A View From Here - November, 2021

"Success is a process…During that journey sometimes there are stones thrown at you, and you convert them to milestones." - Sachin Tendulkar

Crossing Milestones

After a brief step backwards, October 2021 turned out to be one of the best performance months in our history. Many accounts are now crossing milestones that might have otherwise been difficult to imagine when your accounts were first opened. Despite the reality that there are times where we simply do not perform as well as previous periods, I believe it is important to keep an eye on results over the longest period of time. These numbers continue to speak to the success of our unique offering by painting a solid double-digit long-term return and as the years go by, we are seeing new milestones in terms of account size. Every month, I print off our long-term returns for each account and in particular, over the past year, have marveled at the levels which the accounts have reached over the years. I hope that at some point, we can all share in the passion and freedom that these portfolios help provide to our future selves…all as we go about our day to day lives.

Exceeding The Entire Value: Portfolio Developments of Interest

We received a wonderful Canadian Thanksgiving surprise from Dorel who sold its sports division for more than the value of the whole enterprise despite being a third of the revenue of the entity. The shares responded in kind by increasing over 100% in a single day. We are currently determining further potential for this investment as we look at the two remaining divisions and what they could be worth. Reitman's' announced that they will likely come out of CCAA in months ahead after reporting second quarter earnings that exceeded the entire value of the company. While this might seem unbelievable, one has to assign an amount to the settlement with unsecured creditors, which in this case is made up of mostly ex-employees and landlords.

Even considering many different scenarios, I continue to have lofty ambitions for this investment for the years ahead, maintaining that its real potential value might be dollars away. It will take some time for this to come to fruition and there are a lot of variables which come into play that can propel the situation in that direction. Exiting creditor protection is a major milestone of this investment and will point to our next phase of how to value the company going forward.

Lee Enterprises announced a major development in signing Mudd Advertising, one of the top 3 automotive advertising agencies in the U.S., onto their platform. That speaks to the value add from their proprietary technology which aids automotive advertising in the 77 markets they operate in. Management pointed out that this is very significant development and one that could add significant value to their advertising segment which makes up over 60% of the business. After a strong comeback from the lows of 2020, Lee has consolidated 50% of its move and continues to scare off investors. Recently one of its largest shareholders has criticized management for not being more aggressive and pegged the value of the company at as much as 10 times its current value. Are we all going to order jets?

There have also been excellent numbers out of Hammond Power, Velan, Constellation Software and Colliers, who provided five-year ambitions in terms of future revenue, earnings and cash flows. We have to take a moment to appreciate that the last time Colliers put this out there in 2015, the numbers might have appeared ambitious, but they managed to exceed the anticipated results well within the time frame they laid out. Why don’t more companies do this?

Constellation Software debentures, another investment that has been a stable in our accounts for almost seven years might see some interesting developments early next year. With the Canadian inflation rate increasing dramatically in 2021, it should point to a potential increase in the interest rate on our unique and very overlooked investment in the debentures. If you recall those debentures maintain a fixed rate of 6.5% plus the change in the Canadian CPI (All Consumers Index) and considering that the inflation rate has increased dramatically this year, one could anticipate an elevated interest rate above the 7.5% they are currently paying out. SmartCentres has increased to new 52-week highs on the outlook for the redevelopment of their properties. The company owns almost 35 million square feet of space and management has pointed out that over 75% is comprised of parking lots. They have been working successfully with municipalities to redevelop many of these properties over the past 5 years in mixed use properties that consist of retirement residences, self storage, condominiums, offices and rentals.

The best way to look at this investment is that they receive a predictable and steady stream of income form their retail operations, (open concept plazas anchored by Walmart and filled with Triple A tenants such as Shoppers, LCBO etc.) which they pay out just in monthly distributions and have the potential to more than double their current cash flow over the next decade. I suspect that is why management continues to own over 20% of the company.

With more earnings pending from our holdings, I continue to advocate that we hold these investments in light of their relatively inexpensive valuations and potential to provide us with future returns.

Thanks for taking a look, and as always,

All Good Things,

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