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ValueInvestor INSIGHT

The Leading Authority on Value Investing

Network Effect

Some investors have a penchant for high-quality compounders and some for somewhat-hairy special situations. Mark Meulenberg has an affinity for both.

INVESTOR INSIGHT

Mark Meulenberg
VNB Wealth Management

Investment Focus: Seeks companies with "sticky" customers and highly recurring revenues at rare moments when short-term market sentiment turns against them.

Having graduated from Cornell with a degree in business, Mark Meulenberg got a crash course in value investing upon joining research firm Sanford C. Bernstein in 1996. "They fed us breakfast, lunch and dinner at the office," he says. "We were completely immersed."

Now Chief Investment Officer at VNB Wealth Management, Meulenberg has put that early education to good use. His Enhanced Core Strategy since the beginning of 2008 has returned 13.8% net of fees, compared to 7.8% for the S&P 500.

Owning both franchise businesses and an eclectic mix of quirky special situations, he's finding opportunity today in such areas as global cable services, satellite radio and printing solutions.

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Investor Insight: Mark Meulenberg

Mark Meulenberg of VNB Wealth Management explains why he holds special situations alongside mostly franchise businesses, why he owns so many John Malone-related stocks, which personal trait he considers central to investing success, and why he sees upside in Liberty Global, Liberty LiLAC, Liberty SiriusXM and Eastman Kodak. *By Ted Crawford*

Your portfolio has a mix of what might be considered high-quality compounders and somewhat-hairy special situations. How did you arrive at that approach?

Mark Meulenberg: In the late 1990's I took a position as a portfolio manager with U.S. Trust, where one of my colleagues opened my eyes to franchise businesses in the Warren Buffett mold. I loved the idea of buying great businesses – generating free cash flow and with high and increasing returns on capital – that we could hold for extended periods of time. The problem was that as the 1990s went on, franchise businesses had become very expensive, so we broadened our search into more eclectic special situations and microcaps. Tapping both kinds of opportunities for new ideas and owning each in the portfolio has made sense to me ever since.

Describe a typical example of each.

MM: CarMax [KMX] is a relatively new holding for us, having bought it a bit under today's price [currently $53] in April. It's a well-run business that generates roughly 20% returns on incremental capital. It has a differentiated business model that benefits from scale and a proprietary pricing database, and there's a long growth runway, with the capability to double its current level of used-car stores in the U.S.

There will be some speed bumps. Maybe peaking new-car sales will negatively impact the used-car market. There is also nervousness about subprime auto loans and how that might effect the company. But when the price is right we can look beyond these types of issues. We're paying a discount to the market for a high-quality business that should grow at twice the earnings growth rate of the S&P 500. If the story tracks like we think it will, this is something we could hold for five or ten years and ultimately get paid handsomely.

This is an example for us of a core investment, on which we typically only need to take two or three big swings per year. Businesses with the kind of predictable cash flows we prefer tend to be easier to value, so it's not very often that they get mispriced. But sentiment can change quickly. CarMax's shares fell almost 30% in a relatively short period of time. That got our attention, and we knew the company well enough to respond quickly.

ON SPECIAL SITUATIONS:

I mostly own good businesses, but I also don't want to leave money on the table by ignoring special situations.

A number of people we've spoken with in recent years have expressed interest in language-learning company Rosetta Stone [RST] – at times to their chagrin. Is it a representative special situation for you?

MM: Yes. The company had been on our radar for a long time and we ended up investing in late 2014 in the low-$7 range. We've been involved in businesses that have made a similar conversion from product sales to a software-as-a-service model and seen how the change can obscure value for some time, often exacerbated because you get heavy turnover in the investor base.

Our basic thesis is that Rosetta's Enterprise & Education segment and the Lexia reading business are now the growth drivers, more than compensating for the wind down in the retail consumer business. It has an excellent balance sheet to help it see the transition through to fruition. We believe as earnings prove out that the shares are worth between $10.50 and $12 on a stand-alone basis, and probably more than that to a strategic acquirer.

