Christmas Ideas 2019 (Plus 2018 Ideas Follow Up!) $DVMT $AABA $SPB $RTHM

For Christmas last year, I offered a corny segment where I presented (pending pun intended) 3-4 ideas to readers as a Christmas present. I hope you're not offended, but I've decided to "give" you the same thing this year and write up three to four ideas again. Obviously I'm lazy, so rather than write up a new intro, I'll just copy the intro from last year's segment (which I thought was hilarious when I wrote it but informed after posting that it was, in fact, not funny):

> *"Happy Holidays! As a regular reader of this blog, I bet you're wondering what I'm getting you for Christmas?*
>
> *Well, let me start by reminding you that this blog is free and you're really greedy to be asking for something… just kidding, of course I'm getting you something! Next week I'll be posting four of my favorite special situations heading into the New Year! I'll have more details on them next week.*
>
> *I know what you're thinking, "Four posts / ideas? In one week!?!?! Andrew you're too kind! I feel awful I didn't get you anything!"*
>
> *Well, not to worry. If you didn't get me anything and you want to return the favor, a donation to a charity of your choice will suffice. If you're looking for charity recommendations, my friend / partner Chris Demuth has helped 240 patients on Watsi, and I have another friend who works for the END fund and I think they do great work. A donation to either would help a ton of people (I love emerging market charities since I think the bang for your buck is so much higher), but feel free to go with any charity you like. No obligation whatsoever (and no need to let me know if you do*

> *or don’t donate anything!), but I’ll remind you that I’m getting you four presents and that this blog is completely free (no ads, no referral fees, nothing), so if you want to get me something that’s my ask!”*

So my plan for this year is the same as last year: over the next few weeks, I plan on posting ~3 event driven ideas with a heavy focus on a 2019 catalyst (last year I said I thought I needed to give you to them in 2017 because it was my last chance to give them to you / they wouldn't be with us for 2019, and while that turned out to be relatively accurate (3 of the 4 ideas will no longer be publicly traded by year end) I think the segment can be a bit more interesting if I'm willing to extend my reach a bit from exclusively things that will get bought out).

As I was prepping for this year’s posts, I thought back to last year’s picks and how all of them performed, and thinking of them reminded me just how weird event investing can be: sometimes you can be dead right on the event but still lose your shirt, and sometimes you can be completely wrong on the event and still make out like a bandit.

What do I mean by that? Well, let’s review last year's picks and talk about how they went because I think it'll prove instructive:

1. The first pick I made (which was made during my initial post) was Altaba (AABA; disclosure: long). At the time of the post, Altaba's traded for ~$71/share, a ~25% discount to their adjusted NAV (their NAV after eliminating their deferred tax liabilities) of ~$95/share. I thought the company would benefit from tax reform, and management would aggressively repurchase shares to take advantage of the NAV discount. This year, management has sold all of their Yahoo! Japan shares, retired ~30% of their shares outstanding (as of last

Friday, they have 575m shares outstanding (according to their holdings page, which updates their number of shares once a week) versus ~825m shares out at 12/31/17), pursued some interesting strategies that could result in a reduction of their ultimate tax liabilities, and slightly shrunk their NAV discount (from ~25% to 24%)). In other words, the thesis is playing out about as well could be expected... but Alibaba (which makes up the majority of Altaba's NAV, and which I am short a bit against the Altaba long) shares are down ~12.5% YTD, and Yahoo! Japan's shares were down ~20-25% before Altaba sold them. So while the thesis played out perfectly, Altaba's underlying NAV/share eroded from ~$95 to ~$83 and their shares are down a similar amount. The question: does this count as a win because things played out as expected and the NAV gap shrunk a bit? Or is it a loss because shares are down double digits? I would lean towards the later because profits are what matter in the long run, but if you're a fan of process over outcome it seems like this is a case of good process / bad outcome? (Also worth noting the BABA is extremely easy to hedge if you wanted to go that route, so for many the NAV gap shrinking even a little was what really mattered)

    - While we're on the subject of Altaba.... I still like them quite a bit. In 2019, management will keep aggressively buying back shares to take advantage of that NAV gap, and the market is pricing in zero upside from Altaba getting credit for a blockage discount or any other tax maneuvering!

