage of the face value of vouchers sold. The thing about those metrics is that on everyone, the demographic quality of TZOO's member base pretty much guarantees the travel deals Travelzoo advertises hit their prime high-end targets.

Really? Travelzoo sounds a mite down market.
Jon: Quite the contrary. While the majority of Travelzoo user base is mature — 48% of users are 45 - 64 years old, that also means they are relative affluent. Some 54% have household incomes of over $100,000 — a status shared by just 20% of Americans. Meanwhile, 91% are college-educated — so probably not so gullible. And 67% are female (women typically drive spending and decision-mak-

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ing in households).

So they generally are shrewd, and recognize value when they see it!

Jon: Even more on point for Travelzoo's advertisers, some 91% of its users hold a valid passport (compared with just 42% of Americans, overall). And finally, Travelzoo says 71% of its users took more than three trips last year, so they're primed to travel, especially compared with the broad swathe of the American public, half of which haven't even taken one vacation in the last 12 months. So Travelzoo's prized user-demographics give it a real competitive edge in the highly competitive discount travel segment.

I guess, but we older folks are also more susceptible to Covid-19, I'm told —

Jon: The current environment is unprecedented for many industries, but clearly hospitality and travel are among the hardest hit — and will likely slowest to rebound. In a typical recession, lower levels of discretionary income and higher levels of unemployment reduce travel spending. This time, there is the added overhang on travel from countries having shut-down borders (or requiring 14-day quarantines for international travelers) and consumer unwillingness to risk contracting COVID-19 by venturing to more crowded places.

Unsurprisingly, travel spending has significantly decreased, airline traffic has plunged to bare minimum levels, and online travel agency Booking Holdings recently reported that new hotel bookings were down 60% in March and 85% in April. So we expect the travel industry to continue experiencing real pain in the near term. Travelzoo's own second quarter results reflected that — with a loss of 55 cents a share on revenues that plunged to $7 million from $26.6 million

I hear a "but" coming —

Jon: As the economy reopens and travel interest begins to pick back up, we expect TZOO to be among the first to bounce back — as hotels and airlines use it to offer attractive packages to entice users to book trips into the future. TZOO's own surveys this spring showed considerable interest on the part of its users in seeing travel deals without change or cancellation penalties. And, although it is still very early in the process, hotel operators and online travel agencies have cited early signs of renewed demand for domestic travel in regions that have reopened.

We believe that pent-up travel demand, post-shutdown could lead to consumers exploring more domestic destinations. To foster this demand, moreover, governments have already made early efforts to drive confidence in domestic tourism. Australia announced a three-stage plan to reopen its economy, including a focus on tourism. It also agreed with neighbor New Zealand to form an Australia–New Zealand travel bubble designed to minimize the virus risks of travel. A similar travel bubble has been formed in Europe between Estonia, Latvia, and Lithuania.

What's more there are early signs that these flickering signs of renewed travel demand are starting to evidence themselves in Travelzoo's business. On May 14, TZOO put out a press release stating that purchases were up 165% year-over-year in the first two weeks of May, that demand was accelerating (up 30% week-over-week), and that 92% of members expressed an openness to seeing travel deals as early as the beginning of April.

But are those measures of actual travel demand, or cabin fever window shopping?

Jon: Some skepticism is probably warranted. We would hesitate to extrapolate such strong results through the rest of the year. Clearly, it experienced softness in March and April prior to the surge, as advertisers likely froze advertising expenditures while assessing the damage to their businesses. Nonetheless, we view the May demand as evidence of TZOO's high-quality user base and of pent-up travel demand among more affluent consumers, who can take advantage of attractive offers.

Where do you come down on TZOO's intrinsic value?

Jon: Considerably above the $6 or so where it's trading. Using a multiple of about 14 times earnings, we estimate an intrinsic value of $23 per share, representing upside potential of 350%. But if TZOO delivers the strong sales growth coming out of this travel downturn that we've mentioned is possible, that surprise to the upside could generate 2020 sales growth of 30% — matching its strong 2011 sales rebound. And that would raise our intrinsic value estimate to $30 per share.

I get it. That's a lot of potential upside —

Jon: And I haven't even mentioned that Travelzoo's low valuation, large user base and high-margin cash-generative business model could make it an attractive acquisition candidate — a potential that, at the very least, puts a floor under its current distressed valuation. It's not something you'd want to own forever, but —

Uncle! Let's go to another idea —
Jon: How about Madison Square Garden?