I should point out that we differentiate clearly in how we size core investments versus special situations. We typically hold eight to ten core positions, which in aggregate make up close to 75% of the portfolio. The balance will be in higher-potential-reward but also higher-risk positions, which are usually weighted between 50 and 200 basis points each.

I have most of my net worth in this strategy and I wouldn't be comfortable with all special situations. But at the level I own them, I can buy things like Gencor Industries [GENC, *VII*, October 30, 2015], which makes asphalt equipment, at a low point in its cycle, when there are concerns about insular-family control and when it can't seem to hold onto a CFO. The stock was trading below net cash – a valuation that forgives a lot of sins – but I wouldn't want to own 20 5% positions like this in the portfolio. I mostly own good businesses for the long term, but I also don't want to leave money on the table by completely ignoring special situations.

How do you typically source new ideas?

MM: Most of our ideas come from the network of contacts and the company database I've built over the years, some screening and a lot of reading. I should tell you I've made quite a bit of money from ideas that have come from *Value Investor Insight* since it first launched.

I've always been a big believer in the importance of developing mutually beneficial relationships. To give a simple example, when I interviewed for a new analyst a couple of years ago it came down to three candidates. One of them I hired. The second became a client. And the third I stayed in touch with as he launched a hedge fund and we've been good resources

for each other since. I have tremendous respect for the quality of his research. We'll talk later about our investment in Eastman Kodak [KODK], which was an idea that came from his original work.

I'll give you another example about the importance of maintaining relationships, this one from outside the context of idea generation. Before the credit crisis fully unfolded, I was working in Charlotte, North Carolina at a hedge fund. One of the partners had been at Bank of America and knew the mortgage space very well and had contacts everywhere. He spoke often with a friend whose firm aggregated data on loan performance for all the big banks, and that friend was concerned that when he'd raise red flags around poorly performing subprime and alt-A mortgages, the bank clients would say, "No, we're fine. It's the other banks that will have difficulty because they don't know how to underwrite." The problem was that all banks said the same thing, which gave us a front row seat to what was happening. When I joined VNB in early 2008, that insight helped me steer clear of a lot of toxic investments other value investors made.

You invest up and down the market-cap spectrum. How did a tiny company like $55-million-market-cap Christopher & Banks [CBK] get your attention?

MM: I've invested in a number of apparel retailers over the years, including Stein Mart, Chico's FAS and Bebe Stores. CBK is a women's apparel retailer with close to $400 million in annual sales, a strong balance sheet and an enterprise value of less than $25 million. That combination got our attention. The story is fairly simple. They haven't been on the right side of fashion trends over recent periods and are working to turn things around through a product refresh, changing store formats and by pushing a private-label credit-card and loyalty program. If the company can increase same-store sales by just 3-4% and achieve gross margins in the mid-30% range, it would generate around $18 million of EBITDA. At a peer-retailer multiple on that, the shares would more than double. If the business doesn't improve in the next 12-18 months we will probably lose some money, but we don't think the downside is much lower and we'll get out if we see no signs of progress fairly soon. This is typical of a special situation for us.

ON MEDIA:

What's not well understood – in content and distribution – is the above-average growth potential internationally.

Characterize your opportunity set.

MM: In our core names we focus on businesses in which the outcome is dependent on management's ability to execute and where outside influences don't dictate success or failure. That means we try to avoid commodity-related businesses and those that are heavily regulated, like healthcare and many areas of financial services.

We gravitate toward companies providing essential products and services, with sticky customer relationships and highly recurring revenue streams. Over the years that's led us to things like technology-services companies, software providers and media companies.

The special-situations portion of the portfolio is usually filled with things like turnaround stories in retail, microcaps in almost any sector, and companies in 'uglier' industries like shipbuilding or steel.

Your portfolio is heavy in media, one of many industries transitioning in a way that creates uncertainty. Is that a big part of the attraction?

