



CLIENT REPORT & UPDATES

MAY 16, 2022

EIGHT COMPANIES BEING BOUGHT OUT... AND STILL COUNTING

A somewhat amazing number of our companies have announced they are being bought out. As mentioned to a few clients, this is highly unusual and, although quite helpful, probably a sign of a stock market top. And, not surprisingly, stocks have had significant weakness in many market sectors. The good news is that we've avoided the worst of the declines seen by other investors as we have not owned the most overvalued names (see our 2021 Annual Report as we go into some detail on this topic). Another one of the other reasons we've held up relatively well is that, with some good fortune, we have had these multiple companies being bought out. While the number includes a couple of arbitrage plays (where we bought shares of the company being bought out because the projected return to closing was attractive), the aggregate impact of these developments is certainly positive.

Don't expect this buyout binge to happen again soon as we remember only one other such occurrence in the last several decades. In addition, and almost piling on, there are several other companies that are considering options, including outright sales. The bottom line is that this reflects strong interest in our companies, supports our working hypotheses, and reinforces our conviction in our processes. Here is a summary of the recent and pending company sale transactions and news items:

Announced Transactions:

Alleghany: Berkshire Hathaway (Warren Buffett) is buying for \$848.02 per share cash.
Renewable Energy: Chevron is buying for \$61.50 per share cash.
Tenneco: Being bought for \$20 per share cash.
Intertrust: Being bought for €20 per share cash (about US\$21.15/sh)
First Horizon: Toronto-Dominion is buying for \$25 per share cash.
Trilogy International: Has sold assets and will be distributing cash proceeds.
Flagstar Bank: Being acquired by New York Community Bank for stock.
Ortho Clinic Diagnostic (Labs): Being acquired by Quidel for cash and stock.

Announcements/Rumors of Sales:

Wide Open West: Rumored sale. Already have sold part of company. Press reports have moved stock higher.
Consolidated Communications: Major shareholder announced they are considering options.
Shinsei Bank: Major shareholder, SBI (Softbank finance), buying stock and considering options.
Diamond Offshore: Had company for sale. Pulled for now but assume still looking for buyers.
Iteris: Company announced exploring options. Not active at this time, but autonomous driving could spark interest.
Franklin Street Properties: Selling assets and buying back stock. Management considering options.
International Seaways: Major shareholder pushing for board sets, possible strategic review.

Our strategy upon these announcements is to consider our own options. This includes selling the appreciated stock to redeploy cash, buying more to benefit from higher closing values, or sitting tight. Since these "forced" buyout sales generate capital gains, we will try to reach long-term holding periods required for lower tax treatment. Otherwise, if the market is weak and we have more attractive alternatives, you may see us raise cash to achieve higher potential returns. Holding the assets to maturity can be attractive if we feel the deal will close and are able to obtain a satisfactory return. In a volatile market, holding buyout names may reduce some market risk because the buyout value is set by contract. While this can reduce market risk, it creates "deal risk" (the risk the deal doesn't close). Every situation is different, and we are employing different strategies for almost every transaction mentioned above.

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As always, it is a pleasure and a privilege to service your portfolio needs, and

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