It's another company caught in the cross hairs of the coronavirus.
Jon: Actually, more than just Madison Square Garden is caught — it's the whole Dolan empire.

So what's the attraction?
Jon: What is so interesting to me is that everyone in Wall Street loves to hate the Dolans. Wall Street claims to need a "Dolan discount," to buy their companies, But the family has been pretty good to invest alongside, for a long period of time. We started we started investing alongside them when Cablevision was trading way below what we thought it was worth. They tried to steal the company, basically, with a low-ball buyout bid. But when the minority shareholders rejected it in, in 2007 as I recall — they got really shareholder religion. They paid a large special dividend — I think it was $10 a share — they had the highest dividend payout ratio in the cable industry — and then they spun out Madison Square Garden. Later, they spun out Madison Square Garden Networks from Madison Square Garden. Then they spun out AMCX from Cablevision. And then they sold Cablevision to Altice for a crazy price. So they've been pretty good.

Didn't they recently do another spinout?
Jon: In April, they split Madison Square Garden in two again. The reason for this corporate action — it's very curious — and we have our own theories — but Madison Square Gardens Sports is structured as the parent company and owns the Knicks and the Rangers franchises. Right now I think its enterprise value is roughly $3.5 billion.

Which is absurd. You could buy both of those teams in the market for $3.5 billion at today's valuation. But if someone ever came and seriously wanted to buy those teams, the price they would have to pay would be a lot higher. James Dolan is on record saying that he's fielded (and rebuffed) offers in the $4-to-$5 billion range just for the Knicks alone. And I think — at the right price — he *would* sell the team — and New York Knicks fans would rejoice.

Seriously. But they're used to disappointment.
Jon: Well, I'll just note that it's curious that they structured the split-up with MSG Sports (MSGS) as the parent, because that essentially allows them to sell it at any time.

James Dolan's real love is in the entertainment business, and that's what's left in Madison Square Garden Entertainment (MSGE). Its enterprise value is about $500 million, but that's because it has $1.4 billion of cash on the balance sheet. It owns Madison Square Garden, it owns the air rights, it *had* the LA Forum, which they sold, it has the Beacon Theater, Radio City Music Hall and other entertainment properties.

What's weighing on the shares, most obviously, is coronavirus: People aren't going to be going to Knicks and Rangers games or concerts for the foreseeable future. But there is also this project called The Sphere. I wrote an open letter to James Dolan that appeared in Forbes, basically telling him it is a terrible idea. He plans on spending $1.6 billion to build basically the stadium of the future in Vegas.

It could be a white elephant?
Jon: I give him credit. It looks like a great concept. But it's really, really risky. Why, when you already have a great business, take a gamble like that? Even in Vegas. Anyway, when we value Madison Square Garden Entertainment, we take that $1.4 billion of cash and cut it in half and come up with a value of $124 billion. Still significant upside with the shares trading under $70.

And who knows, if I'm wrong about The Sphere? What if it is actually a success — and it could be. Many people criticized James Dolan for renovating The Forum and Madison Square Garden — and both projects were great financial moves. So time will tell. But both MSGS and MSGE are intriguing.

Then there the other little satellite orbits around the Dolans. MSG Networks (MSGN), they spun out of Madison Square Garden a few years ago. As John Malone, who we respect a lot, has always said, "The logical owners of a regional sports network" are either the sports teams or a cable operator." And MSG Networks has the rights to broadcast the Knicks and the Ranger games.

You're suggesting another deal?
Jon: I think it would make a lot of sense for MSG Sports to purchase MSG Networks — now trading way down around $10 a share — because it would make the teams more valuable to a buyer. There could be a lot of deals, potentially, in the Dolan neighborhood. Look at AMC Networks (AMCX), the stock has gotten absolutely destroyed by the virus. It's selling at 3.8 times EBIDTA, and has an incredible catalog of classics. If you value it at a more reasonable 8 times EBIDTA — which is well

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Average Microcap Benchmark Annualized Return	8.1%	10.5%	11.3%	13.1%
Average Boyar Research Annualized Outperformance	9.6%	17.7%	17.1%	8.3%

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below comps — you get a much higher valuation — $133 a share or so. There have been rumors that Amazon is taking a look at them; that they've hired an investment bank. Who knows if the rumors are true. But it would make sense, given AMC's content library and streaming platforms. Not to mention, a free cash flow yield of 28%. It's super cheap. It's certainly not the quality of other cable networks, but it's something an Amazon or Netflix looking to upgrade their content could find interesting.