MM: There's no question there is uncertainty in this industry in the U.S. What's not as well understood is that the industry – both in content and distribution – has above-average growth potential internationally, driven by broadband Internet penetration. In general, we believe the management teams of companies we own will figure out how to best monetize their assets, that media businesses in the U.S. will fare somewhat better than most people think, and that international efforts will prove much better than anticipated. For example, Discovery Communications' [DISCK] management recently said they expect its international-affiliate revenue to grow at a low-teens rate over the next couple of years. I just don't think that's being priced in with a U.S.-centric view.

You made the bullish case a year ago for Discovery [*VII*, September 30, 2015] at $24.70. With the shares now around $26, is the thesis still intact?

MM: Given the non-U.S. performance, we'd argue the company's prospects have improved more than has been reflected in the share price. The foremost risk is that Discovery will be hurt from the trend toward "skinny" channel bundles, but we believe – as does management – that Discovery channels will be included in most slimmer packages and that the economics of such packages could actually be better for them. It's also important that the investment cycle for its Eurosport content in Europe is coming to a close, which will drive free-cash-flow growth. At today's share price we're paying 13x earnings for what we expect to be low-teens earnings growth. That's a much more attractive value proposition than the overall market.

You will invest in debt in addition to equity. Have you found much to do there?

MM: Our rate-of-return thresholds are the same for equity and debt. In this interest-rate environment we're finding very little to do on the debt side, but every once in a while something crops up. We always look where relevant at the debt of any equity we own and a couple months ago the debt of a company whose equity we'd held for a couple of years got priced down into the low $80s due to some key drivers on the operating side moving against them and probably some liquidity concerns. We decided to swap our equity for the debt because we thought the asset coverage was

more than sufficient and the yield to maturity at the time was around 17%. This actually worked out more quickly than we expected – the debt today is priced at $97, so the IRR has been quite high.

Do your macro views influence the composition of your portfolio in any way?

MM: Many investors have a hard time getting used to where monetary policy is right now and the impacts of that down the road. I can't help but be influenced by things like that, but I try to stick to company fundamentals and valuation and have those drive our investment decisions. There is great macro uncertainty and we are in unchartered territory, but I don't think that's an automatic precursor to a dramatic drawdown. The fact that monetary policy is going off the rails doesn't change our view that R-22 refrigerant is going to be in short supply and that Hudson Technologies [HDSN, *VII*, July 29, 2016], the largest reseller of it, will be a huge beneficiary. Gencor Industries should see a windfall of business from increased infrastructure spending in the U.S., regardless of whether or not the Fed tightens.

That said, we do have about 20% of the portfolio in cash today, a level that has doubled since the end of the second quarter and is at the higher end of our historical range. That's primarily a function of reducing or exiting positions without having enough compelling investment ideas at the moment to replace them.

You have a large number of John Malone-related securities in your portfolio. What's the high-level rationale for that?

MM: The common theme across Liberty entities is tax-efficient compounding of capital, with one of the great capital allocators of all time in John Malone at the helm. I would also say there's a certain level of complexity – from tracking stocks, related-party transactions, spin-offs and mergers – that we think can lead to misunderstanding. In the end, though, we're looking at all the companies on a stand-alone basis, with their own business characteristics, geographies and management teams.

Starting with the biggest cable business, describe your investment case for Liberty Global [LBTYK].

MM: The company has been at the forefront of the consolidation of Europe's fragmented cable industry and we think as a result benefits from many scale advantages, including in technology and capital spending, in cross selling, in marketing and in negotiating with content providers.

Europe is a fundamentally different market compared to the U.S. Pay TV is not as popular there because of the prevalence of free-to-air broadcasting channels, so Liberty Global's growth will primarily come from an increase in broadband subscribers and by expanding its footprint and its offerings. As data consumption increases and as the types of media consumed require more bandwidth, the demand for faster speeds should drive both penetration rates and average revenue per user [ARPU] higher. The penetration rate for broadband subscribers in Germany is just 25%, for example, versus the low-40% range in the U.S. Liberty Global's ARPU is around $45, less than half the level in the U.S. Over time we expect the

INVESTMENT SNAPSHOT

Liberty Global
(Nasdaq: LBTYK)

Business: World's largest provider of pay-television and broadband services, with operations in 30 countries across Europe, Latin America and the Caribbean.