2. The second pick I made (the first official pick) was the Dell tracker, DVMT. DVMT (which I am long) was trading for ~$81/share, a ~35% discount to the VMW shares it was supposed to trade (at the time, VMW traded for ~$125/share). I argued Dell's credit had improved substantially, and the fact Dell had been repurchasing

DVMT shares suggested they would do right by minority shareholders.... and I couldn't have been more wrong. Dell completely screwed minority shareholders, and while some pressure from Carl Icahn and other shareholders resulted in a small bump from the original, horrible offer, this deal was still a complete screw-job even after the bump. DVMT shareholders today are getting a package of cash and stock that the market currently values at ~$105/share while VMW (which DVMT was supposed to track) currently trades at ~$165/share. It may be the greatest heist in the history of financial markets, as Michael Dell and Silverlake are taking ~$12B (the $60 difference between where the market values DVMT's cash/stock package and VMW's share price times 200m DVMT shares outstanding) that belong to DVMT tracking shareholders and capturing it for themselves. So is DVMT a loss for 2018? After all, we got screwed, and the discount went from ~35% at the time I wrote the post to ~36% today? Or was DVMT a winner because shares went from ~$81/share at the time I wrote the stock up to ~$105/share today?

    - While we're on the DVMT subject.... the implied cost you create Dell at through DVMT is very cheap. Dell does the work for you so I won't recreate the wheel here, and Dell doesn't give their equity stakes a "holdco discount" even though I think they obviously deserve one (I've been using ~30% discount, though you could argue anywhere from 20-40% and convince me), but even after adding an equity discount the wholeco is rather cheap and it looks particularly interesting as a levered stub given the mammoth debt load.

3. The third pick was HRG collapsing into Spectrum Brands (SPB; disclosure: sadly long). At the time of the idea, HRG traded for a slight discount to their NAV, and the idea was that HRG's tax assets and controlling interest in SPB would let them effect a collapse that paid them a

premium. In February, HRG and SPB announced a deal that would collapse the two and give HRG NAV plus ~$1/share for their tax assets. HRG's NAV was in the mid to high teens at the time, so this worked out to a mid to high single digit premium to HRG's NAV. Winner, right? Well, yes.... except a slew of bad earnings have caused SPB's share price to collapse from ~$104/share at the time the merger was announced to <$50/share today. So was this right because HRG ended up getting a decent premium to NAV, or wrong because Spectrum's share price near completely collapsed?

4. My final pick was Yume, which was getting acquired by RhythymOne (RTHM, disclosure: long). My thoughts on Yume ran so long that I needed to split the idea into two parts, but the basics of the thesis rested on Yume trading at a ~10% discount to the merger consideration RTHM was offering, and that the pro forma YUME / RTHM looked very cheap. Yume at the time traded for ~$3.60, and if the merger closed you'd get >$4/share in cash + stock (and I thought the stock was cheap!). The RTHM / YUME deal closed in early February, so another winner, right? At this point, you know that it wasn't... RTHM's stock had fallen from ~£240 at the time I wrote them up to ~£200 by the time the deal closed and ~£170 today; in addition, the GBP (which RTHM trades in) has weakened pretty significantly over the past year. All in, you basically would have broken even if you had bought YUME at write up time and sold YUME right at deal close or lost ~10% if you held from the deal through today (which I, unfortunately, did).
    - While we're on the subject of RTHM.... I still like them. Their results so far suggest they are well on pace to hit their merger targets, and (as mentioned in part two) if they can do that the stock looks insanely cheap. Of course, the merger closed relatively recently so we haven't seen a ton of results from the combined company, and it's

possible the recent share price weakness has picked up some integration problems (though the company recently that they aren't aware of any recent developments that would make them their forecast). Still, as a small spec play in an industry that admittedly is difficult for me to wrap my head around, I think you could do much worse than RTHM!

So which of those were losers and which were winners? Were the stocks where the thought process was spot on but the price collapsed winners? Was DVMT a loser despite being up ~30% in a slightly down market?

It's tough. Lots of people would say "process over outcome" and just suggest that if you're making good decisions you'll get rewarded in the end, and in general I agree with them. But look at that list again: the biggest winner was DVMT, which traded at a ~35% discount to the security I thought it should track. The biggest loser was HRG, which traded for just under NAV and which I thought would get taken out at a slight premium to NAV. Was HRG being a loser a simple case of good process / bad outcome.... or did I buy something with too thin of a margin of safety? Was DVMT a case of me getting lucky despite misreading a situation.... or did I buy a valuable asset at a large enough discount that I was probably going to do decently well in most reasonable scenarios?

I suspect the answer is I bought DVMT cheap enough, and on HRG I had a good "event" thought but made a huge mistake when I failed to hedge out its SPB shares (which were easily hedgable, but I thought the company was cheap and pretty safe when I researched it which turned out to be a mammoth error!), but I could be convinced a lot of different ways. It just goes to show that sometimes it can be difficult to measure success on quirkier event driven type transactions.

Here's hoping this year's ideas are flat out winners and cause me no need for introspection next year!