So amid all of today's uncertainties — and despite the widespread belief that "value investing is dead," you're clearly holding fast to the long-standing Boyar belief that business value analysis is the road to investment riches?

Jon: Unquestionably. I just find it hard to believe that a style that's worked so well for so long has just stopped working forever. It has certainly been experiencing a long cycle in the wilderness, but the death of value investing has been greatly exaggerated.

And I think the potential of at least *our kind* of value investing is pretty clear when you look at how well the stocks profiled in our *Boyar Asset Analysis Focus* and *Boyar Micro Cap Focus* publications have performed over over the last seven years, a stretch that has been so dismal, generally, for value strategies. [Tables, above.] In a nutshell, about half the ideas profiled in the larger-cap service outperformed the S&P over one-, three- and five-year periods. And the average outperformance of companies that beat the index was 25%, 22%, 24% and 21% for all of the time horizons, from one to seven years. What's more, the fact that the ideas' annualized performance relative to the benchmark have been highest over five years demonstrates our long-term orientation's value.

Your micro-cap ideas haven't exactly been laggards, either.

Jon: Correct, which speaks pretty directly to the importance of catalysts and triggers to our style of value investment. We actively search for investment opportunities with identifiable catalysts for appreciation because it *is* true that companies that are intrinsically undervalued can stay that way for exasperatingly long times.

Things like potential M&A activity, corporate restructurings —

Jon: If they'd make sense. Also, management changes, changing industry dynamics, or macro themes that may be going in ways that could benefit shareholders. Or perhaps the initiation of a dividend or stock buyback program signaling a company's strong balance sheet and sizable financial capacity to make things happen.

So about one-third of the companies featured in our micro-cap publication have subsequently been taken over, while 52% have proceeded to outperform the benchmark. And that average (annualized) outperformance has worked out to 41%, 32%, 41%, and 27% over the four periods we've tracked.

To be clear, you don't simply rely on metrics like price-to-book, your approach is more to value companies like a potential acquirer would —

Jon: Exactly. Excessive pessimism about an industry or an individual company at times results in extreme disparities between the public market value of a stock, and what an informed private investor would pay for the entire business. The point of our Business Value Method is capture that disparity by evaluating a company's long-term earnings power, competitive advantages, present and planned product mix, capital allocation decisions, financial strength and the multiples at which comparable businesses have changed hands in the recent past. That's what goes into our calculations of what we call the intrinsic value of a company's shares.

So there's a lot of "homework" involved, including trying to ferret out any "hidden" asset values —

Jon: Right, again. We tear apart corporate balance sheets looking for places, for instance, where GAAP accounting tends to undervalue certain assets. Things like real estate, natural resource reserves and inventory reserves. Also, hard-to-value investment holdings, brand equity (which can often be masked, especially in a conglomerate or complex corporate structure), or even potentially lucrative litigation contingencies. We try to adjust all of those kinds of things to our best perceptions of their current private market values, and use those in valuing the companies.

All reasons — in addition to performance — that your detailed and lengthy research pieces really stand out, on today's Wall Street. Thanks for sharing, Jon.

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Welling on Wall St. Interviewee disclosure: Jonathan Boyar, JD is the President of Boyar Intrinsic Research. He is also the son of Mark Alan Boyar, the founder and president of Boyar Asset Management, since 1983, and a well-known active value portfolio manager, going back to 1975.

After graduating from Cornell University with a B.S. in Applied Economics and Business Management, Jonathan started his investment career at GAMCO Investors. He then joined Boyar where he established Boyar's Alternative Viewpoint which was a research product specifically designed for the $1.4 billion Global Analyst Research Settlement. This award winning research product was purchased by major banks such as Deutsche Bank, Bear Stearns, Credit Suisse, Lehman Brothers, Morgan Stanley and Merrill Lynch. In 2004 Jonathan received a Dean's Merit Scholarship from Cardozo School of Law. After graduating , he worked as a litigator at the nationally recognized medical malpractice defense law firm of Martin Clearwater & Bell. In 2008 he rejoined Boyar and spends his time helping to improve the firm's research efforts as well as the portfolio management process. Jonathan is also in charge of the firm's institutional sales effort for both the research and money management services. For more information and important disclosures, please see www.boyarresearch.com and/or www.boyarvaluegroup.com

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