Share Information (@9/28/16):

Price	**32.84**
52-Week Range	25.86 – 44.90
Dividend Yield	0.0%
Market Cap	$30.51 billion

Financials (TTM):

Revenue	$18.86 billion
Operating Profit Margin	14.0%
Net Profit Margin	(-2.2%)

Valuation Metrics
(@9/28/16):

	LBTYK	S&P 500
P/E (TTM)	n/a	24.8
Forward P/E (Est.)	n/a	18.4

Largest Institutional Owners
(@6/30/16):

Company	% Owned
T. Rowe Price	6.9%
Eagle Capital Mgmt	5.5%
Capital Research & Mgmt	4.9%
SPO Advisory	4.3%
Dodge & Cox	4.2%

Short Interest (as of 9/15/16):

Shares Short/Float	2.0%

THE BOTTOM LINE
The company has been at the forefront in consolidating Europe's fragmented cable industry and is now well positioned to benefit as increasing bandwidth usage drives demand for broadband connectivity, says Mark Meulenberg. At 15x his $3 to $3.50 per share estimate of 2018 free cash flow, the shares would trade in the $45 to $50 range.

Sources: Company reports, other publicly available information

playbook in Europe to more closely follow what's happened in the U.S.

What edge does Liberty have over telecom companies in providing Internet service?

MM: The basic advantage is speed. The most advanced telecom technology offers connection speeds of up to 500 megabits per second, compared with up to 1 gigabit per second for the most advanced cable technology. Both are improving but the gap is not closing.

Another issue for the telcos is that they typically have capital-intensive wireless businesses as well as investor bases that demand high dividend payouts. That limits the resources they have at any given time to make large investments in the broadband infrastructure required to better compete with cable. The returns on such investments, that basically start from scratch using different technology, are also rather questionable. Google with great ambition in the U.S. began laying fiber in some U.S. cities years ago and has basically abandoned the project because of high costs and low returns.

The shares, now around $32.80, are basically where they were three years ago. Why the lack of enthusiasm?

MM: A big issue generally has been economic weakness in Europe, but there has more recently been increasing concern about the poor performance of the company's 2014 acquisition of the Ziggo cable-TV business in the Netherlands. In this particular case the company is responding by teaming with Vodafone to offer a "quad-play" package combining voice, data, cable-TV and mobile services. That's what good management teams do, respond to the market as it evolves.

I can't say for certain the impact on the shares, but investing in a consolidator like this often requires a certain level of comfort with leverage. Liberty Global has $45 billion of debt, which is 5x EBITDA. Since only 10% of the debt is coming due within the next five years we're comfortable with that level, especially given the recurring base of subscription revenues. But it may make some investors uneasy.

What upside do you see in the stock?

MM: We think the company can earn $3 to $3.50 per share in free cash flow by 2018, up from $2.55 last year. Driving that will be low-single-digit annual price increases, increased penetration on the commercial side, continued share repurchases, and high-single-digit operating cash flow growth achieved through scale and cost efficiencies. For an entrenched, market-leading business with a recurring-revenue model, we'd consider a 15x multiple very reasonable. That would put the stock at $45 to $50 in a couple of years.

ON CABLE BROADBAND:

The basic advantage is speed. Both cable and telecom technology is improving, but the gap is not closing.

Describe the opportunity you see in sister company Liberty LiLAC [LILAK].

MM: LiLAC intends to replicate in Latin America and the Caribbean what Liberty Global has accomplished in Europe. It's in the early innings of consolidating highly fragmented and under-penetrated broadband markets, and in May it closed on the $7.4 billion acquisition of Cable & Wireless Communications, which is a leading full-service communications provider in 18 countries in the region.

Interestingly, that deal was paid for with a combination of Liberty Global shares and spun-out LiLAC shares, because management thought LiLAC's stock was too cheap, at $38, to pay for everything. But now those shares trade at around $28. We think this is a classic case of uneconomic selling driving down the LiLAC share price as investors who owned Liberty Global to get exposure to Europe just sold. It's also hurt the stock that the company hasn't yet clarified the synergies between LiLAC and Cable & Wireless. That doesn't concern me – I'd rather have better information than fast information – but the lack of detail is probably weighing on the share price.

Does this type of consolidation strategy translate globally?

MM: We don't believe there's anything on the structural or cultural fronts that will prevent LiLAC from replicating on some level Liberty's success in Europe. Latin American markets share many of the same dynamics as those in Europe and the U.S., especially the importance of increased broadband speeds to accommodate rising data consumption.

Are cable assets to acquire in the region priced to sell?

MM: [Liberty Global CEO] Mike Fries says there are a ton of potential deals in the pipeline already, which indicates to us that these markets are fertile hunting grounds. I would point out, however, that the strategy isn't contingent on scooping up dirt-cheap assets, but is more focused on combining disparate assets that are worth more together than apart. The operating leverage from scale will make it tougher for others to compete – a bargain price isn't essential to generate excellent returns.

How do you value the shares, now trading around $28.50?

MM: Due to an already launched capital-spending plan to upgrade the Cable & Wireless infrastructure, free cash flow will be depressed somewhat at least through the end of 2017. In 2018 we're estimating free cash flow per share of over $2 per share, assuming EBITDA growth in the low teens but not factoring in any acquisitions. We also assume EBITDA margins expand from current levels by about 300 basis points, to around 42%, as the C&W operations are integrated. As a point of

INVESTMENT SNAPSHOT

Liberty LiLAC
(Nasdaq: LILAK)

Business: Leading provider of pay-television, broadband and telecommunications services in Latin America and the Caribbean, with 10 million subscribers across 20 countries.

Share Information (@9/28/16):

Price	**28.44**
52-Week Range	27.00 – 44.95
Dividend Yield	0.0%
Market Cap	$4.90 billion

Financials (TTM):

Revenue	$3.60 billion
Operating Profit Margin	12.6%
Net Profit Margin	(-16.9%)

Valuation Metrics
(@9/28/16):

	LILAK	S&P 500
P/E (TTM)	n/a	24.8
Forward P/E (Est.)	n/a	18.4

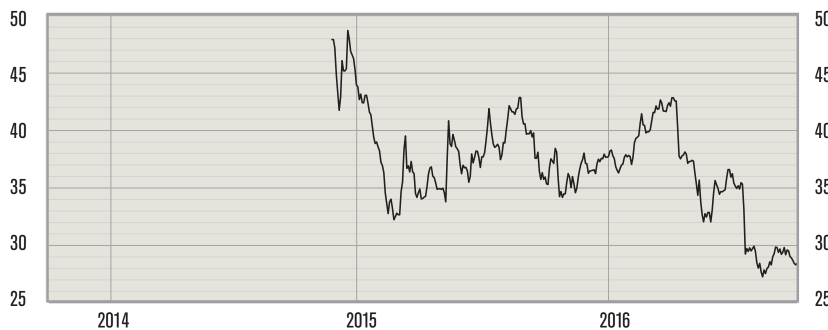
Largest Institutional Owners
(@6/30/16):

Company	% Owned
T. Rowe Price	12.7%
Eagle Capital Mgmt	11.5%
Boston Partners	11.5%
Blue Ridge Capital	7.9%
Dodge & Cox	7.7%

Short Interest (as of 9/15/16):

Shares Short/Float	2.7%

LILAK PRICE HISTORY



THE BOTTOM LINE

The company wants to replicate in Latin America Liberty Global's acquisitive strategy in Europe, but its shares have been beaten down by what Mark Meulenberg considers uneconomic selling after it made its first big deal. Driven by the prospect of consistent double-digit free-cash-flow growth, he believes the stock within two years can hit $40.

Sources: Company reports, other publicly available information

reference, Liberty Global in Europe generates EBITDA margins of about 47%.

We think management will achieve its goal of sustained double-digit growth in free cash flow per share for an extended period of time. That growth profile to us would justify at least a 15x multiple, which would put the shares at about $40 in the next two years.

From TV to radio, you also own a core position in Liberty SiriusXM Group [LSXMK]. What's the story there?

MM: Liberty SiriusXM owns 64% of the outstanding shares of Sirius XM Holdings [SIRI] and this is the tracking stock that represents Liberty's ownership interest. Sirius XM is the dominant satellite-radio subscription service, offering a broad array of music, sports and news content, much of which is exclusive.

For years the Sirius story has been about increasing new-car penetration, which drives high incremental margins by leveraging the company's satellite infrastructure. It is notoriously difficult to get auto manufacturers to embed third-party technology into their manufacturing processes, but around 75% of all new cars rolling off production lines in the U.S. are now Sirius XM-enabled. That entrenchment with OEMs is an enormous competitive advantage.

While the installed base of new cars will continue to grow, the next big driver of growth for the company will be penetration in the used-car market, which in the U.S. has two and a half times the annual unit sales of the new-car market. The incremental return on capital Sirius realizes through adding users in the used-car channel is very high as the cost of the installation has already been incurred. Ultimately, this and other factors should drive EBITDA margins from around 37% to 40% and beyond.

Why do you believe the tracking stock, which trades at a 13% discount to the underlying equity, is mispriced?

MM: It adds a layer of complexity and also doesn't benefit from Sirius XM's fairly aggressive share-repurchase program. As for the shares of Sirius itself, they tend to oscillate based on a recurring concern among investors that its business model will be displaced as increased connectivity in cars allows streaming companies like Spotify and Pandora to more aggressively compete. We simply don't think that's a concern. Many cars are already connected, and Sirius' operating metrics haven't reflected any competitive weakness. Subscribers like and depend on the content. Sirius is also very competitive on price; the service costs slightly more than half of the combined cost of an Internet connection in your car and a streaming service.

What do you think the tracking shares, now at $33, are more reasonably worth?

MM: We're assuming revenue growth for Sirius XM at a mid- to high-single-digit rate through 2020, and the company won't be a full taxpayer until then due to net operating loss carryforwards. We also assume 400-500 basis points of EBITDA-margin expansion, to around 42%, as the company leverages its existing infrastructure and penetrates the used-car market. Sirius is also repurchasing 7-8% of its shares every year. All in, we think the

INVESTMENT SNAPSHOT

Liberty SiriusXM
(Nasdaq: LSXMK)

Business: Leading provider of music, news, sports and talk satellite-radio services, primarily through auto OEM agreements, to more than 30 million paid subscribers worldwide.

Share Information (@9/28/16):

Price	**32.97**
52-Week Range	28.04 – 35.69
Dividend Yield	0.0%
Market Cap	$11.11 billion

Financials (TTM):

Revenue	$4.80 billion
Operating Profit Margin	28.7%
Net Profit Margin	13.4%

Valuation Metrics
(@9/28/16):

	SIRI	S&P 500
P/E (TTM)	34.7	24.8
Forward P/E (Est.)	23.1	18.4

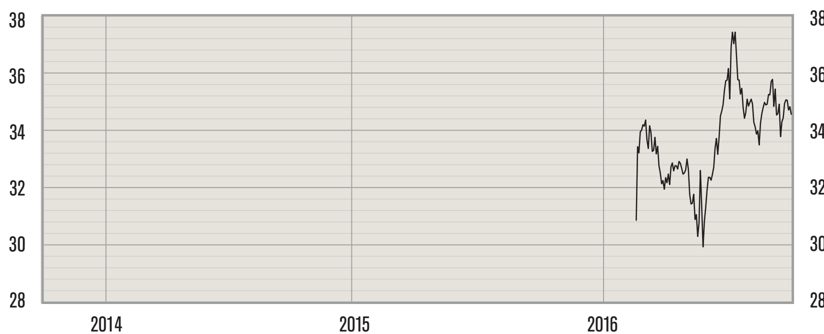
Largest Institutional Owners
(@6/30/16):

Company	% Owned
Berkshire Hathaway	9.0%
Vanguard Group	5.5%
Clearbridge Inv	4.1%
FPR Partners	3.3%
D.E. Shaw	3.2%

Short Interest (as of 9/15/16):

Shares Short/Float	0.9%

LSXMK PRICE HISTORY



THE BOTTOM LINE

Mid- to high-single-digit revenue growth for the satellite-radio business underpinning this tracking stock can translate into mid- to high-teens growth in cash flow per share over several years, says Mark Meulenberg. If that happens, on his estimates and at the high-teens multiple he believes would be warranted, the stock by 2020 would at least double.

Sources: Company reports, other publicly available information

company's cash flow per share can grow at a mid- to high-teens rate over the next several years. Even assuming a full tax rate, that puts free cash flow at 40 to 45 cents per share by 2020.

An entrenched, subscription-based business with that kind of growth profile should trade for a premium to the market multiple, not at a discount as it does today. As we get closer to 2020, a high-teens multiple would value Sirius XM at $7-8 per share, which translates to $64 to $73 for LSXMK. We believe the two entities could ultimately merge via a Reverse Morris Trust, which is a tax-efficient transaction Liberty has used in the past. If that happens, the tracking stock discount disappears, which we have factored into our price target for LSXMK. What is not factored in is the value of the wireless spectrum Sirius holds, which could add substantial upside to our current valuation.

Leaving the Liberty ecosystem, describe your interest in Eastman Kodak, which we certainly haven't heard much about in recent years.

MM: That's part of our attraction to it, that it has long been forgotten. The company emerged from bankruptcy in September 2013. Its largest business is what it calls Print Systems, which sells commercial-printing-related equipment, services and consumables. It also has a number of smaller businesses, including selling film to the entertainment industry, ink and inkjet cartridges for printers, workflow management software and 3-D printing systems. Most of the businesses have attributes of a razor/razor blade model, with nearly 80% of the $1.8 billion in annual revenues coming in on a recurring basis. Other assets of note include the Eastman business park in Rochester, NY, a large business park in Brazil, an intellectual-property portfolio, tax loss carryforwards of $1.6 billion and tax credits of $400 million.

Our thesis largely rests on the company monetizing assets and using the proceeds to restructure and de-risk its balance sheet. Using management's guidance for operational EBITDA for 2016 of between $130-$150 million, we consider debt-to-EBITDA in an acceptable range, but the debt does carry a heavy interest burden.

To give the most salient example of asset monetization, Kodak is in talks to sell its Prosper inkjet business, which should generate $100 million in annual revenues this year and has been growing roughly 30% per year. Pro-forma for the cost synergies available to a strategic buyer, we think this business is on track to generate $35 million of EBITDA within the next two years. At 4x EV/EBITDA, that would bring in $140 million of cash. At 7x, it would be $245 million. That one deal alone would save tens of millions of dollars in interest payments and fundamentally change the company's risk profile.

We're guessing this isn't a position you expect to hold for 7 to 10 years.

MM: Overall this is not a business we want to be in for the long term. But when we bought in February we were paying $9 per share for what we thought on a bare-bones basis was worth at least $17, and there were multiple levers to unlock value in the short to intermediate term.

With the shares now at $14.70 is the story still compelling?

INVESTMENT SNAPSHOT

Eastman Kodak
(NYSE: KODK)

Business: Provider of hardware, software and consumables to commercial and consumer printing markets; also owns significant real estate and intellectual property assets.

Share Information (@9/28/16):

Price	**14.67**
52-Week Range	7.56 – 17.31
Dividend Yield	0.0%
Market Cap	$619.8 million

Financials (TTM):

Revenue	$1.71 billion
Operating Profit Margin	8.5%
Net Profit Margin	(-0.5%)

Valuation Metrics
(@9/28/16):

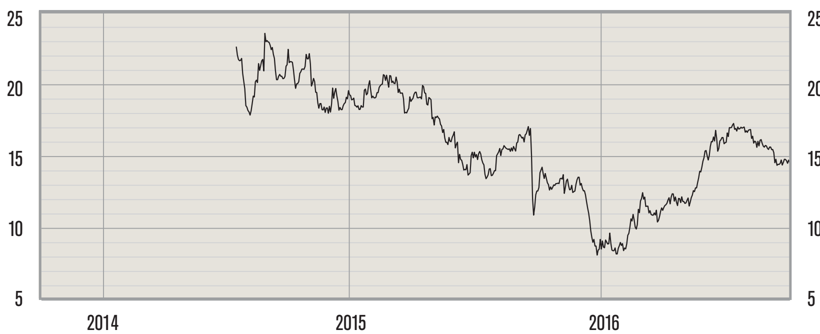
	KODK	S&P 500
P/E (TTM)	n/a	24.8
Forward P/E (Est.)	n/a	18.4

Largest Institutional Owners
(@6/30/16):

Company	% Owned
Blackstone Group	21.0%
BlueMountain Capital	17.6%
Franklin Resources	8.5%
Paradice Inv Mgmt	5.1%
Contrarian Capital	4.7%

Short Interest (as of 9/15/16):

Shares Short/Float	1.9%



THE BOTTOM LINE

Following a long downward spiral and eventual bankruptcy, it's not surprising that the market is paying little attention to the company in its new incarnation, says Mark Meulenberg. He believes that if it can successfully monetize a number of disparate assets, the shares on a sum-of-the parts basis could be worth nearly double the current price.

Sources: Company reports, other publicly available information

MM: I said our $17 value was bare bones, meaning it valued both Print Systems and Prosper at 4x 2016 EV/EBITDA, at the very low end of their peer-group range. It also assigned no value to the NOLs, tax credits, intellectual property or real estate. If we use the higher end of the valuation ranges for Print Systems and Prosper, and include conservative values for the real estate, NOLs and intellectual property, we can get to an aggregate value of about $27 per share.

The pension is underfunded by about $400 million, significant relative to the market cap. How do you view this risk?

MM: Management has stated that they are not expecting the need to make any more contributions to fund the pension liability. Much of that has to do with the fact that the discount rate used to value the obligations is materially lower than that of peer companies. Just a modest change in the discount rate would eliminate the liability. I'm not saying this isn't a risk factor, but nothing about the assumptions being made to meet the ultimate liability give me heartburn.

Give examples of positions you've sold recently for both welcome and less-welcome reasons.

MM: Unless something fundamentally changes, we're very slow to sell out of core positions. Part of that reflects tax considerations for a private client base, but it also reflects our wanting to fully benefit from great managers of great businesses compounding value. Our goal is to hold core positions for seven to ten years, but more often it plays out over three to five. In contrast, we typically hold special-situations investments for six to 18 months.

To answer your question, we have trimmed our position in Charter Communications [CHTR] quite a bit as the shares have moved from our cost basis of about $120 to $275. We still believe the stock will move higher over the long term so we aren't completely out, but the return profile is not what it was so the position size is correspondingly smaller.

We've also been reducing our position in Absolute Software [ABT:CN], a Canadian company that makes theft-prevention software. We liked the recurring revenues and the clean balance sheet, but they've been in the midst of a turnaround without a great deal of progress over the four years we've owned the stock. We've made money on it, but couldn't justify keeping a larger position because the IRR has compressed as the time horizon has gotten stretched.

To borrow a phrase from Howard Marks, what do you consider "the most important thing" for investment success?

MM: I think the most important quality for someone managing people's money is to be unemotional. I played football for a time in college, and one thing you have to learn in sports is not to get too high or too low. It's all about how you perform on the next play.

Trying to keep an even keel I think helps prevent selling just out of fear when stocks go against you. It also helps keep you from holding on out of greed when things have been going your way. This is an area where your work is never done. Recognizing when emotion is biasing your thinking and then stopping it from doing so is a constant battle. VII

Disclosures:

No Investment Advice

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